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INSURANCE AUSTRALIA GROUP LIMITED
PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 30 JUNE 2021
APPENDIX 4E (ASX Listing rule 4.3A)

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	UP / DOWN	% CHANGE	2021 $m	2020 $m
Revenue from ordinary activities	Up	1.7 %	**18,895**	18,576
Net (loss)/profit after tax from ordinary activities attributable to shareholders of the Parent from continuing operations	Down	194.3 %	**(414)**	439
Net loss after tax from ordinary activities attributable to shareholders of the Parent from discontinued operations	Down	225.0 %	**(13)**	(4)
Net (loss)/profit attributable to shareholders of the Parent	Down	198.2 %	**(427)**	435

DIVIDENDS – ORDINARY SHARES	AMOUNT PER SECURITY	FRANKED AMOUNT PER SECURITY
Final dividend	13.0 cents	- cents
Interim dividend	7.0 cents	- cents

FINAL DIVIDEND DATE	
Record date	18 August 2021
Payment date	22 September 2021

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 19 August 2021. The DRP Issue Price will be based on a volume-weighted average price for a 12-day trading window from 23 August 2021 to 7 September 2021 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.

Additional Appendix 4E disclosure requirements can be found in the Annual Report of Insurance Australia Group Limited for the year ended 30 June 2021 (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.

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 2021

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A more resilient future.

Annual Report 2021

Insurance Australia Group Limited

ABN 60 090 739 923

Contents

1 Directors' report
35 Remuneration report
59 Lead auditor's independence declaration
60 Consolidated financial statements contents
61 Consolidated statement of comprehensive income
63 Consolidated balance sheet
64 Consolidated statement of changes in equity
65 Consolidated cash flow statement
66 Notes to the financial statements
114 Directors' declaration
115 Independent auditor's report
120 Shareholder information
123 Corporate directory
124 Five-year financial summary

About this report

The 2021 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 2021. 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.

2021 annual review and safer communities report

This report should be read with the 2021 annual review and safer communities report, which provides a summary of IAG's operating performance, including the Chairman's and CEO's reviews.

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

If you would like to have a copy of the annual report or annual review and safer communities report mailed to you, contact IAG's Share Registry using the contact details on page 123.

2021 annual general meeting

The 2021 annual general meeting of Insurance Australia Group Limited will commence at 9.30am on Friday, 22 October 2021.

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DIRECTORS' REPORT

The Directors present their report together with the consolidated financial report of Insurance Australia Group Limited and its subsidiaries for the financial year ended 30 June 2021 and the Auditor's Report.

The following terminology is used throughout the financial report:

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

DIRECTORS OF INSURANCE AUSTRALIA GROUP LIMITED

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

CHAIRMAN

ELIZABETH B BRYAN AM

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

INSURANCE INDUSTRY EXPERIENCE

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

OTHER BUSINESS AND MARKET EXPERIENCE

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

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

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

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

- Virgin Australia Group (2015-2020); and
- IAG Finance (New Zealand) Limited (formerly part of the Group) (2016-2019). This company was delisted from the ASX on 17 December 2019.

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 CEO, 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 the Chief Executive Officer of IAG New Zealand and also held a number of roles within finance and asset management since joining the Group in 2001.

Nick was appointed as Director of the Insurance Council of Australia (ICA) on 6 May 2021.

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). This company was delisted from the ASX on 17 December 2019.

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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 September 2015 and was appointed its Chairman in November 2019.

OTHER BUSINESS AND MARKET EXPERIENCE

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

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

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

- The New Zealand Refining Company Limited, since 2015.

DUNCAN M BOYLE

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

INSURANCE INDUSTRY EXPERIENCE

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

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

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

OTHER BUSINESS AND MARKET EXPERIENCE

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

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

- None.

SHEILA C MCGREGOR

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

INSURANCE INDUSTRY EXPERIENCE

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

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.

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JONATHAN (JON) B NICHOLSON
BA – Independent Non-Executive Director
INSURANCE INDUSTRY EXPERIENCE
Jon Nicholson was appointed a Director of IAG on 1 September 2015. He is Chairman of the Risk Committee 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 included senior roles with a variety of financial and corporate institutions, including the Boston Consulting Group. He also held various roles with the Australian Government, including Senior Private Secretary to the Prime Minister of Australia (Bob Hawke) and senior positions in the Department of the Prime Minister and Cabinet.

Directorships of other listed companies held in the past three years:
- None.

HELEN M NUGENT AO
BA (Hons), PhD, MBA, HonDBus, HonDUniv – Independent Non-Executive Director
INSURANCE INDUSTRY EXPERIENCE
Helen Nugent was appointed a Director of IAG on 23 December 2016. She is a member of the Audit Committee 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
In the financial services sector, Helen was the Chairman of Veda Group and Funds SA (along with Swiss Re), as well as a Non-Executive Director of Macquarie Group for fifteen years and the State Bank of New South Wales. She also served on Westpac Banking Corporation's executive team as Director of Strategy, and prior to that specialised in the financial services sector as a partner at McKinsey & Company.

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

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

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

Helen is also currently Chairman of the National Disability Insurance Agency and a member of the Board of the Garvan Institute for Medical Research. Helen was appointed Senior Independent Director of TPG Telecom effective 26 March 2021 (formerly Non-Executive Director).

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

Directorships of other listed companies held in the past three years:
- TPG Telecom, since 14 July 2020.

THOMAS (TOM) W POCKETT
BCom, CA – Independent Non-Executive Director
INSURANCE INDUSTRY EXPERIENCE
Tom Pockett was appointed a Director of IAG on 1 January 2015. He is Chairman of the Audit Committee and a member of the Risk Committee, People and Remuneration Committee and Nomination Committee.

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

Directorships of other listed companies held in the past three years:
- Autosports Group Limited, since 2016; and
- Stockland Group, since 2014.

GEORGE SAVVIDES AM

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

INSURANCE INDUSTRY EXPERIENCE

George Savvides was appointed a Director of IAG on 12 June 2019 and is a Chairman of the People and Remuneration Committee 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 CEO of Sigma Company (now Sigma Healthcare) (1996-2001).

OTHER BUSINESS AND MARKET EXPERIENCE

George is a Non-Executive Director of New Zealand's Exchange (NZX) listed entity, Ryman Healthcare since 2013 and BuildXACT Software Limited since July 2021. He was Non-Executive Chairman of Australian Securities Exchange (ASX) listed biotech company Next Science (2018-2021) and is Chairman of the Special Broadcasting Service Corporation (SBS) (since July 2020).

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

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

- Ryman Healthcare, since 2013; and
- Next Science (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 Investor in June 2020. She is a Director of Cricket Australia (since 2015) and Urbis Pty Ltd (since 2016). Michelle is also a member of The Ethics Centre Board and a member of the Senate of the University of Queensland.

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

- Bank of Queensland Limited (2011-2020).

DIRECTOR WHO CEASED DURING THE FINANCIAL YEAR

Peter Harmer was a Director from 16 November 2015 to 1 November 2020.

COMPANY SECRETARIES OF INSURANCE AUSTRALIA GROUP LIMITED

PETER HORTON

BA, LLB

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

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

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

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

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

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JANE BOWD

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

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

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

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

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

SEJIL MISTRY

BProc, LLM, FGIA, FCIS

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

On 30 June 2021, IAG announced the appointment of Virginia Papaluca as an additional Company Secretary effective 1 July 2021, following the resignation of Sejil Mistry effective 30 June 2021.

MEETINGS OF DIRECTORS

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

DIRECTOR	BOARD OF DIRECTORS				PEOPLE AND REMUNERATION COMMITTEE		AUDIT COMMITTEE		RISK COMMITTEE		BOARD SUB COMMITTEE		NOMINATION COMMITTEE	
	Scheduled		Unscheduled											
Total number of meetings held	12		2		8		6		7		3		5	
	Re-quired to attend	Attended	Re-quired to attend	Attended	Re-quired to attend	Attended	Re-quired to attend	Attended	Re-quired to attend	Attended	Re-quired to attend	Attended	Re-quired to attend	Attended
Elizabeth Bryan(1),(3)	12	12	2	2	-	8	-	6	7	7	2	2	5	5
Nick Hawkins(2),(3)	7	7	2	2	-	4	-	4	-	5	1	1	-	-
Simon Allen(1),(3)	12	12	2	2	8	8	-	5	7	7	-	-	1	1
Duncan Boyle(1),(3)	12	12	2	2	5	5	6	6	7	7	-	-	1	1
Sheila McGregor(1),(3)	12	12	2	2	-	5	6	6	4	4	-	-	1	1
Jon Nicholson(1),(3)	12	12	2	2	8	8	-	5	7	7	-	-	5	5
Helen Nugent(1),(3)	12	12	2	2	-	5	6	6	4	4	-	-	5	5
Tom Pockett(1),(3)	12	12	2	2	3	8	6	6	7	7	3	3	5	5
George Savvides(1),(3)	12	12	2	2	8	8	-	5	7	7	-	-	5	5
Michelle Tredenick(1),(3)	12	12	2	2	8	8	-	4	7	7	-	-	1	1
Peter Harmer(1),(4)	5	5	-	-	-	4	-	3	2	2	2	2	1	1

(1) Where not appointed as a Committee member, the Director had attended the meeting/s in an ex-officio capacity until the re-alignment of the Board-Committee composition described in footnote 3.

(2) Nick Hawkins was appointed to the Board effective 2 November 2020 following his appointment as Managing Director and Group CEO.

(3) The Board-Committee memberships were re-aligned on February 2021 as follows:

- Audit Committee: Tom Pockett (Chair) with Duncan Boyle, Sheila McGregor and Helen Nugent as members. The Board Chairman and Managing Director and Group CEO attend the Audit Committee.
- Nomination Committee: Elizabeth Bryan (Chair) with Tom Pockett, Jon Nicholson, Helen Nugent and George Savvides as members.
- People and Remuneration Committee (PARC): George Savvides (Chair) with Tom Pockett, Jon Nicholson, Simon Allen and Michelle Tredenick as members. The Board Chairman and Managing Director and Group CEO attend the PARC.
- Risk Committee: Jon Nicholson (Chair) with Duncan Boyle, Tom Pockett, Simon Allen, George Savvides and Michelle Tredenick as members. The Board Chairman and Managing Director and Group CEO attend the Risk Committee.

(4) Peter Harmer resigned as the Managing Director and CEO on 1 November 2020 and ceased to be a member of the Board Committees.

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PRINCIPAL ACTIVITY

The principal continuing activity of IAG is the underwriting of general insurance and related corporate services and investing activities.

IAG is the largest general insurance company in Australia and New Zealand, selling insurance under many leading brands. In Australia, IAG is the largest 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 a strong small-to-medium enterprise emphasis, and a leading market share in rural areas. IAG's operating model changed during the year with the Australia division 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 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: ■ NRMA Insurance; ■ RACV in Victoria, via a distribution agreement with RACV; ■ SGIO in Western Australia; ■ SGIC in South Australia; ■ CGU Insurance; and ■ Poncho Insurance. The division also includes travel insurance and income protection products which are underwritten by third parties.	Short-tail insurance ■ Motor vehicle ■ Home and contents ■ Lifestyle and leisure, such as boat, veteran and classic car and caravan ■ Business packages ■ Farm and crop ■ Commercial motor and fleet motor Long-tail insurance ■ Professional indemnity ■ Compulsory Third Party (motor injury liability)
Intermediated Insurance Australia 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: ■ CGU Insurance; ■ WFI; and ■ Coles Insurance, via a distribution agreement with Coles.	Short-tail insurance ■ Motor vehicle ■ Home and contents ■ Lifestyle and leisure, such as boat, veteran and classic car and caravan ■ Travel insurance ■ Business packages ■ Farm and crop ■ Commercial property ■ Construction and engineering ■ Commercial motor and fleet motor Long-tail insurance ■ Workers' compensation ■ Professional indemnity ■ Directors' and officers' ■ Public and products liability

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DIVISION	OVERVIEW	PRODUCTS
New Zealand 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 ■ Motor vehicle ■ Home and contents ■ Commercial property, motor and fleet motor ■ Construction and engineering ■ Niche insurance, such as pleasure craft, boat and caravan ■ Rural ■ Marine Long-tail insurance ■ Personal liability ■ Commercial liability
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:
- an increase in the provision for customer refunds that was initially recognised in the prior financial year. The provision comprises premium refunds, interest attributable to those refunds, the cost of administering the associated remediation program and related matters. This provision relates to certain multi-year pricing issues identified by IAG where discounts were not always applied in full to premiums for all customers who may have been eligible;
- the impact from recognition of an increase in the provision for business interruption related claims related to the COVID-19 pandemic. This increase was made primarily in response to the Supreme Court of New South Wales Court of Appeal (NSWCA) 18 November 2020 judgement that determined that certain pandemic related policy exclusion wordings were ineffective; and
- the impact from recognition of a provision during the current financial year for historic underpayment of some current and former employees. This provision comprises employee entitlements, interest attributable to those entitlements and the cost of administering the associated remediation program. It 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.

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.

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

	STATUTORY RESULTS (IFRS) $m	CUSTOMER REFUNDS PROVISION $m	BUSINESS INTERRUPTION CLAIM PROVISION $m	PAYROLL COMPLIANCE PROVISION $m	MANAGEMENT RESULTS (NON-IFRS PER INVESTOR REPORT) $m
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)	238	1,150	51	868
Net investment income on assets backing insurance liabilities	139	-	-	-	139
Insurance (loss)/profit	(432)	238	1,150	51	1,007
Net corporate expense[(1)]	(71)	(238)	(1,150)	(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)
2020					
Gross written premium	11,985	150	-	-	12,135
Movement in unearned premium liability	29	-	-	-	29
Gross earned premium	12,014	150	-	-	12,164
Outwards reinsurance premium expense	(4,776)	(25)	-	-	(4,801)
Net earned premium	7,238	125	-	-	7,363
Net claims expense	(5,010)	-	-	-	(5,010)
Commission expense	(1,009)	-	-	-	(1,009)
Underwriting expense	(2,070)	140	-	-	(1,930)
Reinsurance commission revenue	1,201	(19)	-	-	1,182
Net underwriting expense	(1,878)	121	-	-	(1,757)
Underwriting profit	350	246	-	-	596
Net investment income on assets backing insurance liabilities	145	-	-	-	145
Insurance profit	495	246	-	-	741
Net corporate income/(expense)[(2)]	307	(246)	-	-	61
Net other operating income/(expenses)	(267)	-	-	-	(267)
Profit before income tax from continuing operations	535	-	-	-	535
Income tax expense	(37)	-	-	-	(37)
Profit after income tax from continuing operations	498	-	-	-	498
Non-controlling interests	(59)	-	-	-	(59)
Profit after income tax and non-controlling interests	439	-	-	-	439
Net loss after tax from discontinued operations	(4)	-	-	-	(4)
Profit attributable to IAG shareholders	435	-	-	-	435

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

(2) The $307 million income consists of a $309 million gain on sale recognised on the disposal of IAG's interest in its joint venture with the State bank of India (SBI General Insurance Company Limited) which was recognised within the' Fee and other income' line and expenses of $2 million recognised within 'Fee-based, corporate and other expenses' line in the statement of comprehensive income.

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The adjustments summarised above reflect the impact on pre-tax earnings for each respective year as a result of the inclusion of the costs associated with the provisions, as noted above. Analysis and commentary on the insurance profit and margin in the operating and financial review section of this report excludes the three reconciling items listed above.

The gross increase during the current year in the provision for customer refunds, interest attributable to those refunds and the cost of administering the associated remediation program and related matters was $245 million (2020: $290 million) (refer to Note 5.3) and after an increase of $7 million (2020: $44 million) on the recovery from IAG's whole-of-account quota share arrangements, the full year net pre-tax earnings impact is $238 million (2020: $246 million). After tax and outside equity interests, the net cost of this provision to IAG is $166 million (2020: $141 million).

The gross increase during the current period in the provision for business interruption related claims was $1,704 million (2020: $127 million) and after recognition of a $554 million (2020: $41 million) recovery from IAG's whole of account quota share arrangements, the full year net pre-tax earnings impact is $1,150 million (2020: $86 million). After tax, the net cost of this provision to IAG is $805 million (2020: $60 million). In the prior financial year IAG recognised a net outstanding claims provision relating to COVID-19 of $106 million in relation to its Australian business. This provision spanned potential business interruption, including the $86 million pre-tax earnings impact noted above, landlords' and other insurance class effects and was presented within the insurance profit for both IAG's reported statutory and management results.

The gross provision recognised in the current financial year resulting from the payroll compliance review was $71 million (2020: nil) and after recognition of a $15 million (2020: nil) recovery from IAG's whole-of-account quota share arrangements, the full year net pre-tax earnings impact is $56 million (2020: nil). The element of the provision relating to the underpayment of employee entitlements (including applicable interest and associated remediation program costs) that occurred in prior financial years, which represents $51 million of the overall $56 million net pre-tax amount, has been shown in the 'Net corporate expense' line in the management reported view of the current period's results.

These items have been excluded from cash earnings for dividend calculation purposes.

OPERATING AND FINANCIAL REVIEW

OPERATING RESULT FOR THE FINANCIAL YEAR

The underlying insurance margin of 14.7% was lower than the prior financial year (2020: 16.0%). After adjusting for the midpoint of the estimated net $60 million to $70 million benefit from COVID-19 effects in the first half of the financial year, the underlying margin of 13.8% compared to 15.0% in the prior year (excluding 1% reserve release assumption, to align with the underlying margin definition from the 2021 financial year). The reduction in underlying margins reflects a combination of influences including lower fixed income yields on investment income, increase in compliance, governance and corporate insurance costs, additional non-recurring expenses, deterioration in commercial long-tail lines and some offset from the impact of higher premium rates.

The reported insurance profit of $1,007 million was higher than in than the prior year (2020: $741 million) and equates to a reported margin of 13.5% (2020: 10.1%). In addition to the underlying margin influences outlined above, the current year reported insurance profit included an unfavourable net natural peril experience, a net strengthening of prior year reserves and a favourable impact from the narrowing of credit spreads.

Reported GWP of $12,602 million increased by 3.8% over the prior year (2020: $12,135 million). Growth was driven by both volumes and higher rates across personal short-tail classes in Direct Insurance Australia (DIA), average rate increases of high single digit with stable retention across commercial portfolios in Intermediated Insurance Australia (IIA), and by a combination of premium rates and relatively stable retention and new business levels in New Zealand.

COVID-19 impacts

The predominant impact from the COVID-19 pandemic occurred in the first half of the current financial year, where it is estimated to have had a modestly negative effect on IAG's GWP and a net positive impact on its insurance profit (which excludes the impact of the $1,150 million business interruption provision). No material overall impact was experienced in the second half of the current financial year. The key impacts in the first half of the current year included:

- an estimated GWP reduction of approximately $50 million compared to the prior financial year, predominantly from lower new business opportunities in Australian personal lines during the lockdown in Victoria and reduced travel insurance premium. Business retention has held at high levels in most core portfolios. COVID-19 had a negligible impact on New Zealand GWP during the year;
- a pre-tax earnings benefit of approximately $100 million from lower motor claim frequency, which impacted the first half of the financial year when the extended lockdown in Victoria occurred. Claim frequency returned to more normal levels in the second half of the financial year;
- a partial offset to this earnings benefit of around $25 million from claims incurred in other COVID-19 affected business classes such as landlords' insurance, travel insurance and commercial liability and the earn through of lower GWP; and
- a further offset from increased operating expenses of around $10 million flowing from COVID-19 related measures and responses, mainly from employees 'working from home' and changes to offshore worksite arrangements.

In aggregate, COVID-19 had an estimated net positive impact on the current financial year's underlying insurance profit of around $60 million to $70 million (approximately 0.9% of net earned premium (NEP)) compared to a net neutral impact in the prior financial year. All underwriting profit impacts are expressed on a post-quota share basis.

The $1,150 million increase in the provision for business interruption to $1,236 million announced on 20 November 2020 is discussed under Additional Matters. Due to the unusual nature and scale of the provision in the current financial year, it has been shown within the net corporate expense line (2020: $86 million provision included in insurance profit). The overall COVID-19 impact in the prior financial year was broadly net neutral to insurance profit.

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New divisional operating model in Australia

IAG announced on 2 November 2020 that the Australia Division would be split into DIA and IIA, which was effective immediately. In March 2021, IAG announced three permanent executive appointments to IAG's Group Leadership Team to lead the three divisions. All key employee changes under the new operating model had been confirmed by 30 June 2021.

The operating model provides greater clarity on roles and responsibilities and is more aligned to IAG's brands and customer propositions. IAG has reported separate results for the two new divisions as part of the current financial year result and comparative results have been restated accordingly.

Premiums

Reported GWP of $12,602 million (2020: $12,135 million) increased by 3.8% compared to the prior financial year. This encompassed:

- growth of 4.3% to $5,772 million was achieved in DIA and comprised:
  - continued GWP momentum in the second half of the current year with growth of 4.8%, after achieving 3.9% growth in the first half of the current financial year. Growth was driven by both volumes and higher rates across personal short-tail classes, that broadly matched claims inflation;
- growth of 5.6% to $4,048 million was achieved in IIA and comprised:
  - rate increases that averaged 8% over the current financial year, a dominant feature across IIA driven by deliberate portfolio management. Commercial portfolios on average recorded high single-digit GWP growth with stable retention, whereas personal lines were relatively flat on the prior financial year; and
- growth of 0.9% in New Zealand to $2,778 million, including an unfavourable foreign exchange translation effect of around 190 basis points:
  - both Business and Consumer delivered sound growth, averaging 2.8% in local currency. This was driven by a combination of premium rates and relatively stable retention and new business levels.

Insurance margin

Underlying margins continue to be adjusted for prior year reserve releases or strengthening, natural perils claim costs above or below related allowances and credit spread gains or losses. From the 2021 financial year, IAG's underlying margin definition no longer factors in a 1% allowance for reserve releases.

INSURANCE MARGIN IMPACTS	**2021** **$m**	2020 $m
Underlying insurance profit	**1,095**	1,172
Reserve releases/(strengthening)	**(81)**	(48)
Reserve release assumption	**-**	(74)
Natural perils	**(742)**	(904)
Natural peril allowance	**658**	641
Credit spreads	**77**	(46)
Reported insurance profit(1)	**1,007**	741
Underlying insurance margin(2)	**14.7 %**	16.0 %
Reserve releases/(strengthening)	**(1.1)%**	(0.7)%
Reserve release assumption	**- %**	(1.0)%
Natural perils	**(9.9)%**	(12.3)%
Natural peril allowance	**8.8 %**	8.7 %
Credit spreads	**1.0 %**	(0.6)%
Reported insurance margin(3)	**13.5 %**	10.1 %

(1) Reported insurance profit is the insurance profit on a management results basis. Based on the statutory results, the equivalent statutory insurance loss for the current year is $432 million (2020: $495 million profit).

(2) From the current financial year, IAG's underlying margin definition no longer factors in an allowance for reserve releases, reflecting IAG's view of uncertainty attached to long-tail reserve development in the current economic and operating environment. The prior year comparatives are reported on the previous basis, which included an allowance of 1% of NEP for reserve releases.

(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 (5.8)% (2020: 6.8%).

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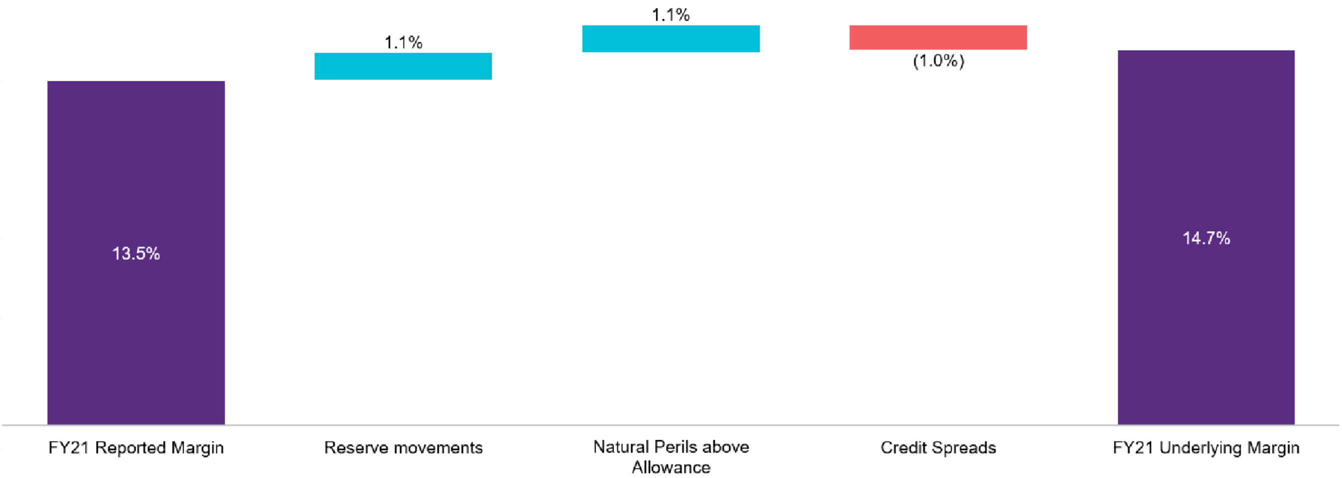
IAG's current financial year underlying insurance margin was 14.7%, lower than 16.0% in the prior financial year (15.0% excluding the 1% normalised reserve releases included in the prior financial year). Features of the net movement year-on-year were:

- a full year net benefit of around \$60 million to \$70 million from COVID-19 effects experienced in the first half of the financial year. Excluding the benefit from COVID-19 (based on the midpoint), the current financial year underlying margin was 13.8%;
- the net COVID-19 impact at Group level was largely neutral for prior financial year margins, meaning the comparable underlying margins was 15.0%;
- the reduction in underlying margins from 15.0% in the prior financial year to 13.8% in the current financial year (both excluding 1% normalised release assumption and COVID-19 effects) reflects a combination of influences including:
  - the impact of lower fixed income yields on investment income, after the significant step change in yields between the first half of the prior financial year and the second half of the prior financial year, and further pressure on yields in first half of the current financial year;
  - high-single digit growth in gross underwriting expenses, impacted by an increase in compliance, governance and corporate insurance costs, and additional Group-wide expenses of around \$30 million (pre-quota share) associated with IAG's new operating model and property consolidation costs in New Zealand (both of which are not expected to recur);
  - a deterioration in commercial long-tail classes compared to the prior financial year mainly due to adverse claims experience in professional risks and general liability; and
  - some offset from the impact of higher premium rates, particularly in short-tail commercial and personal lines in IIA.

IAG's underlying insurance margin in the second half of the current financial year was 13.5%, lower than 14.2% in the first half of the current financial year (15.9% underlying margin adjusted for the 1.7% estimated benefit from COVID-19). Key influences on second half of the current financial year compared to the first half of the current financial year included:

- lower non-quota share reinsurance costs;
- additional non-recurring expenses referred to above; and
- reversal of the relatively benign large loss experience in New Zealand during the first half, with the full year experience being broadly in line with expectations.

GROUP INSURANCE MARGIN - REPORTED VS. UNDERLYING



The reported insurance profit of \$1,007 million in the current financial year was higher than the prior financial year and equates to a reported margin of 13.5% (2020: 10.1%). In addition to the underlying margin influences outlined above, this included:

- unfavourable net natural peril experience of \$84 million in the current financial year, lower than \$263 million of unfavourable experience in the prior financial year;
- an \$81 million impact from strengthening prior year reserves, compared to a \$48 million strengthening in the prior financial year; and
- a favourable impact from the narrowing of credit spreads of \$77 million (2020: negative spread impact of \$46 million).

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Divisional insurance margins

DIVISIONAL INSURANCE MARGINS	2021	2020
Direct Insurance Australia		
Underlying insurance margin	**21.4 %**	26.1 %
Reported insurance margin	**20.7 %**	18.7 %
Intermediated Insurance Australia		
Underlying insurance margin	**3.9 %**	(0.7)%
Reported insurance margin	**(0.4)%**	(8.7)%
New Zealand		
Underlying insurance margin	**16.4 %**	18.6 %
Reported insurance margin	**19.0 %**	20.2 %

Insurance margin is on a management results basis. Prior to the current financial year, the underlying margin definition adjusted for reserve releases or strengthening in excess or below 1% of net earned premium. The prior year comparatives have not been restated to incorporate the new definition from the current financial year. Based on the statutory results, the equivalent statutory insurance margin for the current year is 19.1% (2020: 14.4%) for DIA, (59.4)% (2020: (12.6)%) for IIA and 18.9% (2020: 20.2%) 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.

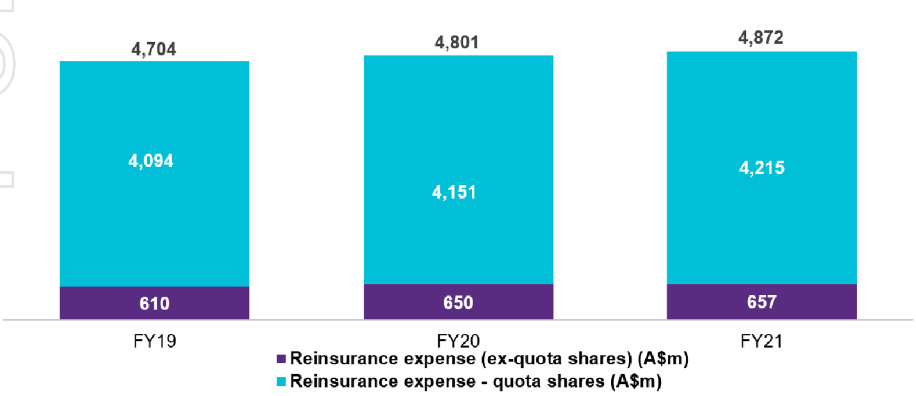
- DIA's underlying margin of 21.4% in current financial year was lower than the prior year (2020: 26.1%):
  - close to half of this change was the consequence of the prior financial year assuming a normalised level of reserve releases of 1% of NEP and net COVID-19 benefits reducing from around approximately $100 million (approximately 300bps) in the prior financial year to $60 million to $70 million (approximately 190bps) in the current financial year, with some upward pressure on average motor claim costs also evident in the second half of the current financial year.
  - in addition to this, higher underwriting expenses and lower investment income also reduced underlying margins.
  - DIA's reported insurance margin of 20.7% in the current financial year was higher than 18.7% in the prior financial year, reflecting significantly lower natural perils experience.
- IIA reported an insurance loss of $10 million in the current financial year (insurance loss of 0.4% of NEP), which was a significant improvement relative to the prior financial year, when it reported an insurance loss of $207 million (insurance loss of 8.7% of NEP):
  - IIA's underlying margin in the second half of the prior financial year was adversely impacted by COVID-19 effects (approximately $100 million or approximately 420bps on a full year basis) and included a normalised level of reserve releases of 1%.
  - excluding these items, IIA's prior year underlying margin was approximately 2.5%. The current year's underlying margin was 3.9% and benefitted from the impact of higher premium rates. Returns remain well below acceptable levels.
- New Zealand's reported insurance margin was 19.0% in the current financial year, moderately lower than 20.2% in the prior financial year:
  - a lower 2021 underlying margin of 16.4% (2020: 18.6%) partly reflected a return to a pre-COVID-19 claims environment with the prior financial year benefiting from lower claim frequency.
  - peril costs approximated allowances in both years, however the current financial year reported margins benefitted from higher short-tail reserve releases.

Reinsurance expense

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

The current financial year reinsurance expense of $4,872 million compares to $4,801 million in the prior financial year, an increase of approximately 2%.

REINSURANCE EXPENSE



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Quota share-related reinsurance expense increased broadly in line with gross earned premium growth. Non-quota share reinsurance expenses increased by 1% to $657 million and reflected a combination of:

- a modest increase in catastrophe reinsurance rates, stemming from the calendar 2021 renewal;
- additional non-recurring costs associated with the transition of aggregate cover from calendar to a financial year basis; and
- low overall growth in IAG's risk exposures.

Claims

IAG's immunised underlying loss ratio, which reflects trends in underlying or working claims, was 53.7% in the current financial year, broadly similar to 54.1% in the prior financial year. This ratio excludes all reserve releases or strengthening, natural perils costs and discount rate adjustments.

IMMUNISED LOSS RATIO	**2021**	2020
	$m	$m
Immunised underlying net claims expense	**4,013**	3,986
Discount rate adjustment	**(29)**	72
Reserving and perils effects	**823**	952
Reported net claims expense(1)	**4,807**	5,010
Immunised underlying loss ratio	**53.7 %**	54.1 %
Discount rate adjustment	**(0.4)%**	0.9 %
Reserving and peril effects	**11.0 %**	13.0 %
Reported loss ratio(2)	**64.3 %**	68.0 %

(1) 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 $5,957 million (2020: $5,010 million).

(2) 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 80.3% (2020: 69.2%).

Underlying claims trends

At a Group level, net COVID-19 claims benefits were approximately $50 million in the prior financial year and $75 million in the current financial year, driven largely by lower motor claims frequency. Excluding the net COVID-19 impact, the underlying loss ratio was stable at around 54.7% in both years. This was a function of offsetting positive and negative factors.

- on the positive side, the ratio benefited from:
  - an improvement in IIA claims experience in short-tail portfolios across personal and commercial lines compared to prior year as a result of active portfolio management;
  - lower average home claim costs in Australia driven by operational improvements related to a new performance framework for building partners rolled out in the current financial year and early detection of water claims, which is likely due to more of IAG's customers working from home; and
  - the impact of higher premium rates.
- these improvements were offset by:
  - a deterioration in commercial long-tail classes compared to the prior financial year mainly due to adverse claims experience in professional risks and general liability;
  - some upward pressure on average motor claim costs, particularly in Victoria during the second half of the current financial year, with modest inflation related to the cost and mix of replacement motor parts; and
  - an increase in home claims frequency in New Zealand, with average claim costs for home also increasing.

Reserve releases/strengthening

Prior period reserve strengthening of $81 million occurred in the current financial year compared to a strengthening of $48 million in the prior financial year. This outcome reflected more adverse claim development across long-tail classes than observed in recent years, particularly across the commercial liability portfolio where a sharp deterioration in average claim size has emerged.

The overall strengthening in the current financial year reflects offsetting elements across IAG's businesses:

- prior year reserve deterioration of $119 million occurred mainly across commercial classes in IIA. Adverse trends appear to be driven by systemic issues where mixed economic conditions have enhanced focus on personal injury compensation. More specifically, the deterioration in IIA included:
  - approximately $75 million of strengthening related to liability classes, mainly due to higher average claim sizes in recent accident years and driven by superimposed inflation for medium-sized bodily injury claims, as claim frequency has improved;
  - approximately $50 million of professional risk reserve strengthening as a result of an increased incidence of medium to large claims;
  - approximately $20 million of workers' compensation reserve strengthening driven by extended duration of claims and moderately higher frequency; partially offset by
  - some positive claim settlements in commercial and personal short-tail classes of around $25 million, which mostly occurred in the first half of the current year; and
  - releases of $36 million were reported across a number of portfolios in New Zealand in the current financial year reflecting favourable working claims development.

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Natural perils

Net natural perils claim costs in the current year were $742 million, in line with the update provided by IAG on 16 June 2021. This was $84 million above the $658 million allowance for the period (2020: $263 million above allowance).

2021 NATURAL PERIL COSTS BY EVENT	$m
East coast low (Wamberal) and North Island (NZ) storms (July 2020)	16
East coast low storms (July 2020)*	17
NSW (Armidale/Tamworth) and South East QLD hail (October 2020)*	17
South East QLD (Springfield) and NSW Halloween giant hail (October 2020)*	17
NZ Napier flood (November 2020)*	16
South East AUS severe thunderstorms (December 2020)	15
WA (Perth Hills) bushfire (February 2021)	19
QLD/NSW heavy rain and flooding (March 2021)	135
Tropical cyclone Seroja (April 2021)	68
VIC east coast low (June 2021)	56
Other events (<$15 million)	366
Total	742

* Net of reinsurance recoveries

- the first half of the current financial year was a relatively benign period for natural perils experience ($39 million below perils allowance).
  - notable losses included the east coast low in July 2020 and storm events that affected New South Wales (NSW) and Queensland (QLD) late in October.
  - IAG had fully eroded the deductible for the calendar 2020 aggregate cover by 30 June 2020 which meant that these events were capped by reinsurance recoveries under this aggregate cover.
- three significant catastrophic weather events caused IAG to increase estimated 2021 full year net natural peril costs in the second half of the financial year.
  - in March 2021, widespread flooding and storm damage associated with heavy rain occurred across Queensland and NSW.
  - other significant events included Cyclone Seroja which made landfall in Western Australia in April 2021 and extensive flooding which impacted parts of Victoria in June 2021.
  - none of these events were protected by IAG's financial 2021 aggregate cover.

Expenses

Total net operating expenses (commission and underwriting) were $1,798 million in the current financial year, 2.3% higher than the prior financial year. Gross underwriting expenses (ex-levies and commissions paid or received) increased by 5.6% on the prior financial year, to $1,650 million.

EXPENSES	**2021 $m**	2020 $m
Gross underwriting expense ex-levies	**1,650**	1,562
Levies	**250**	368
Total gross underwriting expenses	**1,900**	1,930
Gross commission expense	**1,007**	1,009
Total gross expenses	**2,907**	2,939
Reinsurance commission revenue	**(1,109)**	(1,182)
Total net expenses*	**1,798**	1,757

* 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 $2,034 million (2020: $1,878 million).

The 5.6% increase in the current financial year was a function of:

- an increase in compliance and governance costs and corporate insurance costs, with a step change in these costs predominantly a first half of the current financial year feature;
- some one-off additional expenses of approximately $30 million (pre-quota share) associated with implementing IAG's new operating model in Australia and property consolidation costs in New Zealand, which have been recognised in insurance profit; offset by
- a lower level of additional COVID-19 costs in the current financial year compared to the prior financial year as discussed below.

The prior financial year and current financial year included approximately $50 million and $10 million (approximately $75 million and approximately $15 million pre-quota share) respectively of additional cost incurred as a result of COVID-19, largely due to operating costs associated with 'working from home' and from the disruption of offshore service providers. Costs to close the AMI branch network in New Zealand were included in the prior financial year.

Gross underwriting expenses (ex-levies) increased at high single-digit levels compared to the prior financial year, if both years are adjusted for estimated one-off COVID-19 costs and the additional expenses of approximately $30 million outlined above.

Additional commentary on expenses:

- the decrease in levies from $368 million in the prior financial year to $250 million in the current financial year reflects the combination of a modest increase in emergency services levy in NSW and a reduction to the Transitional Excess Profits and Losses Adjustment provision owing to moderately adverse claims experience compared to initial expectations. The provision movement ensures that NSW Compulsory Third Party profit recognition is in line with the legislated capped level.
- the reported administration ratio on an ex-levies basis, increased to 12.7% (2020: 11.9%), largely reflecting the reasons outlined above.
- the commission ratio of 9.1% has been steady over the past three halves, reflecting stable business mix.

Net investment income on assets backing insurance liabilities

Net investment income on assets backing insurance liabilities for the current financial year was $139 million, compared to $145 million in the prior financial year. This outcome includes:

- the impact of higher average investment assets driven primarily by the capital raising associated with the business interruption provision;
- a modest increase in risk-free rates in the current financial year, following the significant reduction in the prior financial year; and
- a significant positive effect of $77 million from the narrowing of credit spreads, compared to a loss of $46 million in the prior financial year.

After allowance for the factors outlined above, the average yield achieved in the current financial year was significantly lower than that of the prior financial year.

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

Additional matters

Provision for potential business interruption claims and capital raising

IAG announced on 20 November 2020 that it would recognise a total pre-tax provision of $1,236 million for potential business interruption claims. This followed the 18 November 2020 unanimous decision of the Supreme Court of New South Wales Court of Appeal (NSWCA), which determined that pandemic exclusions that refer to the *Quarantine Act* and subsequent amendments, rather than the *Biosecurity Act*, are not effective to exclude cover for losses associated with COVID-19. On 25 June 2021, the High Court denied special leave for insurers to appeal the NSWCA's judgement.

IAG had exposure to policy wordings that referenced the *Quarantine Act*, which accounts for approximately 80% of the total provision recognised. The balance reflects potential exposure to prevention of access clauses that generally operate when actions of governments or other legal authorities cause business interruption by preventing or restricting access to premises.

Of the total pre-tax provision of $1,236 million, $1,150 million has been included in the net corporate expense line in the current financial year. The net post-tax impact on IAG's current year earnings is $805 million.

To reinforce its capital position following recognition of the business interruption provision, IAG completed a $650 million institutional placement on 20 November 2020 and raised $126 million via a retail Share Purchase Plan which concluded on 23 December 2020. In total, $776 million of new equity capital was raised and approximately 154 million new fully paid ordinary shares were issued.

Extensive scenario testing of the adequacy of the provision has been undertaken in determining the year end position. This included comparison of actuarial estimates to client advised loss estimates for lodged claims, consideration of the stronger economic rebound and consideration of the impact of a number of short duration lockdowns which occurred across Australia's major cities in the second half of the current financial year and beyond to the date of this report. No further change to the net central estimate or provision has been made at 30 June 2021.

Insurers commenced a second test case in the Federal Court of Australia in February 2021 to test the application of further issues around pandemic coverage in business interruption policies. The second test case will determine the meaning of policy wordings in relation to the definition of a disease, proximity of an outbreak to a business and prevention of access to premises due to a government mandate, as well as policies that contain a hybrid of these type of wordings and other policy wording matters. The hearing for the second test case will commence in late August 2021.

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BCC Trade Credit and Greensill

IAG clarified on 9 March 2021 that it had no net insurance exposure to trade credit policies sold through BCC Trade Credit Pty Ltd (BCC) to Greensill entities. This position remains unchanged.

IAG sold its 50% interest in BCC on 9 April 2019 to Tokio Marine Management (Australasia) Pty Ltd with the result of eliminating net exposure to trade credit insurance. BCC is an underwriting agency that was authorised to underwrite trade credit insurance on IAG's behalf, in accordance with specific underwriting guidelines, through Insurance Australia Limited (IAL), one of IAG's two licensed insurance subsidiaries in Australia. Trade credit insurance is designed to protect businesses that provide genuine supply chain credit to their customers with a policy that pays the business if the customer defaults on the payment of its accounts receivable.

As part of a transition arrangement after the April 2019 sale of BCC, new policies were underwritten by IAL from the date of sale up to 30 June 2019 and Tokio Marine & Nichido Fire Insurance Co., Ltd (Tokio Marine) retained the risk 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 (after existing reinsurance) to trade credit insurance written by BCC on behalf of IAL.

The IAL trade credit portfolio is in run-off with IAL managing existing and future claims. The existing claims include both claims from policies to Greensill entities and ones related to the remainder of the BCC trade credit portfolio. IAG has recognised an outstanding claims liability of $437 million at 30 June 2021 determined in accordance with IAG's usual claims reserving practices, which takes into account an assessment of the validity of claims. In accordance with IAG's normal practice claims determined to be invalid are not recognised. IAG has also recognised $437 million of related reinsurance recoveries in respect of trade credit related claims.

There has been an increasing number of issues raised in the public domain which give rise to other concerns as to the validity, structure and placement of the purported insurances. These are complex issues that are continuing to be investigated by IAG, Tokio Marine and various other stakeholders.

There is a risk that the administrators of Greensill or other claimants may commence litigation to seek legal confirmation of policy coverage and/or validity of claims and there is a risk a reinsurer may challenge its obligations with respect to claim exposures.

Based on various factors, including the determination of policy validity, reinsurance arrangements and the agreements with Tokio Marine, IAG remains confident that for any trade credit claims it may ultimately be liable to pay, it has no net insurance exposure.

Provision for customer refunds

An ongoing proactive review of pricing systems and processes led to a pre-tax provision for customer refunds being raised in the prior financial year for multi-year pricing issues identified by IAG where discounts to premiums were not always applied in full. A further pre-tax charge of $238 million was recorded in the current financial year (2020: $246 million).

IAG has finalised the identification phase of the review and has updated the provision to reflect the latest position of the refund programs and estimated whole of program administration costs. The remediation program will complete over the next 12 to 24 months.

Significant levels of estimation and judgement are required in respect of this provision. An additional charge of $80 million has been included in the provision, which has increased the component for uncertainty to $100 million, being IAG's best estimate of the downside risk associated with the ongoing work.

Payroll compliance provision

As previously disclosed as a contingent liability, IAG has been conducting an ongoing payroll compliance review in Australia and Singapore across a number of its payroll-related procedures, to identify where employees may not have received their full entitlements. Remediation payments to current and former employees identified by the review have commenced.

A pre-tax charge of $51 million (2020: nil) for remediation payments and related costs has been recognised in the current financial year in net corporate expense. The overall pre-tax net earnings impact of this provision is approximately $56 million, with approximately $5 million relating to current year entitlements and therefore included in the current financial year's insurance profit.

Recovery from Swann class action

On 6 October 2020 IAG agreed to a settlement of the class action brought against its subsidiaries, Swann Insurance (Aust) Pty Ltd (Swann) and Insurance Australia Limited. A pre-tax charge of $68 million was included in net corporate expense in first half of the current financial year. Inclusive of all related costs and after insurance recoveries, a post-tax amount of $48 million was recognised. Recoveries collected in second half of the current financial year exceeded the original estimate, which has resulted in the pre-tax charge being revised to $40 million ($28 million post-tax).

Disposal of Dynamiq

Dynamiq Pty Ltd (Dynamiq), a wholly-owned subsidiary of IAG involved in global risk management, was sold on 30 April 2021. The overall loss recognised in respect of this transaction was approximately $12 million, driven predominantly by the derecognition of the associated goodwill balance.

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Other profit and loss drivers

Net corporate expense

Net corporate expense in the current year amounted to a pre-tax loss of $1,510 million, which is excluded from cash earnings for dividend calculation purposes. There were a number of contributing elements to the overall charge:

- $1,150 million to reflect the potential impact of business interruption claims following the NSWCA judgement in November 2020;
- $238 million addition to the customer refunds provision, of which $163 million was recognised in the second half of the current financial year;

CUSTOMER REFUNDS PROVISION	**2021**	2020
	$m	$m
Gross expense	**245**	290
Quota share recovery	**(7)**	(44)
Corporate expense	**238**	246
Income tax	**(71)**	(74)
Non-controlling interest	**(1)**	(31)
Net expense	**166**	141

- $51 million pre-tax charge for the payroll compliance provision;
- $40 million for the October 2020 settlement of the Swann class action, a reduction from the estimated $68 million included in the first half of the current financial year;
- $12 million for the overall loss recognised on disposal of Dynamiq; and
- $17 million for restructuring costs recognised in the first half of the current financial year associated with IAG's exit from the Victorian workers' compensation scheme in the current financial year.

Fee-based business

Fee-based business contributed a loss of $29 million in the current financial year, compared to a loss of $23 million in the prior financial year. This period's result comprised:

- a $7 million profit (2020: $11 million profit) from IAG's role as agent under the Victorian workers' compensation scheme;
- a loss of approximately $5 million from Motorserve's car servicing activities, which were acquired during the prior financial year (2020: $3 million loss);
- an approximately $30 million loss (2020: $31 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:
  - costs associated with the Safer Journeys crash detection and response service;
  - 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;
  - losses from the ongoing development of the Carbar digital car-trading platform business; and
  - net costs from the Ambiata specialist data activation business and from the innovation hubs run by Firemark Labs in Singapore.

IAG expects a similar-sized pre-tax loss from fee-based income in the next financial year, after allowing for no further income beyond the current financial year from IAG's role as agent under the Victorian workers' compensation scheme (this compares to an approximate $35 million loss in the current financial year).

Asian interests

IAG announced on 19 July 2021 that AmGeneral Holdings Berhad, the Malaysian business in which it holds a 49% interest, had signed an Implementation Agreement for the proposed sale of its wholly-owned insurance business AmGeneral Insurance Berhad to Liberty Insurance Berhad and expects to incur a loss. This investment has been classified as 'held for sale' and an impairment of $89 million has been recognised in amortisation and impairment.

The Implementation Agreement sets out the terms on which the parties will seek required regulatory approvals. Subject to receiving these approvals, the parties will execute a Share Purchase Agreement under which IAG will exit its investment in AmGeneral Insurance Berhad, a wholly-owned subsidiary of AmGeneral Holdings Berhad. The transaction is expected to complete during the 2022 financial year.

IAG continues to weigh up options for its remaining Asian general insurance interests, including divestments where appropriate. The remaining Asian interests are:

- 80.64% in AAA Assurance Corporation in Vietnam; and
- 13.93% in Bohai Property Insurance Company Ltd (Bohai) in China which is included in shareholders' funds investments.

The combined contribution from associates, before acquired intangible amortisation of $2 million (2020: $2 million), was a profit of $37 million (2020: $59 million), largely derived from AmGeneral Insurance Berhad.

Total share of net profit of associates is presented on a management results basis. Based on the statutory results, the equivalent total share of net profit of associates for the current year is $35 million (2020: $57 million).

AmGeneral Insurance Berhad's reported GWP of $493 million (2020: $551 million), an approximately 10.5% decrease on the prior financial year, while in local currency terms, GWP decreased by around 2%. AmGeneral Insurance Berhad's current financial year insurance margin of 18.2% increased relative to 14.5% in the prior financial year, resulting in an insurance profit of $83 million, approximately 13% above the prior financial year. This largely reflects improved underwriting profits due to COVID-19 related motor claim frequency benefits (AmGeneral Insurance Berhad commentary based on 100%; IAG's interest was 49% over the period). IAG received a dividend of $32 million from AmGeneral Insurance Berhad in the current financial year.

Net investment income on shareholders' funds

Net investment income on shareholders' funds was a profit of $306 million, a marked recovery compared to a loss of $181 million in the prior financial year. This was the result of:

- the equity market staging a strong recovery in the current financial year;
- positive mark-to-market impacts in alternative asset classes, primarily from higher yielding credit strategies, global convertible bonds and hedge funds; and
- positive fair value adjustments in the Firemark Ventures portfolio.

At 30 June 2021, the weighting to defensive assets (fixed interest and cash) within shareholders' funds was 70%, compared to approximately 75% at the end of the 2020 financial year.

Tax expense

IAG reported an overall tax benefit of $125 million in the current financial year (2020: $37 million expense), largely due to the recognition of items in net corporate expense which in aggregate amounted to a $1,510 million pre-tax loss. Excluding the effect of these items, IAG's effective tax rate (pre-amortisation and impairment) was approximately 26% (2020: 22% after also adjusting for the profit on sale of SBI General Insurance Company Limited (SBI General)).

Contributory elements reconciling the current financial year 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, Singapore and Malaysia; and
- franking credits generated from IAG's investment portfolio.

Non-controlling interests

Profit after tax attributable to non-controlling interests was $150 million in the current financial year (2020: $59 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 higher profit in the current financial year owing to:

- a significant reduction compared to the prior financial year in the number and size of major peril events in NSW and Victoria, notwithstanding natural perils still exceeding allowances in the current financial year;
- its share of the provision for customer refunds during the current financial year of $1 million being lower than $31 million in the prior financial year, as the bulk of the identification of IMA-related matters occurred in the prior financial year; partly offset by
- reduced COVID-19 related motor claim frequency benefits in the first half of the current financial year compared to the second half of the prior financial year.

Acquired intangible amortisation and impairment

As previously discussed, IAG's interest in AmGeneral has been classified as 'held for sale' and an impairment of $89 million has been recognised in amortisation and impairment, which is included in 'Fee-based, corporate and other expenses' line in statement of comprehensive income.

The current year acquired intangible amortisation and impairment of $111 million (2020: $30 million), incorporating amortisation of $2 million (2020: $2 million) in relation to associates, also included the write-down of intangibles associated with IAG's exit from the Victorian workers' compensation scheme of $15 million. The current remaining balance of acquired intangibles is small and expected to be largely amortised by the end of the next financial year.

Net profit/(loss) after tax

A net loss after tax and outside equity interests of $427 million compared to a profit of $435 million in the prior financial year reflected the aforementioned items.

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REVIEW OF FINANCIAL CONDITION

A. FINANCIAL POSITION

The total assets of the Group as at 30 June 2021 were $33,449 million compared to $29,694 million as at 30 June 2020. Movements within the overall net increase of $3,755 million include:

- an increase in investments of $2,317 million associated with the proceeds from the issuance of ordinary shares and subordinated debt during the year, positive mark-to-market movements following improvements in market returns and operating activities, partially offset by payment of the 2021 interim dividend and redemption of funds held on behalf of the IAG and NRMA superannuation plan following the decision to transfer management to an external party;
- a $1,203 million increase in reinsurance and other recoveries on outstanding claims primarily associated with recoveries due from the whole-of-account quota shares, largely driven by the increased provisions for business interruption and trade credit-related claims, increased reserve strengthening on commercial long-tail reserves, partially offset by lower natural peril claims and yield curve effects on long-tail reserves;
- a $402 million increase in deferred tax assets attributable to increased tax losses in the Australian tax consolidated group recognised during the year; offset by
- a $212 million decrease in current tax assets related to the Australian tax consolidated group following receipt of a refund from the Australian Taxation Office in respect to the 2020 assessment year.

The total liabilities of the Group as at 30 June 2021 were $26,893 million compared to $23,340 million as at 30 June 2020. Movements within the overall net increase of $3,553 million include:

- a $2,728 million increase in the outstanding claims liability predominantly attributable to increased provisions for business interruption and trade credit-related claims, increased reserve strengthening on commercial long-tail reserves, partially offset by lower natural peril claims and yield curve effects on long-tail reserves;
- a $461 million increase in interest-bearing liabilities predominantly attributable to the issuance of the $450 million Australian dollar denominated subordinated convertible term notes during the year;
- a $227 million increase in provisions, reflecting increases in the customer refunds provision and recognition of the payroll compliance provision;
- a $251 million increase in unearned premium liabilities, reflecting the GWP growth, particularly in the second half of the financial year; and
- a $175 million increase in trade and other payables, largely driven by an increase in net reinsurance premiums payable following lower peril recoveries in 2021 and other insurance related payables driven by growth in gross written premiums; offset by
- a $330 million decrease in non-controlling interests in unitholders' funds following the decision to transfer the management of the IAG and NRMA superannuation plan to an external party.

IAG shareholders' equity (excluding non-controlling interests) increased from $6,077 million as at 30 June 2020 to $6,246 million as at 30 June 2021, reflecting the combined impact of:

- $769 million increase in share capital following the share issued under institutional placement of $643 million and $126 million share issued under the share purchase plan (net of transaction costs); offset by
- current year net loss attributable to shareholders of $427 million; and
- $173 million payment in respect of the interim dividend.

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B. CASH FROM OPERATIONS

The net cash inflows from operating activities for the year ended 30 June 2021 were $1,610 million compared to net cash inflows of $381 million for the prior year. The movement is mainly attributable to the net effect of:

- an increase in net cashflows of $1,325 million from a reduction in claims costs paid, partially offset by a decrease of $392 million on reinsurance and other recoveries received, primarily due to a decrease in payments in respect of natural peril events during the year compared with the prior year; and
- an increase of $293 million in premium received, which has been driven by the year-on-year growth in written premium.

C. INVESTMENTS

The Group's investments totalled $12,417 million as at 30 June 2021 compared to $10,100 million at 30 June 2020, excluding investments held in joint ventures and associates, with 60% represented by the technical reserves portfolio.

IAG's overall investment allocation is defensively positioned, with nearly 90% of total investments in fixed interest and cash as at 30 June 2021. 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).

Since 30 June 2020, the growth assets mix in shareholders' funds has increased from approximately 25% to approximately 30%. This reflects:

- the impact of higher domestic and offshore equity markets;
- positive mark-to-market impacts from alternative asset classes;
- the transfer of the management of the IAG and NRMA Superannuation Plan to a third party; and
- a small reallocation of funds out of fixed interest and cash.

Prior to the 2020 financial year, IAG's growth assets weighting in shareholders' funds has typically been in the range of 40% to 50%, in line with the strategic asset allocation target. In the near term, IAG expects its growth assets weighting to be below this range.

D. INTEREST-BEARING LIABILITIES

IAG's interest bearing liabilities stood at $1,987 million at 30 June 2021, compared to $1,526 million at 30 June 2020 following the issue of subordinated convertible term notes in August 2020.

E. CAPITAL MIX

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

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

At 30 June 2021, debt and hybrids represented 37.3% (2020: 32.2%) of total tangible capitalisation, in the upper half of IAG's targeted debt range, an increase since the prior financial year following the issue of subordinated convertible term notes in August 2020.

F. CAPITAL POSITION

Under the Australian Prudential Regulatory Authority's (APRA) Prudential Standards, IAG's Common Equity Tier 1 (CET1) capital was $2,635 million (2020: $2,567 million) and regulatory capital of $4,615 million (2020: $4,098 million) at 30 June 2021. 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 2021, IAG had a CET1 multiple of 1.06 (2020: 1.23) and a PCA multiple of 1.86 (2020: 1.97).

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

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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*.

COVID-19 materially disrupted local and global markets and the lives of customers. In these uncertain times, IAG's Purpose is more important than ever and guides IAG's ambition to serve every Australian and New Zealander. Achieving this ambition requires being Purpose-led, customer focused and commercially disciplined.

Through IAG's investment in customer experience, simplification and agility over the last five years, it is well positioned for the future. IAG's trusted brands, supply chain scale, 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 unparalleled 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 thrive by continuing to focus on underwriting expertise, active portfolio management and pricing excellence, supporting strong economies in its home markets; 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 re-architecting 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 be innovative and 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.

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Clear strategic focus

Purpose

We make your world a safer place

Strategy

Create a stronger, more resilient IAG

Focus	Approach	Outcomes
Grow with our customers	Deliver unparalleled personalised service when our customers need us the most	**More customers, more products and greater scale**
Build better businesses	Focus on underwriting expertise, active portfolio management and pricing excellence	**Stable earnings over time**
Create value through digital	Create connected experiences that seamlessly assist and reward our customers as they unlock the value of our network	**Better customer experiences at a lower cost**
Manage our risks	Actively manage capital and risk in our business so we can continue to manage the risks in our customers' lives	**Disciplined execution, enhanced accountability and appropriate returns**

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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 Risk Management Framework, the status of material risks, risk and compliance incidents, risk trends and IAG's risk profile. IAG's Group Internal Audit function provides reports to the Audit Committee on significant audit findings and other audit related matters.

Roles and responsibilities of the Board and its standing committees, the 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;
- 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 of customers;
- insurance risk – risk of loss as a result of:
  - inadequate or inappropriate underwriting;
  - inadequate or inappropriate product pricing;
  - unforeseen, unknown or unintended liabilities that may eventuate;
  - inadequate or inappropriate claims management including reserving; and
  - insurance concentration risk (i.e. by locality, segment factor, or distribution);
- reinsurance risk – risk of:
  - lack of capacity in the reinsurance market;
  - insufficient or inappropriate reinsurance coverage;
  - inadequate underwriting and/or pricing of reinsurance exposures retained by IAG's reinsurance captives;
  - inadequate or inappropriate reinsurance recovery management;
  - reinsurance arrangements not legally binding; and
  - reinsurance concentration 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 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.

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 Risk Management Framework, which is outlined in the RMS, is set out in Note 3.1 within the financial statements and in the Corporate Governance Statement, which is available at www.iag.com.au/about-us/corporate-governance.

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

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

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

Each year a materiality assessment is undertaken to help guide IAG's shared value and sustainability approach and ensure its reporting addresses risks and opportunities with the greatest importance to IAG's stakeholders and business. The material issues identified using this approach were finalised using existing stakeholder engagement and new customer insights. These have been included in the 2021 IAG Annual Review and Safer Communities Report.

IAG has an enterprise-wide safer communities business plan that guides decision making and ensures value is being created for both the community and IAG. This business plan is focused on understanding and managing climate impacts and improving resilience to extreme weather events. By leveraging our capabilities, expertise and commitment to purpose IAG believes Climate and Disaster Resilience is an area where we can make the most meaningful difference for communities and customers, while supporting our commercial success. The ability to drive change and have a positive impact in this area for both IAG and the community is facilitated by continuing to get the essentials right. This includes meeting the expectations of our key stakeholders as we operate our business and maintaining a social licence to operate. It is also important that we support our own people in their community contributions and connect them meaningfully to IAG's purpose. IAG's sustainability performance is managed within this business plan and supported by a number of frameworks, policies, actions plans and position statements including IAG's Social and Environmental Framework, Public Policy Position on Climate Change, Customer Equity Framework, Responsible Investment Policy, Climate Action Plan and Reconciliation Action Plan.

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

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

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

IAG published its first Modern Slavery Statement in March 2021. The statement details the actions taken to identify, assess and mitigate risks of Modern Slavery in IAG's operations, supply chains and investment portfolio. IAG continues to roll out its Supplier Code of Conduct which sets the environmental and social standards IAG expects from its suppliers.

Details of IAG's material social and environmental issues, how IAG manages related risks and opportunities and details of other shared value and sustainability activities can be found in the 2021 Annual Review and Safer Communities Report, which is available at www.iag.com.au/safer-communities/our-esg-performance. IAG's management of economic, environmental and social sustainability risk is outlined in detail in Principle 7.4 of the Corporate Governance Statement, which is available at www.iag.com.au/about-us/corporate-governance.

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D. CLIMATE RISK

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

It demonstrates:

- IAG's work to understand which climate risks could have a material impact on its business;
- strengthened governance of climate-related issues;
- risk management and strategic integration of climate considerations into IAG's core operations; and
- the partnerships, activities and programs IAG is involved in to mitigate climate risks and innovate opportunities.

Detailed FY21 climate-related disclosure can be found on the Safer Communities section of IAG's website (www.iag.com.au).

Governance

IAG Board

Under the IAG Board Charter, the Board is responsible for the overall oversight of IAG including:

- approval of the IAG Social and Environmental Framework;
- receiving six monthly reporting on safer communities and sustainability; and
- consideration and approval of the external reporting on safer communities and sustainability strategies and initiatives (including climate change) within the Annual Report and the Annual Review and Safer Communities Report.

The Board oversees and considers governance policies and practices, including appropriate standards of ethical behaviour and social and environmental responsibility.

IAG has standing Board Committees with varied responsibilities for governing climate-related issues:

- Risk Committee – oversees the management of material risks of IAG. Climate change is a key risk in IAG's Enterprise Risk Profile; and
- Audit Committee – oversees the integrity of IAG's external statutory financial reporting framework, including compliance with applicable laws, regulations and other requirements in relation to external financial reporting which incorporates climate risk-related disclosures.

Managing Director and Chief Executive Officer

The Board delegates responsibility for overall management and financial performance of IAG, including all day-to-day operations and administration of IAG to the Managing Director and Chief Executive Officer.

Group Leadership Team (GLT)

The Group Executive, People, Performance and Reputation has accountability for IAG's safer communities function, including oversight of the enterprise-wide Safer Communities Business Plan, climate change activities and IAG's Climate Action Plan. Accountabilities for key objectives and programs in the Climate Action Plan are owned by relevant GLT members. Progress against IAG's Climate Action Plan is reported to the GLT every six months.

More details on IAG's Climate Action Plan and its progress through six-monthly scorecards can be found on the Safer Communities section of IAG's website (www.iag.com.au).

Climate-related committees

The Safer Communities Steering Committee shapes, guides and monitors the Group-wide approach, plans and evaluation to support the Group Executive, People, Performance and Reputation in the setting and execution of IAG's Safer Communities Business Plan. This includes overall oversight of IAG's Climate Action Plan. Every six months, progress updates on the management of climate risks and opportunities are provided to the GLT Risk Committee, a management committee whose purpose is to assist the CEO and GLT to fulfil their risk management and compliance responsibilities.

Strategy

Integrating climate change into IAG's strategy

In setting its strategy, IAG identifies climate change as a key trend that directly influences the stability and growth of its businesses. Climate change continues to be a trend that the organisation monitors and discusses at GLT and Board sessions on a regular basis. IAG refreshed its strategy in the current financial year, focusing on a 'stronger, more resilient IAG'. Climate risk management is strongly embedded into the four pillars of this strategy.

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Driving impact and behaviour change through safer communities

Climate and disaster resilience is the core strategic priority of IAG's Safer Communities Business Plan. Under this Plan, the three-year Climate Action Plan sets out the framework, commitment and steps for IAG to mitigate and address the impacts of climate change.

More details on IAG's Safer Communities Business Plan and how it supports IAG's purpose, strategy and climate risk management approach can be found in the Safer Communities section of IAG's website (www.iag.com.au).

Leading and collaborating for climate and disaster resilience

Mitigating the impacts of climate change on IAG's business, customers and communities requires a collaborative, multi-stakeholder approach. IAG works with other companies, community organisations and governments to address climate-related issues. This includes sharing knowledge, insights and capability on how climate risks and opportunities impact financial system sustainability.

A more detailed overview of IAG's partnerships can be found on the Safer Communities section of IAG's website (www.iag.com.au).

Consideration of climate change in underwriting

IAG's underwriting approach incorporates environmental, social and governance (ESG) considerations and extensions for its insurance products. These are included in the IAG Business Division Licences which defines IAG's Insurance Risk appetite and approach to underwriting.

IAG is committed to ceasing underwriting entities predominantly in the business of extracting fossil fuels and power generation using fossil fuels by 2023. In alignment with IAG's purpose, IAG will continue to underwrite workers compensation irrespective of the climate intensity of the industry they work in as everyone needs to be protected at work.

Consideration of climate change in investments

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

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

To further support these objectives, IAG:

- Added a new commitment to net zero investment portfolio emissions by 2050 in its Climate Action Plan (refer to the metrics and targets section of this disclosure); and
- Implemented its Board-approved Responsible Investment Policy, addressing key ESG risks including climate change. The policy, which is published in the Codes and policies section of IAG's website (www.iag.com.au), excludes or restricts investments in higher risk companies with poor climate change risk management and supports companies which are improving their performance by reducing their carbon risk or investing in renewable energy.

Climate scenarios supporting strategy and decisions

Climate scenarios inform IAG's understanding and strategic response to addressing climate risks and opportunities. Insights from these scenarios are detailed in the FY21 climate-related disclosure which can be found in the Safer Communities section of IAG's website (www.iag.com.au).

Using the latest climate science to inform IAG's catastrophe modelling, IAG undertook physical risk modelling assessments for three potential temperature scenarios (+1.5°C, +2°C and +3°C and over). These are consistent with the Intergovernmental Panel on Climate Change (IPCC) Representative Concentration Pathways (RCP 2.6, 4.5 and 8.5). RCP 9.0 was also used to inform on extreme climate futures. Application of these scenarios developed IAG's understanding of the medium to long-term climate impacts and key findings were published in the first and second editions of the '*Severe Weather in a Changing Climate*' scientific report.

IAG has analysed transition impacts using scenarios that consider similar inputs to the Deep Decarbonization Pathways Project (DDPP). This analysis used climate scenarios developed by Climate Works to assess Australian impacts (+1.5°C stretch, +2°C delayed action, +2°C balanced decarbonisation and +4°C business as usual), and climate scenarios outlined in the Westpac Climate Change Impact Report to assess New Zealand impacts (+2°C shock scenario, +2°C central scenario and +4°C business as usual).

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IAG continues the consistent use of physical, transition and litigation risk scenarios, as per TCFD recommendations. IAG's analysis confirms that even conservative future climate projections could potentially have a material medium-to-long term impact on IAG's business and customers.

Risk management
IAG regularly profiles and assesses risks to manage their impacts and ensure successful execution of its strategy and purpose.

Enterprise Risk Profile (ERP)
Inadequate climate change response was revalidated as a critical risk in the current financial year's Enterprise Risk Profile. This Enterprise Risk covers the failure of governments and businesses, including IAG, to appropriately assist customers to adapt to climate change, provide help to communities to mitigate and recover from climate change impacts, and to adequately manage insurance and transition (to green economy) risks from climate change.

IAG has strengthened and improved controls for physical risks to its Australian business, which present the most material short-term climate impact to IAG. Earthquake risk remains more material to IAG's New Zealand business than physical climate risks, however, transition risks are expected in the medium term as the country moves towards its national net zero target.

Climate risk impacts on IAG
IAG understands physical impacts in Australia present the most material short, medium and long-term climate risk to IAG's business. Under future climate scenarios, the increased natural peril severity and frequency could lead to increased technical pricing and insurance premiums for property assets, which may drive increased insurance affordability issues in the future.

IAG's exposure to physical risk comes from insurance coverage of assets in existing high-risk hazard areas associated with flood, tropical cyclones, bushfires and low-lying coastal properties. The extent to which IAG's Australian insurance business is exposed to key physical risks has been detailed in the FY21 climate-related disclosure, which can be found in the Safer Communities section of IAG's website (www.iag.com.au). The disclosure illustrates the material financial impact climate change can have without further remedial action. While IAG acknowledges climate and financial risk modelling is inherently uncertain, these insights can help inform where climate risk mitigation and disaster resilience should be prioritised to ensure the safety of communities and viability of insurance in high-risk areas.

Transition risks provide both medium-term risks and opportunities to IAG's customers, products, and investment portfolio. IAG continues to evolve its work to develop a similar understanding of physical climate impacts for New Zealand, as well as deeper analysis of transition impacts for both Australia and New Zealand.

Managing climate risks and opportunities
IAG leverages research on physical, transition and litigation climate impacts to embed climate change considerations into strategy and risk management, as set out in the table below:

Embedding climate change into strategy	Embedding climate change into risk management
▪ Integrate climate risks and opportunities into corporate strategy ▪ Climate change integrated and prioritised in business planning ▪ Climate change understood by key business units and informing key decisions	▪ Understanding velocity and connectedness of climate risks ▪ Embed climate risk management across the Risk Management Framework ▪ Enterprise Risk Profile and Risk Response Plan to define and assess controls for climate risks and quantify the impacts ▪ Effectively manage climate risks across the business

Based on IAG's research and analysis, the physical impacts of climate change present the most material short, medium and long-term risks to IAG's business. Transition impacts of climate change are less material with manageable risks and emerging opportunities to IAG's product, customer and investment portfolios in the medium term.

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IAG's strategic response to climate change focuses on five areas of IAG's business value chain where climate risks and opportunities are likely to have the greatest impact, as set out below:

Reinsurance and capital	Product and service pricing	Portfolio and customer segments	Claims and insurance supply chain	Investments
■ Cost and availability of global reinsurance capacity and capital could be impacted as losses and claims increase from more severe and/or frequent extreme weather events globally. ■ Short-term risks from hailstorms and bushfires requiring adjustments to reinsurance programs and premium pricing. ■ Medium-term risks from cyclones extending southward present a key concern due to potential impacts on assets and infrastructure not built for such events.	■ Increased natural peril costs impacting long-term affordability of insurance, especially in high-risk areas. ■ Medium to long-term risks and opportunities could be presented as new technologies and consumer behaviours impact on insurance products.	■ Access and affordability of insurance can be impacted if insurance appropriately reflects risk-based pricing from more severe and/or frequent extreme weather events and if land planning and building codes remain inadequate to withstand such events. ■ Medium-term risks include a shrinking insurance market and reputational impact if insuring assets with high physical risk exposure become cost prohibitive.	■ Increased claims from more severe and/or frequent extreme weather events. ■ Short-term operational risk on claims handling capacity during compounding peril events. ■ Medium-term risks from increased average claims costs due to materials or services becoming constrained by imbalanced supply and demand during major events, the availability of raw materials and carbon regulation.	■ Climate change transition will have a varied impact on investments, with some assets anticipated to yield decreasing returns, while others increase.

IAG's Climate Action Plan governs the climate and disaster resilience activities and controls that help mitigate the inadequate response to climate change Enterprise Risk. Key activities aligned to each focus area in the Climate Action Plan are outlined below.

OBJECTIVE	RISK MITIGATION ACTIVITIES	IAG BUSINESS VALUE CHAIN
Think Big		
Provide a leadership role for the insurance industry in addressing climate change	Leading by example: IAG publishes scientific natural perils and climate change insights to drive behavioural change across the insurance industry and its value chain, while reducing its own emission impact. In New Zealand the IAG Climate Change Survey is entering its fourth year, with results shared with the broader business community to upskill on climate change adaptation.	■ Reinsurance and capital ■ Product and service pricing ■ Portfolio and customer segments ■ Claims and insurance supply chain ■ Investments
Pursue system-wide change by collaborating widely across our relationships and networks	Policy settings: In Australia, IAG works with federal and state governments, and through associations and institutions to influence disaster resilience and climate change policies on behalf of its business, customers and communities. This includes providing submissions to inquiries and commissions. In New Zealand, IAG is regularly involved in discussions with central government on climate adaptation.	■ Reinsurance and capital ■ Product and service pricing ■ Portfolio and customer segments ■ Claims and insurance supply chain ■ Investments
Continue our leadership in supporting community resilience and disaster risk management	Community and customer preparedness: IAG's community connection and disaster resilience programs and partnerships help reduce the social and financial costs of disaster recovery to the community and business.	■ Product and service pricing ■ Portfolio and customer segments ■ Claims and insurance supply chain
Invest Responsibly		
Actively support action on climate change and a net-zero future	Investment in resilience: IAG leverages the scale of its investments to support low-carbon and resilient infrastructure and services.	■ Investments

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OBJECTIVE	RISK MITIGATION ACTIVITIES	IAG BUSINESS VALUE CHAIN
Rethink Risk		
Lead climate research and analysis, including on natural perils, to support IAG and our stakeholders to better understand and respond to climate change	Managing capital: Using in-house understanding of natural perils, IAG pursues a comprehensive and diverse range of reinsurance protection.	■ Reinsurance and capital
Further embed climate risk into the Enterprise Risk Profile, supported by the Risk Management Framework and Strategy	Supporting IAG's proactive risk culture: Providing bi-annual updates to the GLT Risk Committee has strengthened IAG's ability to engage senior leaders on climate risk management and divisional responsibilities. This is critical to better integrate climate change into IAG's core insurance business and strategic priorities.	■ Reinsurance and capital ■ Product and service pricing ■ Portfolio and customer segments ■ Claims and insurance supply chain ■ Investments
Integrate climate insights, risks and opportunities into our strategic choices, portfolio assessments and pricing	Addressing insurance access and affordability: IAG's improved understanding of climate change is supporting its ability to consider specific climate risk factors for customers, supporting its Financial Inclusion Action Plan and approach to addressing affordability and underinsurance (see www.iag.com.au).	■ Product and service pricing ■ Portfolio and customer segments
Help our customers and communities to reduce emissions and adapt to climate change	Shared value innovation: IAG's shared value innovation activities explore how climate and disaster resilience can be built into the customer value proposition. This includes solutions that incentivise IAG customers to take action to reduce their risk exposure.	■ Product and service pricing ■ Portfolio and customer segments
Drive risk mitigation in the building industry by generating insights into the impacts of natural perils	Improving land planning, building codes and construction to be climate resilient: IAG's experience in risk assessment and claims response provides valuable information and resources to advise on controls to the built environment and land planning. This includes standards for new builds and retrofitting and risk reduction options for legacy building stock. Tropical cyclones: IAG is addressing the cost drivers of damage and loss of amenity such as water ingress issues in northern tropical regions to southern populated regions, and supporting retrofitting schemes for customers to address legacy building stock vulnerabilities. IAG is supporting the Insurance Council of Australia and Master Builders Australia 'Building Stronger Homes Roundtable' to integrate disaster resilience into the national construction code and consider disaster risk in land planning. Flood: IAG is contributing to an understanding of the appropriate land use planning and building codes in flood and low lying coastal zones and to retrofitting schemes. Bushfire: IAG has an increased understanding of property resilient features through land planning, building codes and retrofitting practices; and early fire detection and suppression solutions. IAG is supporting Bushfire Building Council of Australia to create a star rating system to address this.	■ Product and service pricing ■ Portfolio and customer segments
	Rebuilding resilience: IAG's insurance supply chain is exploring how property insurance claim processes can be leveraged to improve resilience of existing building and infrastructure stock to withstand future climate events.	■ Product and service pricing ■ Claims and insurance supply chain

Metrics and targets

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

METRIC	TARGET	PROGRESS
Managing IAG's Scope 1 and 2 greenhouse gas emissions with science-based targets	These absolute targets for Group Scope 1 and 2 emissions include a: ■ 20% reduction by 2020; ■ 43% reduction by 2025; ■ 71% reduction by 2030; and ■ 95% reduction by 2050.	In the current financial year IAG reduced Scope 1 and 2 greenhouse gas emissions to 18,059 tonnes CO_2 equivalent, remaining on track to meet its 2025 science-based emission reduction target.
IAG's underwriting portfolio	IAG's key parameters for defining business underwriting exposure to fossil fuels are: ■ fossil fuel extraction, including the mining of any hydrocarbon fuels, where extraction makes up over 30% of all the entity's activities; and ■ power generation using fossil fuels, where thermal coal makes up over 30% of the electricity generated. These parameters exclude: ■ legacy portfolios in run-off for businesses that IAG has divested, but where the liability for future claims against some of the policies will exist until expiry of the policy; and ■ workers compensation, irrespective of the climate intensity/fossil fuel exposure of the industry they work in, as everyone needs to be protected at work.	As at 30 June 2021, the current GWP written relating to all fossil fuel mining, and fossil fuel power generation is less than $1 million, which equates to less than 0.005% of the total GWP written by the Group in the current year.
IAG's investment portfolio[1],[2]	Through IAG's Climate Action Plan focus area of 'invest responsibly', IAG is committed to reducing the overall emissions contained in our investments portfolio to be aligned with the Paris Agreement. In doing so, IAG will continue to incentivise and require decarbonisation pathways of a scale and pace consistent with the 1.5°C objective of the Paris Agreement. Once companies start to transition towards low-carbon business models, IAG will see its portfolio decarbonise as well. 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: ■ target minimum reduction of 25% versus 2020 relevant index level baselines until 2025 (to be implemented starting from the current financial year); and ■ target minimum reduction of 50% versus 2020 relevant index level baselines by 2030. The relevant baselines refer to the ASX200, excluding IAG, for Australian equities, and the MSCI World for global listed equities.	IAG's Capital Markets team measures the carbon intensity of investments of its Australian and international listed equities. Through a shift in investments to companies that have a lower exposure to climate-related risks or a strategy to manage these risks, IAG has achieved a reduction in the normalised carbon footprint of its equity portfolio from 218.7 tonnes of CO_2 emissions per million USD invested in 30 June 2017 to 54.2 tonnes of CO_2 emissions per million USD invested as at 30 June 2021. IAG is achieving its intermediate targets to reduce the normalised carbon footprint and carbon intensity for its Australian and Global listed equity mandates. IAG's performance on this target can be found in the FY21 climate-related disclosure in the Safer Communities section of IAG's website (www.iag.com.au).

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

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(2) Selected climate-related metrics and targets are in scope for independent assurance as part of the non-financial assurance process of IAG's 2021 Annual Review and Safer Communities Report.

More information on IAG's performance against its metrics and targets can be found in the FY21 climate-related disclosure in the Safer Communities section of IAG's website (www.iag.com.au).

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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 2021, IAG complied with the Australian Securities Exchange Corporate Governance Council Principles and Recommendations (4th edition). Details of this compliance are set out in IAG's 2021 Corporate Governance Statement and in Appendix 4G. This Corporate Governance Statement is current as at 11 August 2021 and has been approved by the Board.

IAG's 2021 Corporate Governance Statement is available at www.iag.com.au/about-us/corporate-governance, along with the policies and codes that guide all employees' behaviour.

GUIDANCE AND OUTLOOK

IAG is reintroducing guidance given the sound underlying financial performance in the current financial year, the new operating model now embedded with new executive responsibilities and less uncertainty in the economic outlook compared to August 2020. Guidance for the 2022 financial year includes the following:

- GWP guidance for 'low single-digit' growth in the 2022 financial year. This incorporates the combined effect of:
  - modest growth in customer numbers and ongoing rate increases in short-tail personal lines in DIA;
  - continued rate increases across commercial lines in IIA and a focus on portfolio management, which is expected to constrain volume growth; and
  - largely rate-driven increases in New Zealand.
- reported insurance margin guidance of 13.5% to 15.5%. Assumptions supporting this include:
  - an improvement in the underlying margin on a like-for-like basis, after adjusting for the favourable net impact of COVID-19 benefits in the current financial year;
  - no material positive or negative effects from COVID-19 in the 2022 financial year (to be revaluated as the impact of the July and August 2021 lockdowns across Australia becomes clearer);
  - the earn through impact of targeted rate increases in the current financial year, particularly in IIA where underlying profitability is expected to continue recovering;
  - non-recurrence of the additional expenses associated with IAG's new operating model and property consolidation costs in New Zealand in the second half of the current financial year;
  - an increase in the natural perils allowance to $765 million (post-quota share) reflecting underlying exposure growth. This has increased from $658 million in the current financial year which benefitted from additional reinsurance cover provided by the calendar year 2020 aggregate catastrophe cover ($1,133 million up from $975 million pre-quota share);
  - no allowance for prior period reserve releases or strengthening; and
  - no material movement in foreign exchange rates or investment markets.

The 2022 financial year guidance aligns to IAG's aspirational goal to achieve a 15% to 17% insurance margin over the medium term. This goal encompasses organic direct customer growth that at least matches the market in DIA and New Zealand, an insurance profit of at least $250 million[1] over the next three to five years for IIA and delivering further simplification and efficiencies in the cost structure of the company over the next three years.

(1) IIA's goal is based on the combination of the flow through of operational efficiencies, lower loss ratios driven by a portfolio led improvement plan and the earn through impact of targeted rate increases. The long-tail deterioration experienced in the current financial year is expected to improve from the 2022 financial year onwards through rate and other initiatives.

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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 are used for targeted return on equity (ROE) and dividend payout policy purposes, and are defined as:

- net profit/(loss) after tax attributable to IAG shareholders;
- plus amortisation and impairment of acquired identifiable intangibles; and
- excluding any unusual items.

CASH EARNINGS	**2021**	2020
	$m	$m
Net (loss)/profit after tax	**(427)**	435
Acquired intangible amortisation and impairment (post-tax)	**111**	30
	(316)	465
Non-recurring items:		
Corporate expenses		
– Business interruption provision	**1,150**	-
– Customer refunds provision	**238**	246
– Payroll compliance provision	**51**	-
– Swann class action	**40**	-
– Gain on sale of SBI General	**-**	(309)
– Other	**31**	2
Tax effect on corporate expenses[1]	**(450)**	(94)
Non-controlling interest in corporate expenses	**(5)**	(31)
Vietnam impairment (discontinued operations)	**8**	-
Cash earnings[2]	**747**	279
Interim dividend	**173**	231
Final dividend	**320**	-
Dividend payable	**493**	231
Cash payout ratio[2]	**66.0%**	82.8%

(1) Includes Australian income tax benefits in relation to the corporate expense items listed above.
(2) Cash earnings and cash payout ratio represent non-IFRS financial information.

The Board has determined to pay a final dividend of 13.0 cents per share, with no franking. No final dividend was paid in the prior financial year. The final dividend is payable on 22 September 2021 to shareholders registered as at 5pm Australian Eastern Standard Time (AEST) on 18 August 2021.

This brings the full year dividend to 20.0 cents per share, which equates to a payout ratio of 66.0% of cash earnings, in line with IAG's stated dividend policy to distribute 60-80% of cash earnings in any full financial year.

As at 30 June 2021, the Company has no franking credits available for distribution.

In addition to capital management activity in recent years, the depletion of IAG's franking balance reflects the absence of taxable earnings in Australia in the prior and current financial years which was influenced by severe net natural peril claim costs and adverse reserving, including the business interruption provision in the current financial year. This will impact IAG's capacity to frank eligible distributions over the medium term.

As a result, IAG expects no franking will apply to any ordinary dividends that it may declare and pay during calendar 2021, and zero franking will also apply to relevant distributions on the Capital Notes in the period to 31 December 2021.

The dividend reinvestment plan (DRP) will operate for the final dividend for DRP-registered shareholders as at 5pm AEST on 19 August 2021. 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.

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SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the financial year the following changes became effective:

- On 24 August 2020, the Company issued $450 million of subordinated convertible term notes in Australia. The subordinated notes qualify as Tier 2 Capital under APRA's Prudential Framework for General Insurance.
- On 21 September 2020, the Board announced the appointment of Nick Hawkins as IAG Managing Director and Chief Executive Officer (CEO), effective 2 November 2020. Mr Hawkins succeeded Peter Harmer whose retirement was announced in April 2020.
- On 2 November 2020, IAG confirmed the appointment of Michelle McPherson as Chief Financial Officer after acting in that capacity since joining IAG in April 2020.
- On 2 November 2020, IAG also announced that the Australia Division would be split into Direct Insurance Australia and Intermediated Insurance Australia. As a result, IAG CEO Australia, Mark Milliner, left the Group at the end of November 2020.
- During the year ended 30 June 2021, the Company undertook the following two issues of ordinary shares to strengthen IAG's capital position following recognition of the increased provision for potential business interruption claims resulting from the test case decision handed down by the NSWCA on 18 November 2020:
  - $650 million raised through a fully underwritten institutional placement at $5.05 per ordinary share, of approximately 129 million shares on 26 November 2020; and
  - $126 million raised through a Share Purchase Plan at $4.97 per ordinary share, of approximately 25 million shares on 31 December 2020.
- On 10 March 2021, Nick Hawkins announced the following key appointments to IAG's Group Leadership Team to support its ambition to deliver a stronger and more resilient IAG:
  - Julie Batch was appointed Group Executive, Direct Insurance Australia and immediately moved into this role after acting as Group Executive, Intermediated Insurance Australia since November 2020, in addition to leading IAG's Strategy & Innovation division;
  - Jarrod Hill will join IAG in September 2021 as Group Executive, Intermediated Insurance Australia from Chubb Insurance where he was Country President Australia and New Zealand;
  - Neil Morgan was appointed Chief Operating Officer, with immediate effect, and has retained his accountability for technology and digital from his previous role as Group Executive, Technology and Operations; and
  - Amanda Whiting was appointed CEO IAG New Zealand after acting in the IAG Direct Insurance Australia role since November 2020 and has taken over from Craig Olsen on 1 July 2021. Amanda has executive accountability for Intermediated Insurance Australia until Mr Hill joins in September 2021. Mr Olsen continued to report to Mr Hawkins after June 2021, working on IAG's corporate priorities as Group Executive, Strategic Projects.

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 19 July 2021, IAG announced that AmGeneral Holdings Berhad (AmGeneral), the Malaysian business in which it holds a 49% interest, has signed an Implementation Agreement for the proposed sale of its insurance business to Liberty Insurance Berhad (Liberty). Liberty will acquire 100% of the shares in AmGeneral Insurance Berhad, a wholly-owned subsidiary of AmGeneral. AMMB Group, which owns the remaining 51% interest in AmGeneral, will hold a 30% interest in the insurance operations of Liberty and AmGeneral Insurance Berhad, while IAG will exit its investment in AmGeneral. The transaction is expected to complete during the financial year ending 30 June 2022, subject to regulatory processes and approvals.
- On 20 July 2021, IAG announced the appointment of Tim Plant to the newly created role of Chief Insurance and Strategy Officer. He is expected to join IAG before the end of the calendar year from Zurich, where he spent three years as Chief Executive Officer, General Insurance Australia and New Zealand.
- On 9 August 2021, IAG Chairman, Elizabeth Bryan, announced the following major changes to the Company's Board, subject to regulatory approvals:
  - Ms Bryan will retire from the Company at the Annual General Meeting (AGM) on 22 October 2021. She will be succeeded as Chairman by Tom Pockett;
  - Duncan Boyle will also retire from the Company on 22 October 2021; and
  - three new Directors will join the Company's Board as part of the ongoing process of Board renewal to ensure it has the optimum mix of skills and experience to support the Company. The new members of the Board are David Armstrong and George Sartorel, commencing 1 September 2021, and Scott Pickering, commencing 1 November 2021. Mr Armstrong will become the new Chairman of the Audit Committee at the conclusion of the 2021 AGM.
- On 11 August 2021, the Board determined to pay an unfranked final dividend of 13.0 cents per share. The dividend will be paid on 22 September 2021. The DRP will operate likely by acquiring shares on-market for participants with no discount applied.

In a COVID-19 context, IAG notes recent developments across Australia, including the lockdowns in New South Wales and Victoria, where the related business effects remain highly uncertain.

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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 $1,591,000 (refer to Note 8.3 for further details of costs incurred on individual non-audit assignments).

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

The lead auditor's independence declaration is set out on page 59 and forms part of the Directors' Report for the year ended 30 June 2021.

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

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

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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 2021 Remuneration Report.

The 2021 financial year has seen the continuation of economic challenges across Australia and New Zealand as a consequence of the protracted COVID-19 pandemic as well as other environmental challenges caused by storms, floods, cyclones and the aftermath of bushfires. At the same time the Board was concluding an extensive CEO search process. Against this backdrop, the PARC monitored the health and safety of its employees as they continued with remote work settings as well as oversaw the changes to organisational structure and Executive appointments.

Through all this, the Board has sought to ensure that IAG's remuneration framework appropriately balances the need to reward, motivate and retain employees with the skills and capabilities required to ensure IAG's ongoing success.

Renewed strategy, renewed focus
During the 2021 financial year, IAG refreshed its strategy to focus on becoming more sustainable over the long term. The structure and composition of the Executive Leadership Team was also refreshed during the year to ensure clear accountabilities and alignment with the renewed strategy.

There are four new strategy pillars: grow with our customers, build better businesses, create value through digital and manage our risks. These pillars are now included in the Group Balanced Scorecard, ensuring a clear link between delivery of the strategy and executive remuneration outcomes.

Business performance
While IAG's underlying financial performance was sound and within expectations, profitability was affected by a number of operational risk issues which have been identified and provisioned for in the accounts, the most material of which was the pre-tax $1.15 billion charge IAG announced in November 2020 to provide for potential business interruption claims relating to COVID-19. After excluding the impact of these provisions along with other items identified in the net corporate expense and amortisation and impairment lines, IAG's reported cash earnings for the year was $747 million, up from $279 million in the year ended 30 June 2020. Over the 2021 financial year we have continued to pay dividends and our capital position remains strong.

Alignment of remuneration outcomes with business results
The Board has determined remuneration outcomes for employees through a balanced scorecard assessment that includes financial results, shareholder returns and customer growth, against a challenging work context brought on by the COVID-19 pandemic. This balance is reflected in remuneration outcomes as follows:

Short-term incentives (STI)
In determining STI outcomes, the Board has been mindful of the experience of shareholders, while at the same time recognising the contribution of the Executives. While the 2021 financial year cash earnings result was strong and overall Group Balanced Scorecard performance was above target, in recognition of the impact of operational risk issues, the Board determined STI outcomes for Executives ranging from 0% to 64% of maximum opportunity. In addition, the Board also determined to reduce the overall level of STI funding across IAG for the 2021 financial year to 60% of maximum. It is important to note that no STI awards were approved for the year ended 30 June 2020 when the business interruption insurance exposure was identified. The maximum potential value of the 2020 STI awards relating to Executives would have been approximately $9 million.

Long-term incentives (LTI)
LTI awards with return on equity (ROE) and relative total shareholder return (TSR) performance hurdles were measured during the year ended 30 June 2021.

- The 2017/2018 LTI awards with an ROE performance hurdle reached the end of their three-year performance period on 30 June 2020. Based on the Group's performance over the period against the vesting scale, the Board determined the award would vest at 82%. LTI awards with an ROE performance hurdle granted from 2018/2019 onwards are subject to a four-year performance period. The next ROE performance test will therefore occur after 30 June 2022.
- The 2016/2017 LTI awards with a TSR performance hurdle reached the end of their four-year performance period on 30 September 2020. IAG's TSR was ranked at the 39th percentile of its peer group resulting in 0% vesting of this award. This reflected approximately $3.5 million forgone by Executives. All rights under this award have lapsed. The next TSR performance test will be after 30 September 2021.

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Risk-based adjustments to performance pay

The Board has progressively set higher standards for executive accountability, annually reviewing risk management outcomes and identifying accountable Executives. During the 2021 financial year, the Board responded to complex historical matters that spanned multiple years and involved multiple accountable Executives.

In response to risk matters that emerged during the 2021 financial year, the Board has applied downward adjustments to the remuneration of some former employees, including the accountable Executives during the relevant period and certain individuals who reported to them at that time. The total value of these adjustments to six individuals was approximately $3.4 million. The adjustments took the form of reductions to STI awards for the 2021 financial year and/or adjustments to the value of unvested LTI and deferred STI awards. For some matters, these downward adjustments were in addition to the $3.5 million in adjustments made for the 2020 financial year, and reflect the change in the size and probability of risk as it has evolved across the reporting periods.

Continued focus on risk maturity

Each year IAG reviews and improves the management of its risk and compliance systems and processes. I am pleased to report IAG has made significant progress in its efforts to further enhance risk and compliance management frameworks, processes and practices. Through Project rQ, IAG has progressed with the implementation of a new Integrated Risk Management System, delivered more detailed understanding of material risks across the organisation, and further embedded control management practices. Project rQ and all divisions are now also actively engaged in ensuring that the progress made on risk and compliance management frameworks, processes and practices is sustainably embedded.

This greater focus on risk management has been reflected in the Balanced Scorecard against which performance is measured, and in the application of consequences for poor risk management outcomes.

Review of Non-Executive Director fees and Executive fixed pay

There were no increases to fixed pay for Executives during the 2021 financial year, other than where there was a change in role accountabilities. Following a review of Executive remuneration in August 2021, to reflect market relativities the Board determined to increase the fixed pay for the Managing Director and Chief Executive Officer to $1.8 million and apply increases ranging between 3% and 9% for three other Executives.

There have been no changes to Board or Committee fees since the year ended 30 June 2017. Following a benchmarking exercise, the Board has determined to leave Board and Committee fees unchanged for the year ending 30 June 2022, with the intention to review the following financial year.

Executive remuneration framework review during 2022

The PARC has engaged an external consultant to undertake a formal independent review of IAG's Remuneration Framework. This independent review is being undertaken to ensure IAG's Remuneration Framework continues to support the renewed strategy, while also considering the anticipated regulatory changes within financial services. Any changes made following the independent review will be outlined in next year's Remuneration Report.

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

George Savvides

Chairman, People and Remuneration Committee

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CONTENTS		PAGE
A.	Key management personnel covered in this report	37
B.	Executive remuneration structure	38
C.	Linking IAG's performance and reward	44
D.	Executive remuneration governance	50
E.	Non-Executive Director remuneration	51
	Appendix 1. Statutory remuneration disclosure requirements	53
	Appendix 2. Executive employment agreements	55
	Appendix 3. Movement in equity plans within the financial year	56
	Appendix 4. Related party interests	57

A. KEY MANAGEMENT PERSONNEL COVERED IN THIS REPORT

This report sets out the remuneration details for IAG's key management personnel (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 is used to refer to KMP who are Executives.

The full list of KMP for the year ended 30 June 2021 is presented below.

NAME	POSITION	TERM AS KMP(1)
EXECUTIVES		
Nick Hawkins	Managing Director and Chief Executive Officer(2)	Full year
Julie Batch	Group Executive, Direct Insurance Australia(3)	Full year
Michelle McPherson	Chief Financial Officer(4)	Full year
Neil Morgan	Chief Operating Officer(5)	From 19 September 2020
Craig Olsen	Chief Executive, New Zealand	Full year
Christine Stasi	Group Executive, People, Performance and Reputation	Full year
David Watts	Chief Risk Officer	Full year
Amanda Whiting	Acting Group Executive, Intermediated Insurance Australia(6)	From 2 November 2020
EXECUTIVES WHO CEASED AS KMP		
Peter Harmer	Managing Director and Chief Executive Officer(7)	Ceased 1 November 2020
Mark Milliner	Chief Executive Officer, Australia(8)	Ceased 2 November 2020
NON-EXECUTIVE DIRECTORS		
Elizabeth Bryan	Chairman, Independent Non-Executive Director	Full year
Simon Allen	Independent Non-Executive Director	Full year
Duncan Boyle	Independent Non-Executive Director	Full year
Sheila McGregor	Independent Non-Executive Director	Full year
Jon Nicholson	Independent Non-Executive Director	Full year
Helen Nugent	Independent Non-Executive Director	Full year
Tom Pockett	Independent Non-Executive Director	Full year
George Savvides	Independent Non-Executive Director	Full year
Michelle Tredenick	Independent Non-Executive Director	Full year
NON-EXECUTIVE DIRECTOR WHO CEASED AS KMP		
No Non-Executive Directors ceased as KMP during the 2021 financial year.		

(1) If an individual did not serve in a KMP role for the full financial year, all remuneration is disclosed from the date the individual was appointed to a KMP role to the date they ceased in a KMP role.

(2) Effective 2 November 2020, Nick Hawkins was appointed to the role of Managing Director and Chief Executive Officer. Prior to this appointment, Mr Hawkins was Deputy Chief Executive Officer from 8 April 2020 to 1 November 2020.

(3) Effective 10 March 2021, Julie Batch was appointed to the role of Group Executive, Direct Insurance Australia. Prior to this appointment, Ms Batch was Chief Strategy and Innovation Officer from 24 February 2020 to 9 March 2021 and Acting Group Executive, Intermediated Insurance Australia from 2 November 2020 to 9 March 2021.

(4) Effective 2 November 2020, Michelle McPherson was appointed as Chief Financial Officer. Prior to this appointment, Ms McPherson was Acting Chief Financial Officer from 8 April 2020 to 1 November 2020.

(5) Neil Morgan's role as Group Executive, Technology and Operations became a KMP role on 19 September 2020 as a result of the increasingly significant focus across the Group on IAG's digital strategy. Effective 10 March 2021, Mr Morgan was appointed to the role of Chief Operating Officer.

(6) Effective 10 March 2021, Amanda Whiting was appointed as Acting Group Executive, Intermediated Insurance Australia. Prior to this appointment, Ms Whiting was Acting Group Executive, Direct Insurance Australia from 2 November 2020 to 9 March 2021.

(7) Peter Harmer retired from IAG effective 31 December 2020. With Nick Hawkins' appointment to the role of Managing Director and Chief Executive Officer effective 2 November 2020, Mr Harmer's last day in a KMP role was 1 November 2020.

(8) On 2 November 2020, following the introduction of the new operating model, Mark Milliner ceased to be in a KMP role. He ceased employment on 30 November 2020 due to his role of Chief Executive Officer, Australia becoming redundant.

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B. EXECUTIVE REMUNERATION STRUCTURE

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

Our purpose: We make your world a safer place.

Our 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, guide us to the future.

Remuneration at IAG

Fixed Pay

Fixed Pay is base pay and superannuation and remunerates Executives for performing their ongoing work.

<table>
<tr><td rowspan="3">STI
STI rewards annual performance across a range of financial and non-financial measures to support the delivery of the IAG strategy with four key focus areas.</td><td>Financial and non-financial measures</td><td>Balanced Scorecard
Customer | Financial | People | Risk and enablers
Table 5 summarises IAG's Group Balanced Scorecard objectives and outcomes for the year ended 30 June 2021.</td></tr>
<tr><td>Risk Adjustment</td><td>All variable pay may be subject to risk adjustment to ensure alignment between risk management and remuneration outcomes.</td></tr>
<tr><td>Board approved outcome</td><td>For the 2021 financial year, based on performance outcomes and the application of any downward risk adjustments, STI outcomes for Executives ranged between 0 - 64% of maximum opportunity. Refer to Section C for more information on the STI outcomes.
Cash STI
50%
Deferred STI
50% deferred over two years.</td></tr>
<tr><td rowspan="3">LTI
LTI creates a direct link between executive reward and the return experienced by shareholders through performance hurdles aligned to IAG's strategic targets.</td><td>Performance hurdles</td><td>ROE
Cash ROE evidences IAG's return on total shareholders' equity and is measured relative to IAG's weighted average cost of capital (WACC).
TSR
Relative TSR reflects the value created for shareholders through dividends and the movement in the share price, measured against the top 50 industrial companies within the S&P/ASX 100 Index.</td></tr>
<tr><td>Risk Adjustment</td><td>All variable pay may be subject to risk adjustment to ensure alignment between risk management and remuneration outcomes.</td></tr>
<tr><td>Board approved outcomes</td><td>ROE
Following a three year performance period, 82% of the 2017/2018 Cash ROE award vested based on achievement of the performance hurdle.
TSR
Following a four year performance period, IAG's relative TSR did not meet the minimum threshold required for vesting, resulting in 0% vesting.
For some Executives, individual vesting outcomes were adjusted downwards to reflect accountability for risk matters.
Refer to Section C for more information on the LTI outcomes.</td></tr>
</table>

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II. Summary of remuneration components

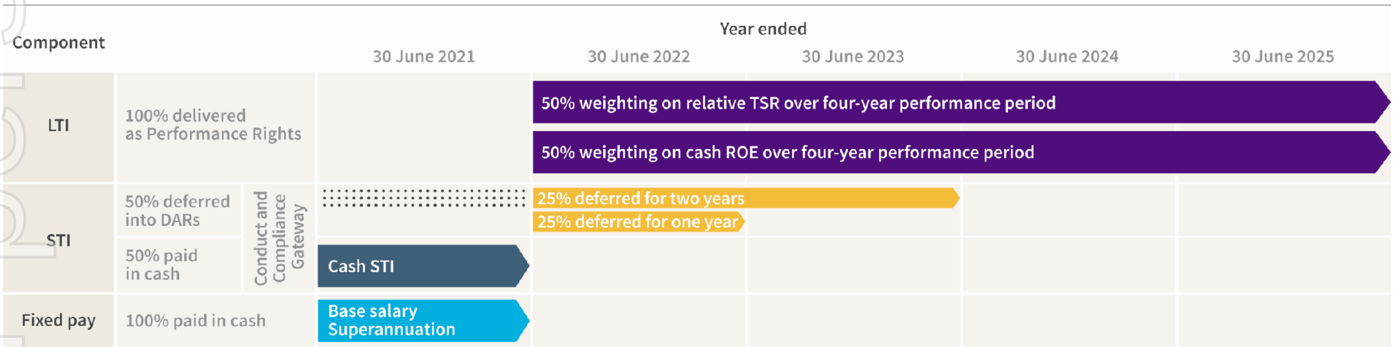
Table 1 below describes the structure and purpose of the components of Executive remuneration for the year ended 30 June 2021.

TABLE 1 – REMUNERATION COMPONENTS

COMPONENT	STRUCTURE	PURPOSE
Fixed pay	Fixed pay comprises base salary and superannuation, determined by reference to the experience and skills an individual brings to the role, internal relativities between Executives and market pay levels for similar external roles. Details relating to fixed pay are presented in Table 2.	Fixed pay remunerates Executives for performing their ongoing work.
Short-term incentives (STI)	STI is provided on an annual basis, subject to the achievement of short-term goals and an assessment of risk management effectiveness. Half of the STI is delivered in cash and half is deferred for a period of up to two years, typically in the form of Deferred Award Rights (DARs). Details relating to the STI plan are presented in Table 3.	STI rewards annual performance across a range of financial and non-financial measures to support the delivery of the IAG strategy. Deferral of STI encourages retention of Executives and reinforces the link between shareholder value creation and Executive reward.
Long-term incentives (LTI)	LTI grants are determined annually by the Board. They are awarded in the form of Executive Performance Rights (EPRs), with performance hurdles over a four-year period that align with IAG's strategic financial targets. The ROE hurdled LTI granted up to and including 2017/2018 had a three-year performance period. Grants of ROE hurdled LTI since that time have a four-year performance period. Details relating to the LTI plan are presented in Table 4.	LTI creates a direct link between Executive reward and shareholder returns through two hurdles: ■ cash ROE evidences IAG's return on total shareholders' equity. Cash earnings performance is a key component of the ROE calculation and directly influences the dividend paid to shareholders; and ■ relative TSR reflects the value created for shareholders through dividends and the movement in the share price. This is measured against the TSR of the top 50 industrial companies in the S&P/ASX 100 Index.

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

SUMMARY OF REMUNERATION COMPONENTS AND DELIVERY TIMELINE



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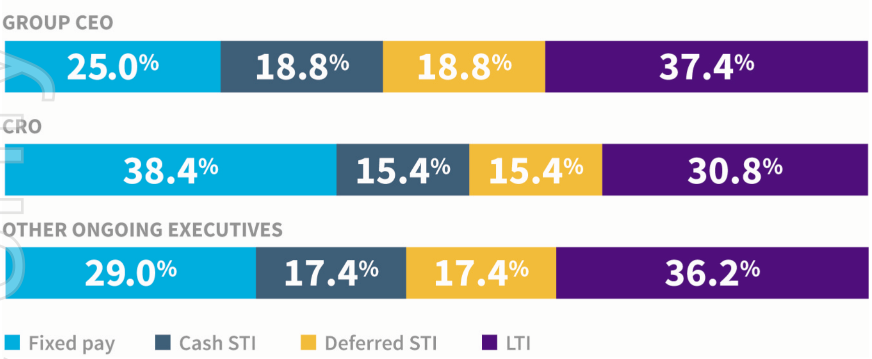
III. Remuneration mix

The following graph illustrates the mix of remuneration components provided to ongoing Executives (based on maximum potential earnings, as at 30 June 2021).

REMUNERATION MIX BASED ON MAXIMUM INCENTIVE OPPORTUNITY



Each remuneration component is described in more detail below.

IV. Fixed pay

TABLE 2 – FIXED PAY

Overview	Fixed pay is set with reference to the median pay for comparable roles in the external market, the size and complexity of the role, and the skills and experience of the individual. For Australian-based Executives, the external market consists of financial services companies in the S&P/ASX 50 Index and companies of a similar size to IAG. Local market peer groups are considered for New Zealand-based Executives. Fixed pay is generally only increased when pay is below market levels, or there has been a material change in the responsibilities of the Executive. During the 2021 financial year, Nick Hawkins, Julie Batch, Michelle McPherson, Neil Morgan and Amanda Whiting received increases in their fixed pay due to being appointed to new roles. No other Executives received increases in their fixed pay during the year. Based on a review of external benchmarking in August 2021, the Board determined to increase the fixed pay for the Managing Director and Chief Executive Officer to $1.8 million, and to also apply increases for Michelle McPherson, Christine Stasi and David Watts.

V. Short-term incentive

Table 3 summarises key terms of the STI plan and deferred STI.

TABLE 3 – STI AND DEFERRED STI

STI	
Overview	STI is the at-risk remuneration component designed to motivate and reward Executives for superior performance in the financial year.
Compliance gateway	To be eligible for an STI, Executives are required to satisfactorily complete compliance training courses designed to ensure they know how to protect IAG's customers and act fairly, transparently and in a manner that complies with appropriate regulations.
Conduct gateway	To be eligible for an STI, Executives are required to comply with IAG's Code of Ethics and Conduct. For Executives, the conduct gateway assessment is further informed by indicators reflecting personal conduct and conduct in managing the business. The Board assesses the Group CEO's conduct. The Group CEO in turn assesses Executives' conduct and recommends eligibility to the Board.
STI opportunity	The maximum STI opportunity for ongoing Executives as at 30 June 2021 was: ■ 150% of fixed pay for the Group CEO; ■ 80% of fixed pay for the Chief Risk Officer; and ■ 120% of fixed pay for all other Executives. The maximum STI opportunity for some Executives, as provided in Table 6, varied during the year as a result of role changes.

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Funding	The Board considers the Group's cash earnings performance when determining overall STI funding for the year, with a threshold level of earnings performance required before any STI funding is made available. Cash earnings is defined as net profit after tax attributable to owners of the Company plus amortisation and impairment of acquired identifiable intangible assets and adjusted for unusual items after tax (non-recurring in nature). The calculation of cash earnings for STI funding is aligned with the approach for the determination of the dividend. More detailed information on cash earnings can be found on page 32 of the annual report.
Performance measures	Executive performance is measured against the Group Balanced Scorecard and individual goals using financial and non-financial measures (for further details, refer to Table 5).
Performance evaluation	The People and Remuneration Committee (PARC) reviews the Group CEO's performance based on the Chairman's assessment, the Group Balanced Scorecard outcomes (as described in Table 5), the effectiveness of risk management during the year and compliance against the Compliance and Conduct gateways. The PARC then recommends a performance outcome and an STI award for the Group CEO, for approval by the Board. The Group CEO reviews the performance of each Executive based on the Group Balanced Scorecard outcomes, achievement against individual goal outcomes and compliance against the Compliance and Conduct gateways. The Group CEO then recommends a performance outcome and an STI award for each Executive, for the PARC to consider. In turn, the PARC recommends a performance outcome and an STI award for approval by the Board. To ensure incentives provided to the Group CEO and Executives are appropriate, the Board assesses the risk management performance of each Executive (including any events from previous years that have come to light in the current year) prior to determining final incentive outcomes. The Board may apply discretion in determining STI outcomes for individual Executives, to ensure the outcomes appropriately reflect performance.
Instrument	Half the STI award is delivered 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. The deferred component is typically paid in the form of DARs with no dividend entitlement until the rights vest and are exercised.

DEFERRED STI	
Overview of DARs	DARs are rights over the Company's ordinary shares, granted at no cost to the Executive. No dividend is paid on any unvested, or vested and unexercised DARs.
Number of DARs issued	The number of DARs issued is calculated based on the volume weighted average share price (VWAP) of the Company's ordinary shares over the 30 days up to and including 30 June before the grant date.
Forfeiture	Vesting of DARs is subject to an Executive's continued employment with IAG at the vesting date or meeting the conditions to retain unvested DARs upon cessation. Deferred STI awards will generally be forfeited if the Executive resigns before the vesting date, except in special circumstances including redundancy, retirement, death or total and permanent disability. When an Executive ceases employment in special circumstances, any unvested rights may be retained on cessation of employment subject to the existing terms and conditions of the award including the vesting date, subject to Board discretion. In cases where an Executive acts fraudulently or dishonestly or breaches their obligations to IAG, the unvested rights will lapse.
Malus	The Board retains the discretion to adjust downwards the unvested portion of any deferred STI awards, including to zero (refer to Section C for more information on the adjustment framework).
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.
Hedging of DARs	Executives may not enter into transactions or arrangements that operate to limit the economic risk of unvested entitlements to IAG securities.

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VI. Long-term incentive

Table 4 summarises key terms of the LTI plan.

TABLE 4 – LTI

Overview	LTI awards are determined annually by the Board and are granted in the form of EPRs that have performance hurdles aligned to IAG's strategic financial targets. Rights granted during the year will not vest and have no value to the Executive unless the performance hurdles are achieved.	
LTI opportunity	The maximum value of LTI awards that could be granted during 2022 are: ■ 150% of fixed pay for the Group CEO; ■ 80% of fixed pay for the Chief Risk Officer; and ■ 125% of fixed pay for other Executives.	
Instrument	If performance hurdles are achieved over the four-year performance period, rights can be settled with either the Company's ordinary shares or, in specific circumstances, an equivalent cash payment. The Board may exercise discretion to settle rights on vesting in cash in circumstances where it is restrictive to settle rights with shares, including in jurisdictions where legislative requirements prohibit share ownership in a foreign entity. Where rights are settled in cash, the value of the cash payment is determined based on the VWAP for the five trading days up to and including the vesting date.	
Allocation methodology	The number of rights issued is calculated based on the VWAP over the 30 days up to and including 30 June before the grant date.	
Dividend entitlements	No dividend is paid or payable on any unvested, or vested and unexercised, rights.	
Performance hurdles	The cash ROE performance hurdle (50% weighting) and relative TSR performance hurdle (50% weighting) are measured over four years.	
Performance hurdle – cash ROE	Description	Cash ROE is measured relative to IAG's weighted average cost of capital (WACC). For LTI awards granted prior to November 2018, there were six half-year periods measured. For LTI awards granted from November 2018 onwards, there are eight half-year periods. A review of the cash ROE hurdle in 2019 considered factors such as IAG's business strategy, market practice, changes to IAG's capital base and historic and projected ROE performance. Following this review, the vesting range was increased from 1.2-1.6 times WACC to 1.4-1.9 times WACC for LTI grants from November 2019 onwards. The Board can adjust the cash ROE vesting outcomes to ensure that rewards appropriately reflect performance. The Board also considers the impact of changes in the cost of capital over the performance period. If there have been material changes in the cost of capital, the Board can consider the extent to which this may have influenced vesting outcomes and adjust reward outcomes to appropriately reflect performance.
	Definition	ROE is calculated by dividing cash earnings by the average total shareholders' equity. Cash earnings is defined as net profit after tax attributable to owners of the Company plus amortisation and impairment of acquired identifiable intangible assets and adjusted for unusual items after tax (non-recurring in nature). More detailed information on cash earnings can be found on page 32 of the annual report.
	Testing	Cash ROE is calculated by dividing the cash earnings of IAG by the average total shareholders' equity for a given period. The resulting figure is then expressed as a multiple of IAG's WACC. The cash ROE vesting outcome is based on the average cash ROE across the performance period (the six or eight half-year periods) divided by the average WACC over the same timeframe. In determining vesting outcomes, the Board considers the overall quality of earnings over the performance period, including differences between the statutory profit and cash earnings, and movements in the cost of capital.

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	Vesting (for grants from November 2019 onwards)	0% vesting for cash ROE less than 1.4 times WACC 20% vesting for cash ROE at 1.4 times WACC 100% vesting for cash ROE at or above 1.9 times WACC Straight-line vesting between 1.4 times WACC and 1.9 times WACC
Performance hurdle – relative TSR	Description	Relative TSR is measured against the TSR of the peer group, which is the top 50 industrial companies in the S&P/ASX 100 Index. Industrial companies are defined by Standard & Poor's as being all companies excluding those in the energy sector (in Global Industry Classification Standard Tier 1) and the metals & mining industry (in Global Industry Classification Standard Tier 3). Companies that are no longer part of the index at the end of the performance period (for instance, due to acquisition or delisting) may be removed from the peer group.
	Definition	TSR measures the return a shareholder would obtain from holding a company's share over a period, taking into account factors such as changes in the market value of shares and dividends paid over that period. The relative measure compares IAG's TSR against that of companies in the peer group.
	Testing	Relative TSR performance for allocations made prior to November 2018 is measured between 30 September of the base year and 30 September of the test year. Relative TSR performance for allocations made from November 2018 onwards is measured between 30 June of the base year and 30 June of the test year. The opening and closing share price for the TSR calculation for IAG and peer group companies uses a three-month VWAP.
	Vesting	0% vesting for relative TSR less than the 50th percentile of the peer group 50% vesting for relative TSR at the 50th percentile of the peer group 100% vesting for relative TSR at or above the 75th percentile of the peer group Straight-line vesting between the 50th and 75th percentile of the peer group
Retesting	There are no opportunities to retest these performance hurdles.	
Forfeiture	Vesting of EPRs is subject to an Executive's continued employment with IAG at the vesting date or meeting the conditions to retain unvested EPRs upon cessation. Unvested rights will generally lapse if an Executive resigns before the performance hurdles are tested, except in special circumstances. When an Executive ceases employment in special circumstances, any unvested rights may be retained on cessation of employment up to the point they vest, subject to Board discretion. Special circumstances include redundancy, retirement, death or total and permanent disability. Any rights retained under these circumstances will remain subject to the original performance conditions. In cases where an Executive acts fraudulently or dishonestly or breaches their obligations to IAG, the unvested rights will lapse.	
Malus	The Board retains the discretion to adjust downwards the unvested portion of any LTI awards, including to zero (refer to Section C for more information on the adjustment framework).	
Expiry date	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.	
Hedging of EPRs	Executives may not enter into transactions or arrangements that operate to limit the economic risk of unvested entitlements to IAG securities.	

C. LINKING IAG'S PERFORMANCE AND REWARD

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

IAG has four strategy pillars: ‘grow with our customers’, ‘build better businesses’, ‘create value through digital’ and ‘manage our risks’. The focus of each strategy pillar is summarised on page 21 of the annual report.

Table 5 summarises IAG’s Group Balanced Scorecard objectives and outcomes for the year ended 30 June 2021. The objectives were agreed with the Board and were designed to focus Executives on delivering superior performance outcomes against the strategy pillars.

Each Executive’s performance is assessed based on their contribution to the objectives outlined below, as well as their individual performance. If target performance levels are achieved across each measure, it would translate to an STI award equivalent to 60% of an Executive's maximum STI opportunity. In order for an Executive to be awarded 100% of their STI opportunity, performance would need to exceed stretch targets across all Group and individual performance measures.

The 2021 financial year cash earnings result was strong and overall Group Balanced Scorecard performance was above target. However, in recognition of the impact of operational risk issues, the Board determined to reward the Managing Director and Chief Executive Officer at the equivalent of target level of performance, which is 60% of their maximum STI opportunity. Other ongoing Executives were similarly rewarded in line with target level of performance, with differentiation based on individual contribution. In addition, the Board also determined to reduce the overall level of STI funding across IAG for the 2021 financial year to 60% of maximum.

TABLE 5 – GROUP BALANCED SCORECARD OBJECTIVES AND RESULTS FOR THE YEAR ENDED 30 JUNE 2021

OBJECTIVE AND WEIGHTING	RATIONALE	MEASURE AND OUTCOME	COMMENT
FINANCIAL MEASURES (50% OF SCORECARD)			
Underlying profit (25%)	IAG uses underlying profit as the key profitability measure, as it presents a holistic view of the absolute earnings power of IAG’s core insurance-related business. It provides a view of the underlying profitability of the underwriting, fee-based and associate businesses and is an important measure of how IAG generates value for shareholders.	Partially exceeded The Group’s underlying profit partially exceeded the expectations set at the commencement of the financial year.	IAG’s underlying profit outcome was largely driven by a favourable underlying insurance margin. This reflects the strength of our core insurance business and its market-leading brands, combined with a COVID-19 benefit in the first half (mainly from lower motor claims in Australia).
Cash ROE (25%)	The Group sets targets to achieve a return on its equity that requires outperformance through the cycle. This return reflects how effectively IAG uses its capital.	Exceeded The Group’s cash ROE exceeded the 2021 financial year target.	IAG’s cash ROE outcome was largely driven by strong investment returns, particularly in respect of our shareholders’ funds portfolio. This was partially offset by a modest shortfall in reported insurance profit, which was negatively impacted by a higher than anticipated incidence of natural perils and prior year reserve strengthening.
NON-FINANCIAL MEASURES (50% OF SCORECARD)			
Customer growth (15%)	Aligned with IAG’s strategic pillar *Grow with our customers*, the focus of the customer growth target is to retain and grow IAG's direct personal lines customers in line with system growth. IAG measures customer growth as part of assessing the impact of IAG's ability to design compelling product and service offerings, for its customers, which should result in sustainable customer growth across chosen markets in Australia and New Zealand.	Met IAG Group (direct personal lines) customer number growth was 1.3% in the 2021 financial year, achieving a result of ‘Met’ (target: +1.0% to +2.5%).	IAG achieved its customer growth (direct personal lines) target via continued investment in brands, marketing, and customer growth and retention initiatives.

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OBJECTIVE AND WEIGHTING	RATIONALE	MEASURE AND OUTCOME	COMMENT
Extreme Detractor Net Promotor Score (NPS) (5%)	IAG is focused on designing compelling product and service offerings by developing a deeper understanding of customers' needs and the changing environment, allowing delivery of world leading customer experiences, including through digital channels. Together with customer growth, IAG uses Customer Net Promoter Score (NPS), and specifically 0-3 Extreme Detractor NPS, to minimise and mitigate poor experiences across IAG's brands.	Partially exceeded IAG Group (direct personal lines) extreme detractor NPS was 7.9% in the 2021 financial year, achieving a result of 'Partially Exceeds' (target: 8.2% to 8.7%).	IAG partially exceeded its extreme detractor target via continued focus on elevating service delivery, improving detractor experience and resolving pain points, and enhancing customer equity through embedment of GICOP 2000 requirements, together with easing of COVID-19 related disruptions. Extreme detractors are those who provide an NPS rating of 0-3.
Employee Net Promotor Score (eNPS) (7.5%)	IAG seeks to motivate and engage its employees around its purpose to 'make your world a safer place'. IAG uses the Employee Net Promoter Score (eNPS) to measure employee advocacy, an indicative assessment of the level of engagement with IAG as an employer.	Exceeded IAG measures employee advocacy using an eNPS. The target was an eNPS score of +35, and the result was +46.	IAG's people continue to feel confident to recommend IAG as a place to work. Feedback continues to reference flexible work practices, supportive team culture and the quality of leadership supporting our employees' advocacy.
Agility (7.5%)	An agile culture enables IAG to provide great experiences for its employees and customers. IAG tracks three agility indicators to demonstrate how IAG is progressing in its aspiration to become an agile organisation. These agility indicators are related to IAG's purpose and culture: Leadership Effectiveness, Decision Making, Connectedness.	Partially met IAG's performance slightly improved from the 2020 financial year for two of the three agility indicators (leadership effectiveness actual of 4.16 versus target of 4.13; decision making actual of 4.09 versus target of 4.13). Connectedness declined slightly across the 2021 financial year (actual of 3.95 versus target of 4.04).	Leaders at IAG role model the values, create clarity for their teams and help foster connection to strategy. While IAG's people feel more empowered to make decisions and connected to their team, this experience does vary and could be improved.
Operating Model Transition Requirements (10%)	Management of risk is integral to IAG delivering on its strategy, to meeting short-term objectives and achieving long-term sustainability. The organisational restructure required specific actions to be effectively delivered to ensure that execution risks were effectively managed to enable the new operating model to be established with sustainable management of risk under the new organisational design.	Met All aspects of the Operating Model Transition Requirements were delivered at an acceptable level of quality with clear accountabilities established for ongoing management.	IAG effectively managed the risks associated with the operating model transition, ensuring that execution risk was effectively managed and IAG was positioned to effectively manage risks aligned to the new organisational design prior to the commencement of the 2022 financial year.

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OBJECTIVE AND WEIGHTING	RATIONALE	MEASURE AND OUTCOME	COMMENT
Compliance (5%)	Having an effective control environment supporting compliance is critical to meeting regulatory requirements and strengthening customer and community trust. IAG documents all of its obligations and establishes controls to ensure those obligations are met. IAG maintains a program of control testing for both the design and operating effectiveness of our controls, and requires an appropriate level of control effectiveness. Ineffective controls are required to be remediated. The effectiveness of compliance controls is included as an explicit measure on the scorecard.	Met IAG has continued to operate an effective compliance control environment.	IAG's compliance targets were met for the current financial year. This was assessed across the percentage of controls tested and the design and the operating effectiveness of the controls.

II. STI outcomes for the year ended 30 June 2021

Table 6 sets out the STI outcomes for Executives for the year ended 30 June 2021. All Executives met the required compliance and conduct gateways to be eligible for an STI outcome.

TABLE 6 – ACTUAL STI OUTCOMES FOR THE YEAR ENDED 30 JUNE 2021

	MAXIMUM STI OPPORTUNITY	ACTUAL STI OUTCOME		CASH STI OUTCOME (50%)(2)	DEFERRED STI OUTCOME (50%)(2)
	(% of fixed pay)	(% of maximum)(1)	(% of fixed pay)	(% of fixed pay)	(% of fixed pay)
EXECUTIVES					
Nick Hawkins(3)	143 %	60 %	87 %	43.5 %	43.5 %
Julie Batch	120 %	62 %	75 %	37.5 %	37.5 %
Michelle McPherson(3)	107 %	61 %	65 %	35.2 %	29.8 %
Neil Morgan	120 %	64 %	77 %	38.5 %	38.5 %
Craig Olsen	120 %	62 %	75 %	37.5 %	37.5 %
Christine Stasi	120 %	62 %	75 %	37.5 %	37.5 %
David Watts	80 %	64 %	51 %	25.5 %	25.5 %
Amanda Whiting(3)	99 %	62 %	62 %	34.9 %	27.1 %
EXECUTIVES WHO CEASED AS KMP					
Peter Harmer	150 %	- %	- %	- %	- %
Mark Milliner	130 %	30 %	39 %	19.5 %	19.5 %

(1) The proportion of STI foregone is derived by subtracting the actual percentage of maximum received from 100% and was 47% on average for the year ended 30 June 2021 (compared to 100% in 2020).

(2) The proportion of STI delivered in cash or deferred STI for those Executives who were acting in KMP roles during the year will be pro-rated in accordance with the remuneration arrangements relevant to their acting and permanent appointments. Michelle McPherson and Amanda Whiting's STI is to be delivered as two thirds cash and one third deferred STI for the period they were acting in their KMP roles and 50% cash and 50% deferred STI for the period they were permanently appointed to their KMP roles.

(3) Executives who had a change in role during the year have their incentive opportunity pro-rated between their prior role and their current role. Nick Hawkins' incentive opportunity increased from 130% to 150% of fixed pay on appointment to Group CEO. Michelle McPherson and Amanda Whiting's incentive opportunity increased from 80% to 120% of fixed pay on their permanent appointments to Group Executive roles.

The average STI for all Executives was 53% of the maximum STI opportunity.

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

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

Cash ROE – 82% vesting for the 2017/2018 LTI award

For the performance period from 1 July 2017 to 30 June 2020, the average reported cash ROE was 1.51 times WACC. Based on performance against the ROE vesting scale, the Board determined that 82% of the award would vest. In determining the final vesting outcome the Board considered the overall quality of earnings, including the differences between the statutory profit and cash earnings. Following this review, the Board determined that 82% of the award would vest.

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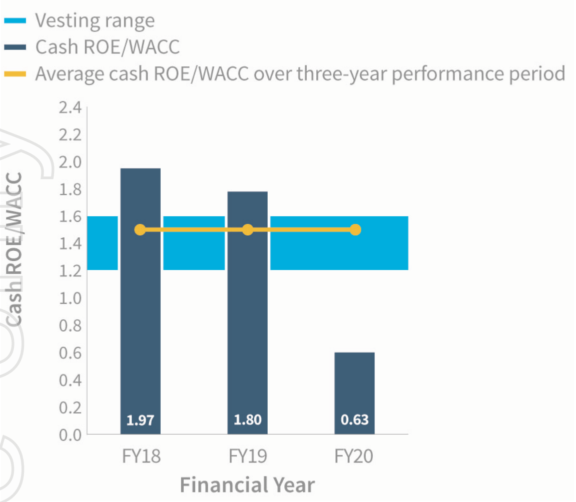
The following graph illustrates IAG's cash ROE/WACC performance over the past three years.

IAG HISTORICAL CASH ROE OVER WACC FOR THE LTI PLAN



LTI awards with an ROE performance hurdle granted from 2018/2019 onwards are subject to a four-year performance period. The next ROE performance test will therefore occur after 30 June 2022.

Relative TSR – 0% vesting for the 2016/2017 LTI award

TSR measures the return a shareholder would obtain from holding a company's share over a period, taking into account factors such as changes in the market value of shares and dividends paid over that period. The relative measure compares IAG's TSR against that of companies in the peer group. On 30 September 2020, the relative TSR portion of the 2016/2017 LTI award was tested. IAG's TSR must be ranked at or above the 50th percentile of the peer group to achieve vesting. IAG's TSR was ranked at the 39th percentile of the peer group, resulting in 0% vesting.

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 2016/2017 LTI award. As a result of a merger, an acquisition and a delisting, three companies were removed from the peer group.

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

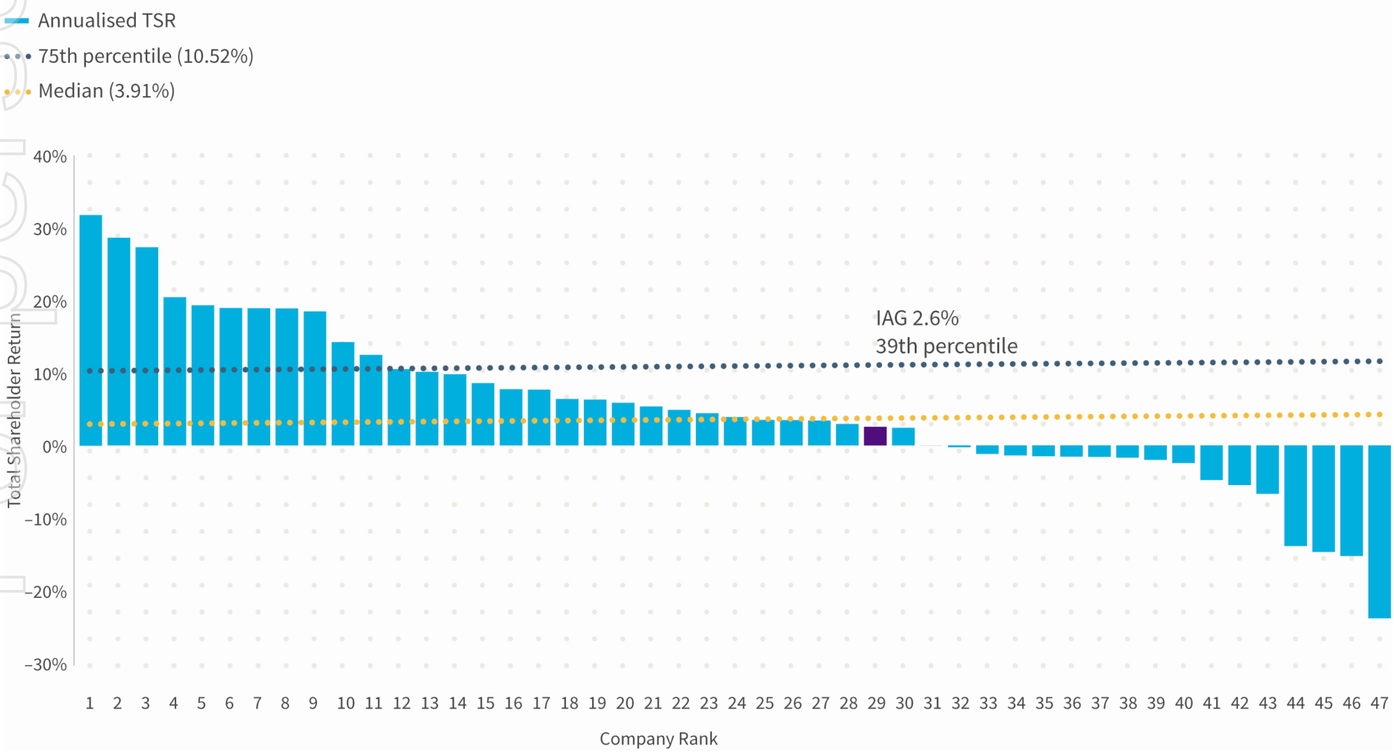


Table 7 shows the returns IAG delivered to shareholders for the last five financial years on a range of measures.

TABLE 7 – HISTORICAL ANALYSIS OF SHAREHOLDER RETURN

	YEAR ENDED 30 JUNE 2017	YEAR ENDED 30 JUNE 2018	YEAR ENDED 30 JUNE 2019	YEAR ENDED 30 JUNE 2020	**YEAR ENDED 30 JUNE 2021**
Closing share price ($)	6.78	8.53	8.26	5.77	**5.16**
Dividends per ordinary share (cents)	33.00	34.00	37.50[1]	10.00	**20.00**
Basic earnings per share (cents)	39.03	39.06	46.26	18.87	**(17.82)**
Reported cash ROE (%)	15.2	15.6	14.4	4.5	**12.0**
Three-year average reported cash ROE to WACC	1.76	1.83	1.91	1.51	**1.45**

(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. Linking risk with remuneration

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

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

In order to support the Board in applying this discretion, 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 following diagram outlines the process for the Board's assessment of identified risk matters and determination of risk related adjustments to variable pay.

1. Assessment of risk matters

The Risk Committee assesses the severity of the impact of a matter before then considering the individuals involved.

2. Determination of adjustment quantum

The PARC supports the Board in determining the quantum of adjustments with reference to the Risk Committee's assessment, and applying judgement to ensure the adjustment is proportionate and reasonable.

3. Application of adjustment

The Board approved adjustment may be applied using the following levers:

1. Reductions to in-year STI awards; and/or
2. Adjustments to unvested LTI awards and/or deferred STI.

In response to risk matters that emerged during the 2021 financial year, 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 the 2021 financial year and/or to deferred awards (unvested LTI awards and/or deferred STI) from prior years. In relation to the 2021 financial year, risk adjustments totalling $3.4 million were made to six former employees, including former accountable Executives. These were in addition to the risk adjustments made in 2020, which impacted 10 employees (including former accountable Executives) and totalled $3.5 million.

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V. Actual remuneration received by Executives

Table 8 details remuneration received by Executives during the financial year, which includes:

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

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

TABLE 8 – ACTUAL REMUNERATION RECEIVED IN 2021 AND 2020

	FINANCIAL YEAR	FIXED PAY $000 (1)	OTHER BENEFITS AND LEAVE ACCRUALS $000 (2)	TERMINATION BENEFITS $000 (3)	CASH STI $000 (4)	DEFERRED STI VESTED $000 (5)	LTI VESTED $000 (6)	TOTAL ACTUAL REMUNERATION RECEIVED $000
EXECUTIVES								
Nick Hawkins	**2021**	**1,465**	**109**	**-**	**634**	**272**	**469**	**2,949**
	2020	1,200	6	-	-	374	1,907	3,487
Julie Batch	**2021**	**875**	**4**	**-**	**327**	**148**	**274**	**1,628**
	2020	767	1	-	-	201	924	1,893
Michelle McPherson[7]	**2021**	**817**	**509**	**-**	**286**	**-**	**-**	**1,612**
	2020	184	13	-	-	-	-	197
Neil Morgan[8]	**2021**	**658**	**35**	**-**	**252**	**-**	**-**	**945**
Craig Olsen[9]	**2021**	**787**	**86**	**-**	**296**	**185**	**296**	**1,650**
	2020	802	38	-	-	232	957	2,029
Christine Stasi[10]	**2021**	**750**	**36**	-	**280**	**129**	**-**	**1,195**
	2020	492	281	-	-	-	-	773
David Watts	**2021**	**875**	**34**	**-**	**224**	**331**	**-**	**1,464**
	2020	875	16	-	-	423	-	1,314
Amanda Whiting[11]	**2021**	**478**	**21**	**-**	**168**	**-**	**-**	**667**
EXECUTIVES WHO CEASED AS KMP								
Peter Harmer[12]	**2021**	**640**	**47**	**-**	**-**	**-**	**-**	**687**
	2020	1,900	26	-	-	638	3,179	5,743
Mark Milliner[13]	**2021**	**375**	**27**	**1,015**	**73**	**227**	**391**	**2,108**
	2020	1,100	36	-	-	297	1,730	3,163

(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*. Nick Hawkins, Julie Batch, Michelle McPherson, Neil Morgan and Amanda Whiting received increases to their fixed pay following their appointments to their respective new roles.

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

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

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

(5) Deferred STI vesting on 11 August 2020 was valued using the five-day VWAP of $5.06 (12 August 2019: $7.82 and 1 September 2019: $7.97).

(6) LTI vested was valued using the five-day VWAP at the vesting date which was $5.06 for awards vested on 11 August 2020 and $4.80 for awards vested on 15 October 2020 (12 August 2019: $7.82 and 15 October 2019: $7.72).

(7) Michelle McPherson was appointed as Acting Chief Financial Officer on 8 April 2020. Her remuneration in the prior year is shown for the period she served in a KMP role. Ms McPherson was permanently appointed as Chief Financial Officer on 2 November 2020. Her remuneration in the current year is shown for the full financial year. Ms McPherson received a $509,176 cash payment on 17 September 2020 as compensation for incentives foregone from her previous employer.

(8) Neil Morgan was considered KMP from 19 September 2020. His remuneration is presented for the period he served in that role.

(9) Remuneration for Craig Olsen was determined in New Zealand dollars (NZD) and reported in Australian dollars (AUD) using the average exchange rate for the year ended 30 June 2021 which was 1 NZD = 0.93067 AUD.

(10) Christine Stasi commenced as Group Executive, People, Performance and Reputation on 4 November 2019. Her remuneration in the prior year is shown for the period she served in a KMP role.

(11) Amanda Whiting was appointed as Acting Group Executive, Intermediated Insurance Australia on 10 March 2021. Ms Whiting was Acting Group Executive, Direct Insurance Australia from 2 November 2020 to 9 March 2021. Her remuneration is presented for the period she served in a KMP role.

(12) Peter Harmer ceased holding a KMP role on 1 November 2020. His remuneration is presented for the period he was in that role.

(13) Mark Milliner ceased holding a KMP role on 2 November 2020. His remuneration is presented for the period he was in that role.

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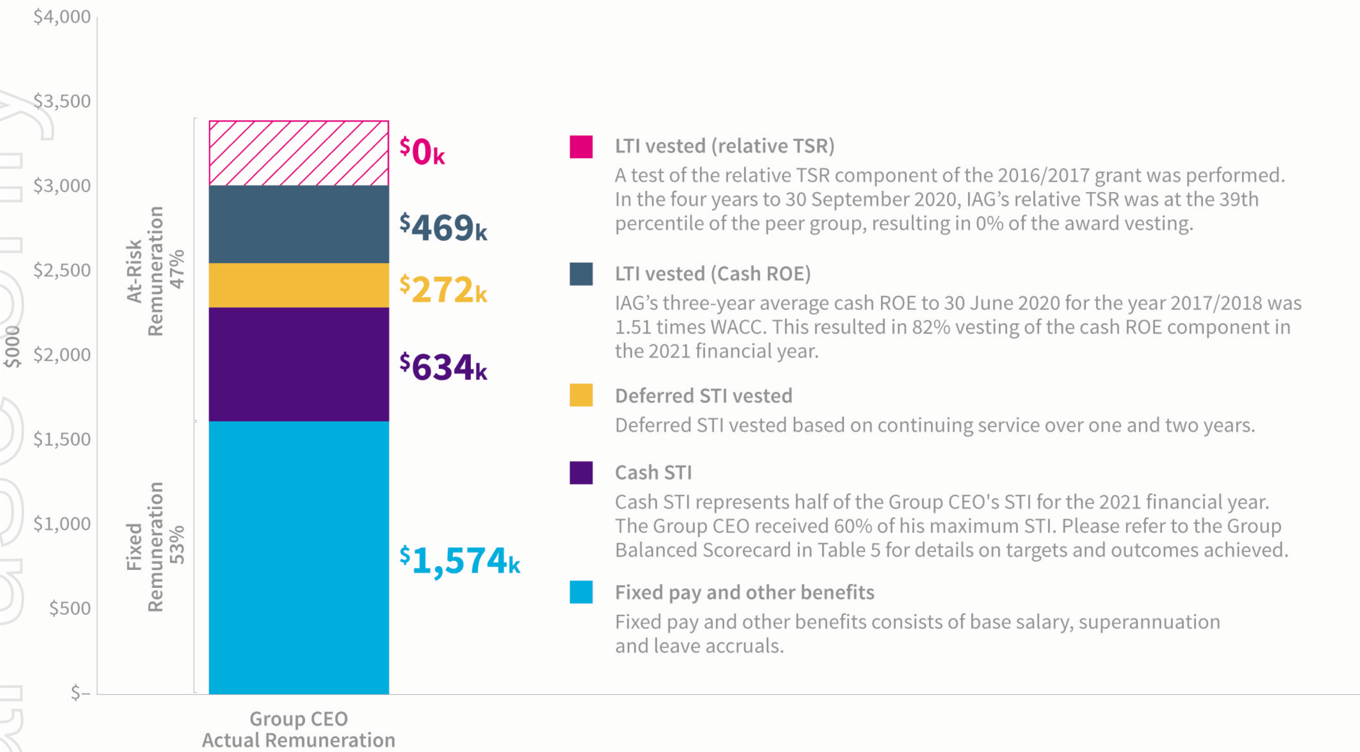
VI. Group CEO remuneration

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

GROUP CEO FY21 ACTUAL REMUNERATION OUTCOMES



D. EXECUTIVE REMUNERATION GOVERNANCE

I. IAG's approach to remuneration governance

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

BOARD

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

EXTERNAL REMUNERATION CONSULTANTS

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

MANAGEMENT

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

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

Potential conflicts of interest are appropriately managed or avoided.

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II. Use of remuneration consultants
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. No remuneration recommendations, as defined by the *Corporations Act 2001*, were provided by remuneration consultants.

III. Mandatory shareholding requirement for Executives
Table 9 outlines the mandatory shareholding requirements for Executives.

TABLE 9 – MANDATORY SHAREHOLDING REQUIREMENT

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

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

All Executives appointed prior to 30 June 2017 met the mandatory shareholding requirement at 30 June 2021.

E. NON-EXECUTIVE DIRECTOR REMUNERATION

I. Remuneration policy
The principles that underpin IAG's approach to remuneration for Non-Executive Directors are that remuneration should:
- be sufficiently competitive to attract and retain a high calibre of Non-Executive Director; and
- create alignment between the interests of Non-Executive Directors and shareholders through the mandatory shareholding requirement.

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

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

All Non-Executive Directors appointed prior to 30 June 2018 met the mandatory shareholding requirement at 30 June 2021.

III. Remuneration 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.

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.

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

a. CHANGES TO NON-EXECUTIVE DIRECTOR REMUNERATION DURING THE YEAR ENDED 30 JUNE 2021
In the year ended 30 June 2021, there were no changes to Board and Committee fees for the Insurance Australia Group Limited Board. There have been no changes to Board or Committee fees since the year ended 30 June 2017. Following a benchmarking exercise, the Board has determined to leave Board and Committee fees unchanged for the year ending 30 June 2022, with the intention to review fees in the following financial year.

b. INSURANCE AUSTRALIA GROUP LIMITED BOARD FEES
A summary of fees for service to the Insurance Australia Group Limited Board is set out in Table 10.

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

		ROLE	
BOARD/COMMITTEE	YEAR	CHAIRMAN	DIRECTOR/ MEMBER
Board	**2021**	**$577,116**	**$192,372**
Audit Committee	**2021**	**$50,000**	**$25,000**
Risk Committee	**2021**	**$50,000**	**$25,000**
People and Remuneration Committee	**2021**	**$50,000**	**$25,000**
Nomination Committee	**2021**	**N/A**	**N/A**

c. SUBSIDIARY BOARD FEES

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

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

DIRECTOR	SUBSIDIARY BOARD	CAPACITY	ANNUAL FEE
Elizabeth Bryan	Insurance Manufacturers of Australia Pty Limited	Chairman	$184,800
Simon Allen(1)	IAG New Zealand Limited	Chairman	$139,600

(1) This amount was paid to Simon Allen in NZD and reported in AUD using the average exchange rate for the year ended 30 June 2021 which was 1 NZD = 0.93067 AUD.

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

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

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

Participation	Each Non-Executive Director may agree with IAG to have a proportion of their base Board fee provided as NARs. Participation in the NARs Plan is voluntary.
Performance measures	There are no performance conditions attached to the NARs Plan, which reflects good governance practices by ensuring that the structure of Non-Executive Director remuneration does not act to bias decision-making or compromise objectivity. A service condition is attached to the vesting of the NARs. The full annual allocation of unvested NARs is issued at the grant date, with tranches vesting each month to align the vesting of NARs with the payment of Non-Executive Director fees. As the grant date for NARs is part way through a financial year, a proportion of the NARs granted is immediately vested.
Instrument	Grants under the NARs Plan are in the form of rights over the Company's ordinary shares. Each NAR entitles the Non-Executive Director to acquire one ordinary share in IAG subject to the satisfaction of a service condition.
Allocation methodology	The number of NARs offered during the 2021 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 30 September 2020, rounded up to the nearest NAR.
Voting rights	Non-Executive Directors have no voting rights until the NARs are exercised and the Non-Executive Director holds shares in IAG.
Exercise price	As NARs are purchased by Non-Executive Directors via fee sacrifice arrangements at grant, Non-Executive Directors do not have to pay any amount to exercise NARs.
Expiry date	NARs expire 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.
Hedging of NARs	Non-Executive Directors may not enter into transactions or arrangements that operate to limit the economic risk of unvested entitlements to IAG securities.
Forfeiture conditions	In the event a Non-Executive Director ceases service with the Board, any vested NARs may be exercised for shares in IAG in the subsequent trading window. Any unvested NARs will lapse. Under certain circumstances (e.g. change of control), the Board also has sole and absolute discretion to deal with the NARs, including waiving any applicable vesting conditions and/or exercise conditions by giving notice or allowing a Non-Executive Director affected by the relevant event to transfer their NARs.

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APPENDIX 1. STATUTORY REMUNERATION DISCLOSURE REQUIREMENTS

I. Total remuneration for Executives

Statutory remuneration details for Executives as required by Australian Accounting Standards are set out in Table 13.

TABLE 13 – STATUTORY REMUNERATION DETAILS (EXECUTIVES)

	SHORT-TERM EMPLOYMENT BENEFITS			POST EMPLOYMENT BENEFITS	OTHER LONG-TERM EMPLOYMENT BENEFITS	TERMINATION BENEFITS	SUB-TOTAL	SHARE-BASED PAYMENT		TOTAL	AT-RISK REMUNERATION
	Base salary	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											
Nick Hawkins(10)											
2021	**1,440**	**634**	**87**	**25**	**22**	**-**	**2,208**	**282**	**856**	**3,346**	**53**
2020	1,175	-	(12)	25	18	-	1,206	353	874	2,433	50
Julie Batch(11)											
2021	**850**	**327**	**(9)**	**25**	**13**	**-**	**1,206**	**156**	**464**	**1,826**	**52**
2020	742	-	(10)	25	11	-	768	192	500	1,460	47
Michelle McPherson(12)											
2021	**792**	**286**	**265**	**25**	**12**	**-**	**1,380**	**131**	**31**	**1,542**	**29**
2020	176	-	244	8	1	-	429	-	-	429	-
Neil Morgan(13)											
2021	**639**	**252**	**27**	**19**	**8**	**-**	**945**	**113**	**417**	**1,475**	**53**
Craig Olsen(14)											
2021	**787**	**296**	**86**	**-**	**-**	**-**	**1,169**	**196**	**488**	**1,853**	**53**
2020	802	-	38	-	-	-	840	234	528	1,602	48
Christine Stasi(15)											
2021	**686**	**280**	**25**	**64**	**11**	**-**	**1,066**	**155**	**193**	**1,414**	**44**
2020	476	-	276	16	5	-	773	31	23	827	7
David Watts											
2021	**850**	**224**	**21**	**25**	**13**	**-**	**1,133**	**382**	**278**	**1,793**	**49**
2020	850	-	3	25	13	-	891	455	178	1,524	42
Amanda Whiting(16)											
2021	**461**	**168**	**16**	**17**	**5**	**-**	**667**	**29**	**53**	**749**	**33**
EXECUTIVES WHO CEASED AS KMP											
Peter Harmer(17)											
2021	**632**	**-**	**44**	**8**	**3**	**-**	**687**	**550**	**3,031**	**4,268**	**84**
2020	1,875	-	(2)	25	28	-	1,926	562	1,565	4,053	52
Mark Milliner(18)											
2021	**365**	**73**	**25**	**10**	**2**	**1,015**	**1,490**	**322**	**1,550**	**3,362**	**58**
2020	1,075	-	20	25	16	-	1,136	291	973	2,400	53

(1) Base salary includes amounts paid in cash plus the portion of IAG's superannuation contribution that is paid as cash instead of being paid into superannuation, and salary sacrifice items such as cars and parking, as determined in accordance with *AASB 119 Employee Benefits*. Nick Hawkins, Julie Batch, Michelle McPherson, Neil Morgan and Amanda Whiting received increases to their fixed pay during the 2021 financial year following their appointments to their respective new roles. Julie Batch received an increase to her fixed pay during the 2020 financial year due to her change in role.

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

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

(4) Superannuation represents the employer's contributions.

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

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

(7) The deferred STI is granted as DARs and is valued using the Black-Scholes valuation model. An allocated portion of unvested DARs is included in the total remuneration disclosure above. The deferred STI for the year ended 30 June 2021 will be granted in the next financial year, so no value was included in the current financial year's total remuneration.

(8) This value represents the allocated portion of unvested EPRs (unvested LTI). 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 takes 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.

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(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) Nick Hawkins was appointed as Managing Director and Chief Executive Officer on 2 November 2020. Prior to this appointment he was the Deputy CEO. Mr Hawkins' remuneration is shown for the full financial year.

(11) Julie Batch was appointed as Group Executive, Direct Insurance Australia on 10 March 2021. Prior to this appointment, Ms Batch was Chief Strategy and Innovation Officer to 9 March 2021 and Acting Group Executive, Intermediated Insurance Australia from 2 November 2020 to 9 March 2021. Ms Batch's remuneration is shown for the full financial year.

(12) Michelle McPherson was appointed as Acting Chief Financial Officer on 8 April 2020. Her remuneration in the prior year is shown for the period she served in a KMP role. Ms McPherson was permanently appointed as Chief Financial Officer on 2 November 2020. Her remuneration in the current year is shown for the full financial year. Ms McPherson received a $509,176 cash payment on 17 September 2020 and 129,500 DARs on 5 November 2020 as compensation for incentives foregone from her previous employer. The portion that relates to service in the current year is shown above.

(13) Neil Morgan was considered KMP from 19 September 2020. Mr Morgan was appointed as Chief Operating Officer effective 10 March 2021. Prior to this appointment, Mr Morgan was the Group Executive, Technology and Operations. Mr Morgan's remuneration is shown for the period he served in a KMP role.

(14) Remuneration for Craig Olsen was determined in NZD and reported in AUD using the average exchange rate for the year ended 30 June 2021 which was 1 NZD = 0.93067 AUD.

(15) Christine Stasi commenced as Group Executive, People, Performance and Reputation on 4 November 2019. Her remuneration in the prior year is shown for the period she served in a KMP role. Ms Stasi received 51,000 DARs in April 2020 as compensation for incentives foregone from her previous employer. The portion that relates to service in the current year is shown above.

(16) Amanda Whiting was appointed as Acting Group Executive, Intermediated Insurance Australia on 10 March 2021. Prior to this Ms Whiting was Acting Group Executive, Direct Insurance Australia from 2 November 2020 to 9 March 2021.

(17) Peter Harmer retired from IAG effective 31 December 2020. His last day in a KMP role was 1 November 2020. His remuneration has been disclosed for the period he was in that role. The value of STI and LTI awards reflects the disclosable accruals for all previously granted STI and LTI awards that remain unvested following cessation of employment. This means that up to three years of unvested awards expense has been brought forward and disclosed in total for the 2021 financial year, including those amounts which would otherwise have been included in future year disclosures and that may not vest.

(18) Following the introduction of the new operating model, Mark Milliner ceased in a KMP role on 2 November 2020 and ceased employment on 30 November 2020 due to his role of Chief Executive Officer, Australia becoming redundant. Mr Milliner's remuneration has been disclosed for the period he was in that role. The value of STI and LTI awards reflects the disclosable accruals for all previously granted STI and LTI awards that remain unvested following cessation of employment. This means that up to three years of unvested award expense has been brought forward and disclosed in total for the 2021 financial year, including those amounts which would otherwise have been included in future year disclosures and that may not vest.

II. Total remuneration details for Non-Executive Directors

Details of total remuneration for Non-Executive Directors are set out in Table 14.

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

	SHORT-TERM EMPLOYMENT BENEFITS		POST-EMPLOYMENT BENEFITS		OTHER LONG-TERM EMPLOYMENT BENEFITS	TERMINATION BENEFITS	SHARE-BASED PAYMENT	TOTAL
	IAG Board fees received as cash	Other board and Committee fees	Superannuation	Retirement benefits				
	$000	$000	$000	$000	$000	$000	$000	$000
NON-EXECUTIVE DIRECTORS								
Elizabeth Bryan(1),(2)								
2021	**528**	**169**	**22**	**-**	**-**	**-**	**-**	**719**
2020	440	169	21	-	-	-	125	755
Simon Allen(3)								
2021	**176**	**185**	**21**	**-**	**-**	**-**	**-**	**382**
2020	112	117	13	-	-	-	-	242
Duncan Boyle								
2021	**176**	**74**	**24**	**-**	**-**	**-**	**-**	**274**
2020	176	91	25	-	-	-	-	292
Sheila McGregor(2)								
2021	**176**	**37**	**20**	**-**	**-**	**-**	**-**	**233**
2020	88	39	20	-	-	-	83	230
Jon Nicholson								
2021	**176**	**68**	**23**	**-**	**-**	**-**	**-**	**267**
2020	176	68	23	-	-	-	-	267
Helen Nugent								
2021	**176**	**37**	**20**	**-**	**-**	**-**	**-**	**233**
2020	176	46	21	-	-	-	-	243
Tom Pockett								
2021	**185**	**77**	**14**	**-**	**-**	**-**	**-**	**276**
2020	178	68	21	-	-	-	-	267
George Savvides								
2021	**176**	**55**	**22**	**-**	**-**	**-**	**-**	**253**
2020	176	46	22	-	-	-	-	244

	SHORT-TERM EMPLOYMENT BENEFITS		POST-EMPLOYMENT BENEFITS		OTHER LONG-TERM EMPLOYMENT BENEFITS	TERMINATION BENEFITS	SHARE-BASED PAYMENT	TOTAL
	IAG Board fees received as cash	Other board and Committee fees	Superannuation	Retirement benefits				
	$000	$000	$000	$000	$000	$000	$000	$000
Michelle Tredenick[(1),(2),(4)]								
2021	**94**	**46**	**21**	**-**	**-**	**-**	**65**	**226**
2020	88	39	20	-	-	-	83	230

(1) Cash fees paid to Elizabeth Bryan and Michelle Tredenick 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.
(2) Cash fees paid to Elizabeth Bryan, Sheila McGregor and Michelle Tredenick reflect Board fees sacrificed in respect of NARs awarded in the 2020 financial year.
(3) Non-Executive Director appointed part way through the year ended 30 June 2020.
(4) Cash fees paid to Michelle Tredenick reflect Board fees sacrificed in respect of NARs awarded in the 2021 financial year.

APPENDIX 2. EXECUTIVE EMPLOYMENT AGREEMENTS

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

TABLE 15 – EXECUTIVE EMPLOYMENT AGREEMENTS

	Group CEO and Australian Executives	Chief Executive, New Zealand
Employing entity	Insurance Australia Group Services Pty Limited	IAG New Zealand Limited
Term	Unlimited term – may be terminated by written notice from either party or by IAG making a payment in lieu of notice.	
Annual remuneration review	Requires an annual review of remuneration. Does not require IAG to increase fixed pay, pay STI or offer an LTI in any given year.	
Termination of employment with notice or payment in lieu of notice	The employment of an Executive may be terminated at any time with 12 months' notice or payment in lieu of notice, with the exception of Amanda Whiting who, for the duration of her acting appointment, was able to be terminated at any time with six months' notice or payment in lieu of notice. Payment in lieu of notice is calculated based on fixed pay. If an Executive terminates voluntarily, they are required to provide six months' notice, with the exception of Nick Hawkins who is required to provide 12 months' notice and Amanda Whiting who, for the duration of her acting appointment, was required to provide three months' notice. Subject to the relevant legislation in the various jurisdictions, termination provisions may include the payment of annual leave and/or long service leave.	
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: ▪ is charged with a criminal offence that could bring the organisation into disrepute; ▪ is declared bankrupt; ▪ breaches a provision of their employment agreement; ▪ is guilty of serious and wilful misconduct; or ▪ unreasonably fails to comply with any material and lawful direction given by the relevant company.	
Redundancy arrangements	Executives are entitled to a redundancy payment of up to 12 months' fixed pay, with the exception of Amanda Whiting who, for the duration of her acting appointment, was entitled to a retrenchment payment which is the greater of six months' fixed pay or the amount payable under the Group's Redundancy, Redeployment and Retrenchment guideline, subject to any adjustments that may be required to ensure compliance with the termination benefits provisions in the *Corporations Act 2001*. Legacy arrangements apply for Julie Batch, who had existing redundancy entitlements of 54 weeks of fixed pay.	

Peter Harmer did not receive any termination payments upon ceasing as a KMP. Mark Milliner received a payment in lieu of notice. Mr Harmer and Mr Milliner each retained unvested LTI and deferred STI awards which will continue to vest subject to the standard schedule and required Board approvals. All benefits are within the terminations cap under the *Corporations Act 2001*.

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APPENDIX 3. MOVEMENT IN EQUITY PLANS WITHIN THE FINANCIAL YEAR

Changes in each Executive's holding of DARs and EPRs and each Non-Executive Director's holdings of NARs during the financial year are set out in Table 16. In the previous financial year, the Board determined not to make an STI allocation for the Group CEO or for Executives. This has resulted in no DARs being granted during the year ended 30 June 2021, except for Michelle McPherson who received DARs as compensation for incentives forgone on leaving her previous employer. The EPRs granted during the year ended 30 June 2021 were in relation to the LTI plan. The NARs granted during the year ended 30 June 2021 represent the total number of rights each Non-Executive Director has agreed to receive as part of the payment of their base Board fees.

TABLE 16 – MOVEMENT IN POTENTIAL VALUE OF DARS, EPRS AND NARS FOR THE YEAR ENDED 30 JUNE 2021

		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 (1)	Number	Value $000 (2)	Number	Value $000 (3)	Number	Value $000	Number	Number	Number
EXECUTIVES											
Nick	DAR	84,300	-	-	(53,700)	268	-	-	30,600	53,700	-
Hawkins	EPR	776,683	365,300	1,102	(92,797)	462	(154,718)	771	894,468	92,797	-
Julie	DAR	46,450	-	-	(29,300)	146	-	-	17,150	29,300	-
Batch	EPR	433,340	174,400	526	(54,142)	270	(85,671)	427	467,927	54,142	-
Michelle	DAR	-	129,500	606	-	-	-	-	129,500	-	-
McPherson(4)	EPR	-	132,100	394	-	-	-	-	132,100	-	-
Neil	DAR	36,400	-	-	(18,200)	91	-	-	18,200	-	-
Morgan	EPR	336,358	174,400	526	(49,059)	244	-	-	461,699	-	-
Craig	DAR	58,150	-	-	(36,550)	182	-	-	21,600	36,550	-
Olsen(5)	EPR	381,140	170,400	514	(58,463)	291	(90,280)	450	402,797	58,463	-
Christine	DAR	51,000	-	-	-	-	-	-	51,000	25,500	25,500
Stasi	EPR	119,400	158,600	479	-	-	-	-	278,000	-	-
David	DAR	76,550	-	-	(65,350)	326	-	-	11,200	65,350	-
Watts	EPR	173,300	118,400	357	-	-	-	-	291,700	-	-
Amanda	DAR	29,290	-	-	-	-	-	-	29,290	-	-
Whiting	EPR	65,048	29,500	89	-	-	-	-	94,548	-	-
EXECUTIVES WHO CEASED AS KMP(6)											
Peter	DAR	128,150	-	-	-	-	(83,000)	414	45,150	-	-
Harmer	EPR	1,389,176	-	-	-	-	(420,706)	2,096	968,470	-	-
Mark	DAR	72,350	-	-	(44,850)	223	-	-	27,500	44,850	-
Milliner	EPR	791,173	-	-	(77,311)	385	(238,280)	1,187	475,582	77,311	-
NON-EXECUTIVE DIRECTORS											
Elizabeth Bryan	NAR	5,311	-	-	(5,311)	26	-	-	-	-	-
Sheila McGregor	NAR	3,538	-	-	(3,538)	18	-	-	-	-	-
Michelle Tredenick	NAR	3,538	13,660	65	(12,650)	63	-	-	4,548	13,660	4,548

(1) Opening number of rights on issue represents the balance as at the date of appointment to a KMP role or 1 July 2020.

(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 5 November 2020 was $4.68. This amount is allocated to remuneration over years ending 30 June 2021 to 30 June 2024. The value of the cash ROE portion of the EPRs granted on 5 November 2020 and 17 May 2021 is the fair value at grant date, calculated using the Black-Scholes valuation model, which was $4.48 and $4.62 respectively. The cash ROE portion of the EPR grants is first exercisable after the performance period concludes on 30 June 2024. The value of the relative TSR portion of the EPRs granted on 5 November 2020 and 17 May 2021 is the fair value at grant date, calculated using the Monte Carlo simulation, which was $1.55 and $1.31 respectively. The relative TSR portion of the EPRs is first exercisable after the performance period concludes on 30 June 2024. The amount is allocated to remuneration over the years ending 30 June 2021 to 30 June 2024. The value of the NARs granted during the year is the fair value at grant date calculated using the Black-Scholes valuation model. The value of the annual NARs granted on 15 October 2020 was $4.76. This amount was allocated to remuneration over the year ended 30 June 2021.

(3) Rights vested and exercised during the financial year. The value of the rights exercised is based on the annual VWAP for the year ended 30 June 2021, which was $4.98.

(4) Michelle McPherson received 129,500 DARs on 5 November 2020 as compensation for incentives forgone on leaving her previous employer. Ms McPherson also received 47,400 EPRs in November 2020 and a further 84,700 EPRs in May 2021 to recognise the portion of the year she has been permanently appointed to the role of Chief Financial Officer.

(5) Craig Olsen was incorrectly not awarded a full allocation of EPRs in the previous financial year. Mr Olsen was awarded additional EPRs in the current year under the same terms and conditions as the 2020 financial year EPRs. Table 13 reflects the accounting value of the award for the 2021 financial year allocation of 170,400 EPRs. The previous financial year reflects the accounting value of the intended 2020 award of 126,900 EPRs.

(6) 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.

I. LTI awards outstanding during the year ended 30 June 2021

Details of outstanding LTI awards made to Executives in the year ended 30 June 2021 are shown in Table 17.

TABLE 17 – LTI AWARDS OUTSTANDING DURING THE YEAR ENDED 30 JUNE 2021

AWARD	GRANT DATE	BASE DATE	TEST DATE	PERFORMANCE HURDLE ACHIEVEMENT	LAST EXERCISE DATE
2020/2021 – TSR[1]	20/05/2021	01/07/2020	30/06/2024	N/A	20/05/2028
2020/2021 – ROE[1]	20/05/2021	01/07/2020	30/06/2024	N/A	20/05/2028
2020/2021 – TSR[1]	05/11/2020	01/07/2020	30/06/2024	N/A	05/11/2027
2020/2021 – ROE[1]	05/11/2020	01/07/2020	30/06/2024	N/A	05/11/2027
2019/2020 – TSR[1]	17/04/2020	01/07/2019	30/06/2023	N/A	17/04/2027
2019/2020 – ROE[1]	17/04/2020	01/07/2019	30/06/2023	N/A	17/04/2027
2019/2020 – TSR[1]	12/11/2019	01/07/2019	30/06/2023	N/A	12/11/2026
2019/2020 – ROE[1]	12/11/2019	01/07/2019	30/06/2023	N/A	12/11/2026
2018/2019 – TSR[1]	29/03/2019	01/07/2018	30/06/2022	N/A	29/03/2026
2018/2019 – ROE[1]	29/03/2019	01/07/2018	30/06/2022	N/A	29/03/2026
2018/2019 – TSR[1]	05/11/2018	01/07/2018	30/06/2022	N/A	05/11/2025
2018/2019 – ROE[1]	05/11/2018	01/07/2018	30/06/2022	N/A	05/11/2025
2017/2018 – TSR[1]	30/04/2018	30/09/2017	30/09/2021	N/A	30/04/2025
2017/2018 – ROE[1]	30/04/2018	01/07/2017	30/06/2020	82%	30/04/2025
2017/2018 – TSR[1]	03/11/2017	30/09/2017	30/09/2021	N/A	03/11/2024
2017/2018 – ROE[1]	03/11/2017	01/07/2017	30/06/2020	82%	03/11/2024
2016/2017 – TSR[1]	24/03/2017	30/09/2016	30/09/2020	0%	24/03/2024
2016/2017 – TSR[1]	02/11/2016	30/09/2016	30/09/2020	0%	02/11/2023

(1) Terms and conditions for LTI plans from 2016/2017 to 2020/2021 relating to relative TSR and cash ROE are the same.

APPENDIX 4. RELATED PARTY INTERESTS

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

I. Movements in total number of ordinary shares held

Table 18 discloses the relevant interests of each KMP and their related parties in ordinary shares of the Company.

TABLE 18 – MOVEMENT IN TOTAL NUMBER OF ORDINARY SHARES HELD

	SHARES HELD AT 1 JULY Number	SHARES RECEIVED ON EXERCISE OF DARS Number	SHARES RECEIVED ON EXERCISE OF EPRS Number	SHARES RECEIVED ON EXERCISE OF NARS Number	NET MOVEMENT OF SHARES DUE TO OTHER CHANGES[1] Number	TOTAL SHARES HELD AT 30 JUNE Number	SHARES HELD NOMINALLY AT 30 JUNE[2] Number
2021							
NON-EXECUTIVE DIRECTORS AND EXECUTIVES							
Elizabeth Bryan	92,776	-	-	5,311	6,037	104,124	104,124
Simon Allen	-	-	-	-	20,000	20,000	20,000
Duncan Boyle	31,894	-	-	-	-	31,894	31,894
Sheila McGregor	23,466	-	-	3,538	6,037	33,041	27,004
Jon Nicholson	33,761	-	-	-	-	33,761	23,584
Helen Nugent	26,630	-	-	-	11,537	38,167	38,167
Tom Pockett	32,233	-	-	-	6,184	38,417	-
George Savvides	8,660	-	-	-	25,613	34,273	34,273
Michelle Tredenick	14,580	-	-	12,650	6,037	33,267	-
Nick Hawkins	170,000	53,700	92,797	-	6,037	322,534	-
Julie Batch	237,379	29,300	54,142	-	-	320,821	-
Michelle McPherson	448	-	-	-	52	500	45
Neil Morgan[3]	76,194	18,200	49,059	-	211	143,664	381
Craig Olsen	191,963	36,550	58,463	-	-	286,976	14,445
Christine Stasi	-	-	-	-	45	45	45
David Watts	174	65,350	-	-	(53,898)	11,626	426
Amanda Whiting[3]	47	-	-	-	-	47	47

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	SHARES HELD AT 1 JULY	SHARES RECEIVED ON EXERCISE OF DARS	SHARES RECEIVED ON EXERCISE OF EPRS	SHARES RECEIVED ON EXERCISE OF NARS	NET MOVEMENT OF SHARES DUE TO OTHER CHANGES(1)	TOTAL SHARES HELD AT 30 JUNE	SHARES HELD NOMINALLY AT 30 JUNE(2)
	Number	Number	Number	Number	Number	Number	Number
EXECUTIVES WHO CEASED AS KMP(4)							
Peter Harmer	1,221,560	-	-	-	-	1,221,560	-
Mark Milliner	157,779	44,850	77,311	-	59	279,999	233

(1) Net movement of shares relates to acquisition and disposal transactions by the KMP and their related parties during the year.
(2) Shares nominally held are included in the column headed total shares held at 30 June and include those held by the KMP's related parties, including domestic partners, dependants and entities controlled, jointly controlled or significantly influenced by the KMP.
(3) Opening number of shares held represents the balance as at the date of appointment.
(4) Information on shares held is disclosed up to the date of cessation.

II. Movements in total number of capital notes held
No KMP had any interest directly or nominally in capital notes during the financial year (2020: nil).

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

TABLE 19 – HOLDINGS OF SHARES AND CAPITAL NOTES AS AT 30 JUNE 2021

	ORDINARY SHARES		CAPITAL NOTES	
	Held directly(1)	Held indirectly(2)	Held directly	Held indirectly
Elizabeth Bryan	-	104,124	-	-
Simon Allen	-	20,000	-	-
Duncan Boyle	-	31,894	-	-
Sheila McGregor	6,037	27,004	-	-
Jon Nicholson	10,177	23,584	-	-
Helen Nugent	-	38,167	-	-
Tom Pockett	38,417	-	-	-
George Savvides	-	34,273	-	-
Michelle Tredenick	33,267	-	-	-
Nick Hawkins	322,534	-	-	-

(1) This represents the relevant interest of each Director in ordinary shares issued by the Company, as notified by the Directors to the ASX in accordance with section 205G of the *Corporations Act 2001* until the date the financial report was signed. Trading in ordinary shares of the Company is covered by the restrictions 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.
(2) These ordinary shares of the Company are held by the Director's related parties, including entities controlled, jointly controlled or significantly influenced by the Director, as notified by the Director to the ASX in accordance with section 205G of the *Corporations Act 2001*.

ROUNDING OF AMOUNTS

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

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

Signed at Sydney this 11th day of August 2021 in accordance with a resolution of the Directors.

Nick Hawkins

Nick Hawkins
Director

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LEAD AUDITOR'S INDEPENDENCE DECLARATION

UNDER SECTION 307C OF THE *CORPORATIONS ACT 2001*

TO THE DIRECTORS OF INSURANCE AUSTRALIA GROUP LIMITED

I declare that, to the best of my knowledge and belief, in relation to the audit of Insurance Australia Group Limited for the financial year ended 30 June 2021 there have been:

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

KPMG

KPMG

Andrew Yates
Partner

Sydney
11 August 2021

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CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS		PAGE
Consolidated statement of comprehensive income		61
Consolidated balance sheet		63
Consolidated statement of changes in equity		64
Consolidated cash flow statement		65
NOTES TO THE FINANCIAL STATEMENTS		
1	**OVERVIEW**	
1.1	Introduction	66
1.2	About this report	67
1.3	Segment reporting	70
2	**INSURANCE DISCLOSURES**	
2.1	General insurance revenue	72
2.2	Claims and reinsurance and other recoveries on outstanding claims	73
2.3	Investments	78
2.4	Unearned premium liability	80
2.5	Deferred insurance expenses	81
2.6	Trade and other receivables	81
2.7	Trade and other payables	82
3	**RISK**	
3.1	Risk and capital management	83
4	**CAPITAL STRUCTURE**	
4.1	Interest-bearing liabilities	92
4.2	Equity	94
4.3	Earnings per share	95
4.4	Dividends	96
4.5	Derivatives	97
5	**OTHER BALANCE SHEET DISCLOSURES**	
5.1	Goodwill and intangible assets	98
5.2	Income tax	100
5.3	Provisions	102
5.4	Leases	104
6	**GROUP STRUCTURE**	
6.1	Discontinued operations	106
6.2	Assets and liabilities held for sale	107
6.3	Details of subsidiaries	108
6.4	Non-controlling interests	108
6.5	Investment in joint venture and associates	109
6.6	Parent entity disclosures	110
7	**UNRECOGNISED ITEMS**	
7.1	Contingencies	110
7.2	Events subsequent to reporting date	111
8	**ADDITIONAL DISCLOSURES**	
8.1	Notes to the consolidated cash flow statement	111
8.2	Related party disclosures	112
8.3	Remuneration of auditors	112
8.4	Net tangible assets	112
8.5	Impact of new Australian Accounting Standards issued	113

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2021

	NOTE	**2021**	2020
		$m	$m
Gross earned premium	2.1	**12,288**	12,014
Outwards reinsurance premium expense		**(4,868)**	(4,776)
Net earned premium (i)		**7,420**	7,238
Claims expense		**(10,762)**	(9,711)
Reinsurance and other recoveries revenue	2.1	**4,805**	4,701
Net claims expense (ii)	2.2	**(5,957)**	(5,010)
Commission expense		**(1,007)**	(1,009)
Underwriting expense		**(2,152)**	(2,070)
Reinsurance commission revenue	2.1	**1,125**	1,201
Net underwriting expense (iii)		**(2,034)**	(1,878)
Underwriting (loss)/profit (i) + (ii) + (iii)		**(571)**	350
Investment income on assets backing insurance liabilities	2.3	**158**	162
Investment expenses on assets backing insurance liabilities		**(19)**	(17)
Insurance (loss)/profit		**(432)**	495
Investment income/(loss) on shareholders' funds	2.3	**319**	(164)
Fee and other income		**165**	441
Share of net profit of associates		**35**	57
Finance costs		**(89)**	(92)
Fee-based, corporate and other expenses		**(386)**	(193)
Net loss attributable to non-controlling interests in unitholders' funds		**(1)**	(9)
(Loss)/profit before income tax from continuing operations		**(389)**	535
Income tax benefit/(expense)	5.2	**125**	(37)
(Loss)/profit after income tax from continuing operations		**(264)**	498
Loss after income tax from discontinued operations	6.1	**(13)**	(4)
(Loss)/profit for the year		**(277)**	494
OTHER COMPREHENSIVE INCOME/(EXPENSE)			
Items that may be reclassified subsequently to profit or loss:			
Net movement in foreign currency translation reserve, net of tax		**(11)**	(21)
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit plans, net of tax		**3**	(12)
Other comprehensive expense from continuing operations, net of tax		**(8)**	(33)
Other comprehensive income from discontinued operations, net of tax	6.1	**-**	2
Total comprehensive (loss)/income for the year, net of tax		**(285)**	463
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO			
Shareholders of the Parent – continuing operations		**(414)**	439
Shareholders of the Parent – discontinued operations	6.1	**(13)**	(4)
Non-controlling interests – continuing operations		**150**	59
(Loss)/profit for the year		**(277)**	494
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR ATTRIBUTABLE TO			
Shareholders of the Parent – continuing operations		**(422)**	406
Shareholders of the Parent – discontinued operations	6.1	**(13)**	(2)
Non-controlling interests – continuing operations		**150**	59
Total comprehensive (loss)/income for the year, net of tax		**(285)**	463

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

	NOTE	**2021 cents**	2020 cents
EARNINGS PER SHARE – CONTINUING AND DISCONTINUED OPERATIONS			
Basic earnings per ordinary share	4.3	**(17.82)**	18.87
Diluted earnings per ordinary share	4.3	**(17.82)**	18.49
EARNINGS PER SHARE – CONTINUING OPERATIONS			
Basic earnings per ordinary share	4.3	**(17.28)**	19.05
Diluted earnings per ordinary share	4.3	**(17.28)**	18.65

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

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CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2021

	NOTE	2021 $m	2020 $m
ASSETS			
Cash held for operational purposes	8.1	**326**	405
Investments	2.3	**12,417**	10,100
Trade and other receivables	2.6	**4,354**	4,419
Current tax assets		**-**	212
Assets held for sale	6.2	**348**	33
Reinsurance and other recoveries on outstanding claims	2.2	**7,272**	6,069
Deferred insurance expenses	2.5	**3,601**	3,501
Deferred levies and charges		**137**	119
Deferred tax assets	5.2	**977**	575
Right-of-use assets	5.4	**472**	531
Property and equipment		**138**	132
Other assets		**157**	113
Investment in joint venture and associates	6.5	**30**	351
Goodwill and intangible assets	5.1	**3,220**	3,134
Total assets		**33,449**	29,694
LIABILITIES			
Trade and other payables	2.7	**2,975**	2,800
Current tax liabilities		**124**	31
Liabilities held for sale	6.2	**19**	14
Unearned premium liability	2.4	**6,527**	6,276
Outstanding claims liability	2.2	**13,312**	10,584
Lease liabilities	5.4	**585**	655
Non-controlling interests in unitholders' funds		**-**	330
Provisions	5.3	**866**	639
Other liabilities		**498**	485
Interest-bearing liabilities	4.1	**1,987**	1,526
Total liabilities		**26,893**	23,340
Net assets		**6,556**	6,354
EQUITY			
Share capital	4.2	**7,386**	6,617
Treasury shares held in trust		**(33)**	(49)
Reserves		**13**	30
Retained earnings		**(1,120)**	(521)
Parent interest		**6,246**	6,077
Non-controlling interests		**310**	277
Total equity		**6,556**	6,354

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

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2021

	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
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**
2020							
Balance at the beginning of the financial year	6,617	(48)	20	26	(211)	306	6,710
Adjustment on initial application of AASB 16, net of tax	-	-	-	-	(33)	-	(33)
Restated balance at the beginning of the financial year	6,617	(48)	20	26	(244)	306	6,677
Profit for the year	-	-	-	-	435	59	494
Other comprehensive income/(expense)	-	-	(19)	-	(12)	-	(31)
Total comprehensive income/(loss) for the year	-	-	(19)	-	423	59	463
Transactions with owners in their capacity as owners							
Share-based remuneration	-	(1)	-	3	(8)	-	(6)
Dividends determined and paid	-	-	-	-	(693)	(87)	(780)
Dividends received on treasury shares held in trust	-	-	-	-	1	-	1
Disposal of subsidiaries	-	-	-	-	-	(1)	(1)
Balance at the end of the financial year	6,617	(49)	1	29	(521)	277	6,354

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

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CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2021

	NOTE	2021 $m	2020 $m
CASH FLOWS FROM OPERATING ACTIVITIES			
Premium received		**12,474**	12,181
Reinsurance and other recoveries received		**3,778**	4,170
Claims costs paid		**(8,081)**	(9,406)
Outwards reinsurance premium expense paid		**(4,869)**	(4,768)
Dividends, interest and trust distributions received		**229**	350
Finance costs paid		**(84)**	(90)
Income taxes refunded/(paid)		**31**	(234)
Other operating receipts		**2,036**	1,906
Other operating payments		**(3,904)**	(3,728)
Net cash flows from operating activities	8.1	**1,610**	381
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash flows on (acquisition)/disposal of subsidiaries and associates		**(9)**	600
Net cash flows from (purchase)/sale of investments and plant and equipment		**(2,409)**	968
Net cash flows from investing activities		**(2,418)**	1,568
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares, net of transaction costs		**764**	-
Proceeds from borrowings, net of transaction costs		**457**	-
Repayment of borrowings		**-**	(551)
Principal element of lease payments		**(82)**	(74)
Net cash flow from issue and redemption of trust units		**(331)**	81
Dividends paid to shareholders of the Parent		**(173)**	(693)
Dividends paid to non-controlling interests		**(119)**	(87)
Dividends received on treasury shares		**-**	1
Net cash flows from financing activities		**516**	(1,323)
Net movement in cash held		**(292)**	626
Effects of exchange rate changes on balances of cash held in foreign currencies		**(1)**	(2)
Cash and cash equivalents at the beginning of the financial year		**2,322**	1,698
Cash and cash equivalents at the end of the financial year	8.1	**2,029**	2,322

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

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NOTES TO THE FINANCIAL STATEMENTS

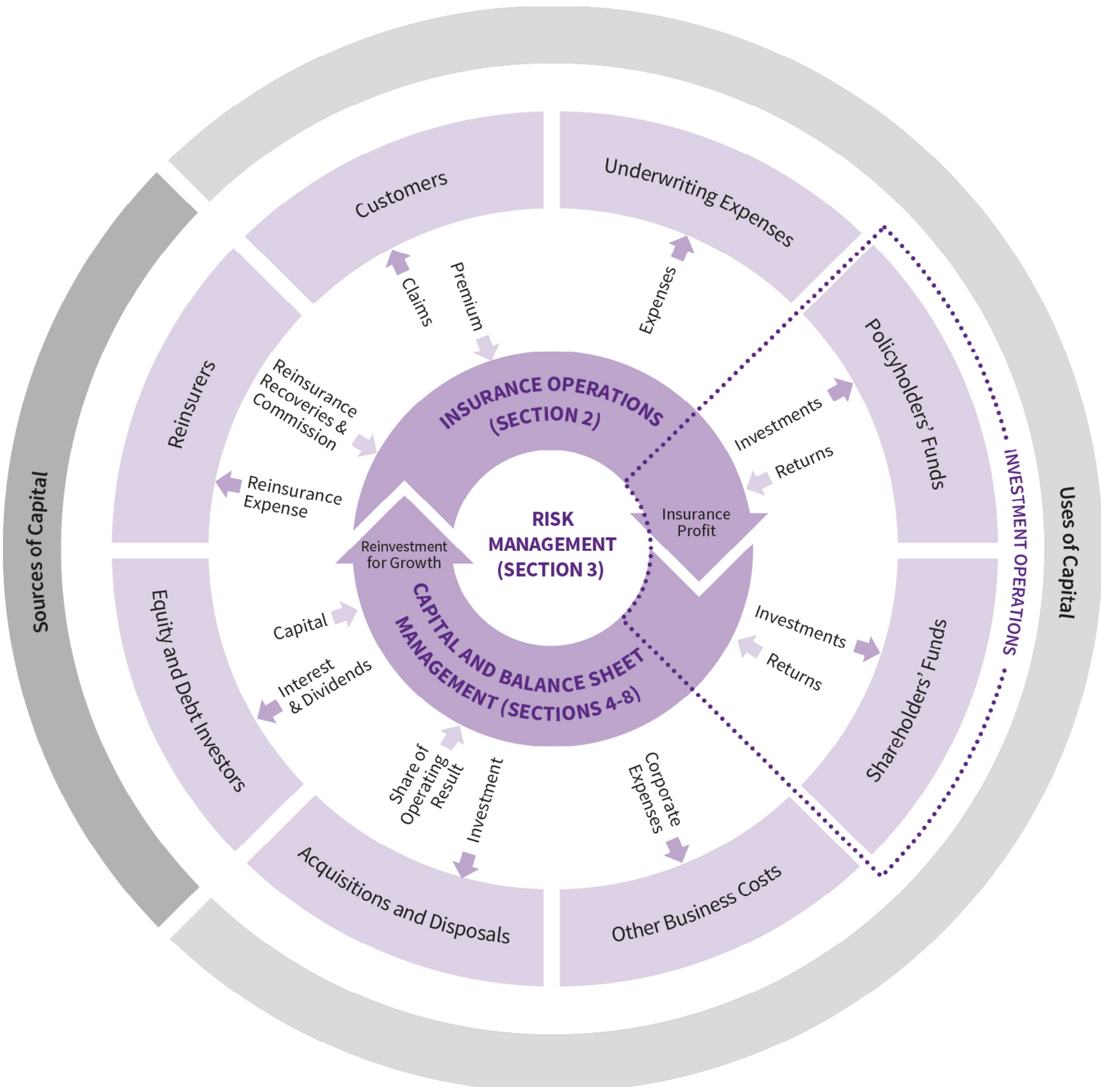
1. OVERVIEW

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 2021.

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 11 August 2021 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 of 1 January 2023. Until this standard takes effect, the financial reports of insurers in different countries that comply with IFRS may not be comparable in terms of the recognition and measurement of insurance contracts.

C. BASIS OF PREPARATION

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

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

I. Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the Company as at 30 June 2021. A list of significant controlled entities is set out in Note 6.3. IAG controls an investee if it has (i) power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of those returns. Where an entity either began or ceased to be controlled during a financial year, the results are included from the date control commenced or up to the date control ceased. The financial information of all subsidiaries is prepared for consolidation for the same reporting year as the Parent. In preparing the consolidated financial statements, all inter-company balances and transactions, including income, expenses, and profits and losses resulting from intra-group transactions, have been eliminated.

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

II. Presentation and foreign currency

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

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

III. Reclassification of comparatives

Certain items have been reclassified from IAG's prior year financial report to conform to the current year's presentation basis. The reclassifications relate to re-presentation of prior year segment information (refer to Note 1.3, 2.2 and 5.1 for further details).

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D. SIGNIFICANT ACCOUNTING POLICIES ADOPTED

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

I. Changes in accounting policies

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

II. Critical accounting estimates and judgements

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

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

Coronavirus (COVID-19) pandemic

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of these financial statements. The Group has developed various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 30 June 2021 about future events that the Directors believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of the Group. Accordingly, actual economic conditions may be different from those forecast since anticipated events may not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

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

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

- Outstanding claims liability

IAG's insurance portfolio continues to experience impacts as a result of COVID-19. There is a risk that the associated economic factors could be more severe than estimated and, as a result, the development of the claims over time could result in the ultimate cost of those claims being higher than the current outstanding claims liability established. The impact of COVID-19 on claims experience is expected to materially differ between classes of business and, for certain classes, potentially impact across more than one accident year. 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. In respect of other classes of business, where the effect of COVID-19 on insurance liabilities is quantifiable and reflected in the data, the impact has been appropriately captured within the outstanding claims liability, including the estimated impact of an economic downturn on the future cost of settling certain long-tail claims.

Where potential COVID-19 claim impacts remain highly uncertain, as outlined in the Directors' Report, IAG has recognised a net outstanding claims provision of $1,236 million (2020: $86 million) in relation to business interruption exposure within its Australian business. This provision is in respect of potential business interruption related claims, including:

- all policies with exclusion wordings that include the *Quarantine Act* and without specific reference to the *Biosecurity Act*, which replaced the *Quarantine Act*. On 18 November 2020, the Supreme Court of New South Wales Court of Appeal (NSWCA) delivered its judgement on the business interruption insurance test case, which determined pandemic exclusions that refer to the *Quarantine Act* and subsequent amendments, rather than the *Biosecurity Act*, are not effective to exclude cover for losses associated with COVID-19; and
- all policies with prevention of access extensions used on certain broker platforms which reference the *Biosecurity Act*. Prevention of access clauses vary in terms but generally operate when actions of governments or other legal authorities cause business interruption by preventing or restricting access to premises. Whilst the prevention of access issue was not subject to the test case heard by the NSWCA, noted above, IAG has prudently increased the provision to cover all policies with prevention of access extensions.

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In establishing the business interruption element of the net outstanding claims liability, a detailed assessment of underwriting exposure has been undertaken and significant judgement has been applied to derive an estimate of the probability-weighted view of potential future cash flows. Key areas of judgement relate to the exposure period, the estimation of potential economic loss, related key macroeconomic variables, reinsurance coverage and legal risk. While it does not explicitly allow for any future state or national lockdowns beyond 30 June 2021, scenario testing analyses, including the estimated duration and severity of the financial impacts to the affected industries of the first national lockdown, the potential impact of current lockdowns, and the variation in the anticipated number of claims to be received, have been undertaken and provide support for the current estimate, particularly in light of the continuing uncertainties. Given the extent of the uncertainty being faced, the range of potential financial outcomes in relation to these matters is unusually wide. As a result, a substantial part of the provision reflects a risk margin. Refer to Note 2.2 for further details on the net outstanding claims liability.

IAG's exposure to the *Quarantine Act* exclusion wording issue is progressively reducing as all new and renewing policies now reference the *Biosecurity Act* or include a broader exclusion.

During the current financial year, there have been a number of developments that have emerged since the estimate of the provision was originally determined. There have been additional potential losses emerging from the short-term lockdowns in various regions although this appears to have been offset by better-than-expected recovery by a range of businesses. The application to the High Court of Australia for special leave to appeal the 18 November 2020 judgement of the Supreme Court of New South Wales Court of Appeal was unsuccessful, but had no impact to the provision as an allowance had been made for potential claims where the *Quarantine Act* exclusion wording was present. There is another relevant industry test case which is before the Federal Court to be heard in the second half of calendar year 2021. Comparatively few claims have been reported during the financial year, such that there is little to inform the total estimate, but what has been observed supports the accuracy of the estimate, particularly in respect of the lockdown periods.

The table below summarises the ways in which the various elements of the COVID-19 specific provisioning has been reflected within these financial statements. At 30 June 2020, the total insurance liabilities also incorporated a number of other COVID-19 affected business classes, other than business interruption, where a significant amount of uncertainty remained. Given the uncertainty associated with these classes of business has largely been resolved, the associated provisioning is now being managed through IAG's business-as-usual reserving process. Accordingly, at 30 June 2021, the total insurance liabilities shown below only relate to potential business interruption related claims. All values are calibrated to a 90% probability of adequacy and are shown net of related reinsurance recoveries but before tax:

	2021 $m	2020 $m	DESCRIPTION	REFERENCE
Net outstanding claims liability	1,236	106	Probability-weighted view across impacted classes of business. At 30 June 2021, the provision of $1,236 million (2020: $86 million) relates to potential business interruption exposure and includes the related risk margin.	Note 2.2
Net premium liabilities	-	159	Present value of probability-weighted future cash flows that attach to the unearned premium liability. Not reflected in the balance sheet but factored into both the liability adequacy test and regulatory capital calculation. At 30 June 2021, no premium liabilities (2020: $127 million) were recognised in relation to potential business interruption exposure.	Note 2.4 Note 3.1
Total insurance liabilities	1,236	265		

- 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 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 2021, 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.

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.

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- Expected credit losses

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

NOTE 1.3 SEGMENT REPORTING

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

A. REPORTABLE SEGMENTS

IAG has general insurance operations in Australia and New Zealand. The reported segments have changed from those disclosed in the previous annual reporting period as a result of changes to IAG's operating model announced to the market on 2 November 2020. This change resulted in the separation of the Australia Division into two divisions, being Direct Insurance Australia and Intermediated Insurance Australia. The comparative information provided has been re-presented accordingly to conform to the current period's presentation.

The reportable segments for the period ended 30 June 2021 comprise 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, SGIO and SGIC brands, the RACV brand in Victoria (via a distribution and underwriting relationship with RACV), as well as the CGU and Poncho 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.

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B. FINANCIAL INFORMATION

	DIRECT INSURANCE AUSTRALIA $m	INTERMEDIATED INSURANCE AUSTRALIA $m	NEW ZEALAND $m	CORPORATE AND OTHER $m	TOTAL $m
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**
2020(3)					
I. Financial performance					
Total external revenue(1)	8,410	6,155	3,616	395	18,576
Underwriting profit/(loss)	399	(351)	311	(9)	350
Net investment income on assets backing insurance liabilities	70	56	19	-	145
Insurance profit/(loss)	469	(295)	330	(9)	495
Net investment loss on shareholders' funds	-	-	-	(181)	(181)
Share of net profit of associates	(1)	-	-	58	57
Finance costs	-	-	-	(92)	(92)
Other net operating result	(16)	5	-	267	256
Total segment result from continuing operations	452	(290)	330	43	535
Income tax expense					(37)
Profit for the year from continuing operations					498
II. Other segment information					
Capital expenditure(2)	-	-	-	149	149
Depreciation and amortisation expense	68	69	58	2	197

(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.

(3) Prior year comparatives have been re-presented due to the revision to reportable segments.

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2. INSURANCE DISCLOSURES

SECTION INTRODUCTION

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

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

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

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

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

NOTE 2.1 GENERAL INSURANCE REVENUE

	2021 $m	2020 $m
A. COMPOSITION		
Gross written premium	**12,545**	11,985
Movement in unearned premium liability	**(257)**	29
Gross earned premium	**12,288**	12,014
Reinsurance and other recoveries revenue	**4,805**	4,701
Reinsurance commission revenue	**1,125**	1,201
Total general insurance revenue	**18,218**	17,916

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.

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NOTE 2.2 CLAIMS AND REINSURANCE AND OTHER RECOVERIES ON OUTSTANDING CLAIMS

A. NET CLAIMS EXPENSE

	2021			2020		
	CURRENT YEAR	**PRIOR YEARS**	**TOTAL**	CURRENT YEAR	PRIOR YEARS	TOTAL
	$m	**$m**	**$m**	$m	$m	$m
Gross claims – undiscounted	**9,193**	**1,671**	**10,864**	9,790	(252)	9,538
Discount	**(34)**	**(68)**	**(102)**	(22)	195	173
Gross claims – discounted	**9,159**	**1,603**	**10,762**	9,768	(57)	9,711
Reinsurance and other recoveries – undiscounted	**(3,811)**	**(1,072)**	**(4,883)**	(4,563)	(24)	(4,587)
Discount	**17**	**61**	**78**	11	(125)	(114)
Reinsurance and other recoveries – discounted	**(3,794)**	**(1,011)**	**(4,805)**	(4,552)	(149)	(4,701)
Net claims expense	**5,365**	**592**	**5,957**	5,216	(206)	5,010

B. NET OUTSTANDING CLAIMS LIABILITY

i. Composition of net outstanding claims liability

	2021	2020
	$m	$m
Gross central estimate – discounted	**10,227**	8,052
Reinsurance and other recoveries – discounted	**(5,623)**	(4,637)
Net central estimate – discounted	**4,604**	3,415
Claims handling costs – discounted	**404**	363
Risk margin	**1,032**	737
Net outstanding claims liability – discounted	**6,040**	4,515

The gross outstanding claims liability includes $7,123 million (2020: $5,707 million) which is expected to be settled more than 12 months from the reporting date.

The carrying value of reinsurance and other recoveries includes $3,943 million (2020: $3,476 million) which is expected to be settled more than 12 months from the reporting date.

a. BUSINESS INTERRUPTION

On 18 November 2020, the Supreme Court of New South Wales Court of Appeal (NSWCA) delivered its judgement on the 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. In response, IAG recognised a net outstanding claims provision of $1,236 million (2020: $86 million) in relation to business interruption exposure within its Australian business. This provision is in respect of potential business interruption-related claims, including;

- all policies with wordings that include the *Quarantine Act* and without specific reference to the *Biosecurity Act*, which replaced the *Quarantine Act*; and
- all policies with prevention of access extensions used on certain broker platforms which reference the *Biosecurity Act*.

During June 2021, the application to the High Court of Australia for special leave to appeal the NSWCA judgement delivered on 18 November 2020, noted above, was unsuccessful, but had no impact to the provision as an allowance had been made for potential claims where the *Quarantine Act* wording was present.

In determining the business interruption provision, significant management judgement has been applied to derive a reasonable estimate of the probability-weighted view of potential future cash flows. Key areas of judgement relate to the exposure period, the estimation of potential economic loss, related key macroeconomic variables, reinsurance coverage and legal risk. Given the extent of the uncertainty being faced, the range of potential financial outcomes in relation to these matters is unusually wide. As a result, a substantial part of the provision reflects a risk margin.

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Scenario testing analyses, including the estimated duration and severity of the financial impacts to the affected industries of the first national lockdown, the potential impact of current lockdowns, and the variation in the anticipated number of claims to be received, have been undertaken and provide support for the current estimate, particularly in light of the continuing uncertainties. For further details on the impact from COVID-19 refer to Note 1.2.

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:

	MOVEMENT IN ASSUMPTION	2021 Increase/ (decrease) $m
Turnover assumption	+5%	267
	-5%	(122)
Number of policies impacted	+5%	197
	-5%	(221)
Recovery period	-50%	(287)

b. TRADE CREDIT INSURANCE

IAG clarified on 9 March 2021 that it had no net insurance exposure to trade credit policies sold through BCC Trade Credit Pty Ltd (BCC) to Greensill entities. This position remains unchanged.

IAG sold its 50% interest in BCC on 9 April 2019 to Tokio Marine Management (Australasia) Pty Ltd with the result of eliminating net exposure to trade credit insurance. BCC is an underwriting agency that was authorised to underwrite trade credit insurance on IAG's behalf, in accordance with specific underwriting guidelines, through Insurance Australia Limited (IAL), one of IAG's two licensed insurance subsidiaries in Australia. Trade credit insurance is designed to protect businesses that provide genuine supply chain credit to their customers with a policy that pays the business if the customer defaults on the payment of its accounts receivable.

As part of a transition arrangement after the April 2019 sale of BCC, new policies were underwritten by IAL from the date of sale up to 30 June 2019 and Tokio Marine & Nichido Fire Insurance Co., Ltd (Tokio Marine) retained the risk 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 (after existing reinsurance) to trade credit insurance written by BCC on behalf of IAL.

The IAL trade credit portfolio is in run-off with IAL managing existing and future claims. The existing claims include both claims from policies to Greensill entities and ones related to the remainder of the BCC trade credit portfolio. IAG has recognised an outstanding claims liability of $437 million at 30 June 2021 determined in accordance with IAG's usual claims reserving practices, which takes into account an assessment of the validity of claims. In accordance with IAG's normal practice claims determined to be invalid are not recognised. IAG has also recognised $437 million of related reinsurance recoveries in respect of trade credit related claims.

There has been an increasing number of issues raised in the public domain which give rise to other concerns as to the validity, structure and placement of the purported insurances. These are complex issues that are continuing to be investigated by IAG, Tokio Marine and various other stakeholders.

There is a risk that the administrators of Greensill or other claimants may commence litigation to seek legal confirmation of policy coverage and/or validity of claims and there is a risk a reinsurer may challenge its obligations with respect to claim exposures.

Based on various factors, including the determination of policy validity, reinsurance arrangements and the agreements with Tokio Marine, IAG remains confident that for any trade credit claims it may ultimately be liable to pay, it has no net insurance exposure.

II. Reconciliation of movements in net discounted outstanding claims liability

	2021 $m	2020 $m
Net outstanding claims liability at the beginning of the financial year	**4,515**	4,517
Movement in the prior year central estimate	**673**	16
Current year claims incurred, net of reinsurance and other recoveries	**4,999**	4,912
Claims paid, net of reinsurance and other recoveries received	**(4,437)**	(5,010)
Movement in discounting	**(3)**	72
Movement in risk margin	**296**	21
Net foreign currency movements	**(3)**	(13)
Net outstanding claims liability at the end of the financial year	**6,040**	4,515
Reinsurance and other recoveries on outstanding claims liability	**7,272**	6,069
Gross outstanding claims liability at the end of the financial year	**13,312**	10,584

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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
	2011 and prior $m	2012 $m	2013 $m	2014 $m	2015 $m	2016 $m	2017 $m	2018 $m	2019 $m	2020 $m	2021 $m	Total $m
NET ULTIMATE CLAIM PAYMENTS												
Development												
At end of accident year		5,242	5,189	5,622	6,312	4,981	5,286	4,510	3,966	4,236	4,338	
One year later		5,316	5,113	5,627	6,238	4,933	5,232	4,424	4,029	4,778		
Two years later		5,257	5,032	5,540	6,174	4,874	5,195	4,414	4,052			
Three years later		5,167	4,953	5,399	6,058	4,812	5,204	4,430				
Four years later		5,115	4,872	5,330	6,055	4,819	5,240					
Five years later		5,055	4,853	5,312	6,043	4,830						
Six years later		5,045	4,855	5,284	6,046							
Seven years later		5,058	4,837	5,273								
Eight years later		5,057	4,834									
Nine years later		5,062										
Current estimate of net ultimate claim payments		5,062	4,834	5,273	6,046	4,830	5,240	4,430	4,052	4,778	4,338	
Cumulative payments made to date		5,009	4,784	5,196	5,928	4,687	5,039	4,136	3,705	3,625	2,328	
Net undiscounted outstanding claims liability	205	53	50	77	118	143	201	294	347	1,153	2,010	4,651
Discount to present value	(3)	(1)	(1)	(2)	(3)	(3)	(3)	(4)	(5)	(9)	(13)	(47)
Net discounted outstanding claims liability	202	52	49	75	115	140	198	290	342	1,144	1,997	4,604
Reconciliation												
Claims handling costs												404
Risk margin												1,032
Net outstanding claims liability												6,040

C. RECOGNITION AND MEASUREMENT

I. Outstanding claims liability and claims expense

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

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

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

a. CENTRAL ESTIMATE OF THE FUTURE CASH FLOWS

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

b. DISCOUNTING

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

c. RISK MARGIN

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

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

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

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

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

	2021	2020
	%	%
The percentage risk margin applied to the net outstanding claims liability	**21**	20
The probability of adequacy of the risk margin	**90**	90

A key driver of the increased percentage in the risk margin this period has been the estimation uncertainty associated with the increased business interruption provision.

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.

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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
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%**
2020*			
Discounted average term to settlement	2.11 years	1.86 years	0.92 year
Inflation rate	0.0-3.6%	0.0-4.3%	0.9%
Superimposed inflation rate	0.0-5.0%	0.0-5.0%	0.0%
Discount rate	0.2-3.5%	0.2-3.5%	0.0-1.4%
Claims handling costs ratio	4.3%	4.2%	5.0%

* Prior year comparatives have been re-presented due to the revision to reportable segments. Refer to Note 1.3 for further details.

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.

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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
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)**
2020*				
Discounted average term to settlement	+10%	(2)	(2)	-
	-10%	2	2	-
Inflation rate	+1%	38	39	4
	-1%	(36)	(38)	(4)
Discount rate	+1%	(38)	(40)	(4)
	-1%	40	42	5
Claims handling costs ratio	+1%	42	49	7
	-1%	(42)	(49)	(7)

* Prior year comparatives have been re-presented due to the revision to reportable segments. Refer to Note 1.3 for further details.

NOTE 2.3 INVESTMENTS

	2021	2020
	$m	$m
A. INVESTMENT INCOME		
Dividend revenue	**14**	29
Interest revenue	**148**	200
Trust revenue	**39**	56
Realised net gains/(losses)	**219**	(102)
Unrealised net gains/(losses)	**57**	(185)
Total investment income/(loss)	**477**	(2)
Represented by		
Investment income on assets backing insurance liabilities	**158**	162
Investment income/(loss) on shareholders' funds	**319**	(164)
	477	(2)
B. INVESTMENT COMPOSITION		
I. Interest-bearing investments		
Cash and cash equivalents	**1,672**	1,893
Government and semi-government bonds	**1,518**	566
Corporate bonds and notes	**6,527**	5,427
Subordinated securities	**945**	682
Other	**360**	376
	11,022	8,944
II. Growth investments*		
Equity investments	**1,395**	1,068
III. Other investments		
Derivatives	**-**	88
Total investments	**12,417**	10,100

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

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

C. RECOGNITION AND MEASUREMENT

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

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

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

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

I. Level 1 quoted prices

The fair value is determined by reference to quoted prices (mid-market) in active markets for identical assets and liabilities. For IAG, this category includes 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. For IAG, this category primarily includes corporate and other fixed interest securities where the market is considered to be lacking sufficient depth to be considered active. There have been no significant transfers between Level 1 and Level 2 during the current and prior financial periods.

III. Level 3 unobservable inputs

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

- purchases of $4 million (2020: $172 million) and sales of $17 million (2020: $63 million) in interest-bearing instruments;
- purchases of $77 million (2020: $139 million) in unlisted equity with $124 million sales in the current financial year (2020: $23 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
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**
2020				
Interest-bearing investments	3,001	5,567	376	8,944
Growth investments	361	274	433	1,068
Other investments	-	88	-	88
	3,362	5,929	809	10,100

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NOTE 2.4 UNEARNED PREMIUM LIABILITY

	2021 $m	2020 $m
A. RECONCILIATION OF MOVEMENTS		
Unearned premium liability at the beginning of the financial year	**6,276**	6,334
Deferral of premiums written during the financial year	**6,488**	6,236
Earning of premiums written in previous financial years	**(6,231)**	(6,265)
Net foreign exchange movements	**(6)**	(29)
Unearned premium liability at the end of the financial year	**6,527**	6,276

The carrying value of unearned premium liability includes $45 million (2020: $45 million) which is expected to be earned more than 12 months from reporting date.

B. RECOGNITION AND MEASUREMENT

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

C. ADEQUACY OF UNEARNED PREMIUM LIABILITY

I. Liability adequacy test (LAT)

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

The LAT is required to be conducted at the level of a portfolio of contracts that are subject to broadly similar risks and that are managed together as a single portfolio. IAG defines 'broadly similar risks' at a level where policies are affected by one or more common risk factors, including natural peril events, general weather conditions, economic conditions, inflationary movements, legal and regulatory changes as well as legislative reforms, reinsurance cost changes and variation in other input costs. IAG defines 'managed together' at a segment level as the respective divisional CEOs collectively manage the entire portfolio within their control. The LAT is currently performed at the segment level and as a result of the change in segments in the current financial year (refer to Note 1.3 for further details), this test was performed for Direct Insurance Australia, Intermediated Insurance Australia and New Zealand (2020: Australia and New Zealand).

The LAT at reporting date resulted in a surplus (2020: 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:

	2021 $m	2020 $m
Net central estimate of present value of expected cash flows on future claims	**2,879**	2,875
Risk margin of the present value of expected future cash flows	**69**	70
	2,948	2,945
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.

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NOTE 2.5 DEFERRED INSURANCE EXPENSES

	DEFERRED ACQUISITION COSTS(1)		DEFERRED OUTWARDS REINSURANCE EXPENSE(2)		TOTAL DEFERRED INSURANCE EXPENSES	
	2021	2020	**2021**	2020	**2021**	2020
	$m	$m	**$m**	$m	**$m**	$m
A. RECONCILIATION OF MOVEMENTS						
At the beginning of the financial year	**967**	928	**2,534**	2,523	**3,501**	3,451
Costs deferred	**1,983**	1,928	**4,945**	4,803	**6,928**	6,731
Amortisation charged to profit	**(1,956)**	(1,884)	**(4,868)**	(4,776)	**(6,824)**	(6,660)
Net foreign exchange movements	**(1)**	(5)	**(3)**	(16)	**(4)**	(21)
Deferred costs at the end of the financial year	**993**	967	**2,608**	2,534	**3,601**	3,501

(1) The carrying value of deferred acquisition costs includes $3 million (2020: $4 million) which is expected to be amortised more than 12 months from reporting date.

(2) The carrying value of deferred outwards reinsurance expense includes $49 million (2020: $24 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

	2021	2020
	$m	$m
A. COMPOSITION		
I. Premium receivable		
Gross premium receivable	**3,920**	3,763
Provision for impairment	**(47)**	(44)
Net premium receivable	**3,873**	3,719
II. Trade and other receivables(1)		
Reinsurance recoveries on paid claims	**170**	275
Loan to associate(2)	**-**	100
Investment-related receivables	**109**	96
Trade and other debtors	**202**	229
Trade and other receivables	**481**	700
	4,354	4,419

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

(2) This loan is denominated in Malaysian ringgit and has a fixed term of 15 years from 21 September 2012. A cumulative preference dividend of 1% is payable annually. The loan relates to IAG's increased investment in AmGeneral to acquire Kurnia during the financial year ended 30 June 2013. As at 30 June 2021, this loan of $95 million has been reclassified as held for sale. Refer to Note 6.2 for further details.

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

B. RECOGNITION AND MEASUREMENT

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

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

NOTE 2.7 TRADE AND OTHER PAYABLES

	2021 $m	2020 $m
A. COMPOSITION		
I. Reinsurance premium payable(1)	**1,194**	1,110
II. Trade creditors(2)		
Commissions payable	**261**	243
Stamp duty payable	**141**	135
GST payable on premium receivable	**192**	185
Other	**367**	360
	961	923
III. Other payables(2)		
Other creditors and accruals	**669**	676
Investment creditors	**148**	89
Interest payable on interest-bearing liabilities	**3**	2
	820	767
	2,975	2,800

(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 $1,257 million (2020: $1,191 million) and the combined 12.5% quota share agreement counterparties of $795 million (2020: $757 million), which have been offset with receivables due from BH of $760 million (2020: $775 million) and the combined 12.5% quota share agreement counterparties of $419 million (2020: $420 million), respectively. The relevant cash flows pertaining to the contracts have been presented on a gross basis within the cash flow statement.

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

B. RECOGNITION AND MEASUREMENT

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

3. RISK

SECTION INTRODUCTION

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

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

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

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

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

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NOTE 3.1 RISK AND CAPITAL MANAGEMENT

A. RISK MANAGEMENT OVERVIEW

The Board has responsibility for setting the risk appetite within which it expects management to operate and approves IAG's Risk Appetite Statement and Risk Management Strategy. The Risk Committee assists the Board to discharge its risk management and compliance responsibilities, oversight of risk management, oversight of the implementation and operation of the Group's risk management and governance frameworks and provides advice to the Executives and Board. The Risk Committee also monitors the effectiveness of the Risk Management function. The Group Chief Risk Officer (CRO) oversees risk management practices across IAG. The Group CRO is supported by the Group Risk Function and by other subject matter experts including the Chief Actuary, Chief Underwriting Officer and EGM Capital Markets. The Group CRO provides regular reports to the Risk Committee on the operation of the Risk Management Framework (RMF), the status of material risks, risk and compliance incidents and risk framework changes. The RMF is in place to assist the Board and senior executive management in managing risk. The RMF is the totality of systems, structures, policies, processes and people within IAG that identify, measure, evaluate, monitor, report and control or mitigate all internal and external sources of material risk. The RMF supports management by:

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

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

Other key documents within IAG's RMF include:

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

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

Other key documents within IAG, include:

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

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, particularly the removal of government supports and the necessary responses to contain and eradicate localised outbreaks. Risks associated with this will remain for the foreseeable future although these have been well managed to date.
- 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).
- Capital and market risk – At 30 June 2021, IAG had a CET1 multiple of 1.06 (2020: 1.23) and a PCA multiple of 1.86 (2020: 1.97). 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 employees continue to operate in a hybrid model of working from an office-based work environment and working from home which has heightened some risks. These include technology and cyber-related risk as well as fraud and employee health and wellbeing. While a level of heightened risk in these areas was inevitable in these times, the attendant risks are well understood and policies are in place to manage and mitigate them.

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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 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 includes loss of reputation, trust, eroded financial performance and poor customer outcomes.

IAG is committed to managing OCCR with the aim of promoting good customer experiences and achieving its purpose to 'make your world a safer place for our customers'. As part of our operations, IAG meets all applicable industry codes. Dedicated forums such as the Consumer Advisory Board and the Group Customer Conduct Council are designed to capture, analyse and use customer feedback to enhance our products, services and propositions.

D. INSURANCE RISK

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

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

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

I. Acceptance and pricing of risk

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

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

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

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

II. Claims management and provisioning

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

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

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III. Concentrations of insurance risk

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

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

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

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

GROSS WRITTEN PREMIUM ANALYSIS	**2021**	2020
	%	%
a. REGION		
Australia	**78**	77
New Zealand	**22**	23
	100	100
b. PRODUCT		
Motor	**32**	33
Home	**29**	29
Short-tail commercial	**23**	22
Compulsory Third Party (motor liability)	**6**	6
Liability	**6**	6
Workers' compensation	**3**	3
Other short-tail	**1**	1
	100	100

E. REINSURANCE RISK

Reinsurance risk is the risk of:

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

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

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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 2021 was $9.75 billion placed to 67.5% (i.e. net of the whole-of-account quota share). Should a loss event occur that is greater than $10 billion, IAG could potentially incur a net loss greater than the retention stated above. IAG holds capital to mitigate the impact of this possibility;
- aggregate sideways covers that protect against a frequency of attritional event losses in Australia, New Zealand and Asia, and operates below the Group catastrophe cover;
- excess of loss reinsurances which provide 'per risk' protection for retained exposures of the commercial property and engineering businesses in Australia, New Zealand and Asia;
- excess of loss reinsurance for all casualty portfolios including Compulsory Third Party (CTP), public liability, professional indemnity directors and officers, workers' compensation and home owners warranty products;
- quota share reinsurance protection for cyber;
- excess of loss reinsurance for all marine portfolios;
- excess of loss reinsurance cover (stop loss) for retained natural peril losses;
- quota share and stop loss reinsurance for crop;
- adverse development cover (ADC) and quota share protection for the CTP portfolio;
- ADC for the February 2011 Canterbury earthquake event; and
- ADC for policies issued prior to 31 December 2015 covering IAG's exposure to claims arising from legacy general liability and/or workers' compensation/employer's liability policies, primarily related to asbestos.

F. MARKET, CREDIT, LIQUIDITY AND CAPITAL RISK

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

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

I. Market risk

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

a. FOREIGN EXCHANGE RISK

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

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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 adopts 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.

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	**2021**	2020
	$m	$m
	Impact directly to equity	Impact directly to equity
Net investments in foreign operations and related hedge arrangements		
New Zealand dollar	**104**	83
Malaysian ringgit	**(3)**	4
Other currencies where considered significant	**1**	-
	102	87

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		**2021**	2020
		$m	$m
		Impact to profit	Impact to profit
Investments – equity, debt/equity hybrids and trust securities and related equity derivatives	+10%	**68**	41
	-10%	**(67)**	(40)

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.

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c. INTEREST RATE RISK

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

IAG's interest rate risk arises primarily from fluctuations in the valuation of investments in fixed interest-bearing securities recognised at fair value and from the underwriting of general insurance contracts, which creates exposure to the risk that interest rate movements materially impact the fair value of the insurance liabilities (the insurance liabilities are discounted with reference to the government yields). Movements in interest rates should have 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		**2021**	2020
		$m	$m
		Impact to profit	Impact to profit
Investments – interest-bearing securities and related interest rate derivatives	+1%	**(160)**	(144)
	-1%	**167**	150

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 $7,434 million (2020: $5,789 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*	**2021**	2020
	$m	$m
AAA	**4,986**	3,924
AA	**4,580**	3,880
A	**202**	108
BBB	**773**	490
Below BBB and unrated	**481**	542
	11,022	8,944

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

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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	**2021**		2020	
	$m	**% of total**	$m	% of total
AA	**5,542**	**93**	4,439	91
A	**425**	**7**	458	9
Below BBB and unrated	**20**	**-**	5	-
Total	**5,987**	**100**	4,902	100

Of these, approximately $1,467 million (2020: $1,891 million) is secured directly as follows, reducing the credit risk:

- deposits held in trust: $58 million (2020: $435 million); and
- letters of credit: $1,409 million (2020: $1,456 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
2021					
Reinsurance recoveries on paid claims	**160**	**6**	**-**	**4**	**170**
2020					
Reinsurance recoveries on paid claims	250	7	9	9	275

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
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**
2020					
Premium receivable	3,160	265	300	38	3,763
Provision for impairment	(5)	(3)	(10)	(26)	(44)
	3,155	262	290	12	3,719

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III. Liquidity risk

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

a. OUTSTANDING CLAIMS LIABILITY AND INVESTMENTS

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

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

MATURITY ANALYSIS	NET DISCOUNTED OUTSTANDING CLAIMS LIABILITY		INVESTMENTS	
	2021	2020	**2021**	2020
	$m	$m	**$m**	$m
At call	**-**	-	**2,032**	2,273
Within 1 year or less	**2,861**	2,284	**2,436**	1,035
Within 1 to 2 years	**1,143**	754	**1,314**	1,036
Within 2 to 5 years	**1,594**	1,047	**1,374**	1,951
Over 5 years	**442**	430	**3,866**	2,649
Total	**6,040**	4,515	**11,022**	8,944

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
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**
2020							
Principal repayments[(1)]	1,531	-	-	-	1,127	404	1,531
Contractual interest payments[(1)]		55	55	165	-	-	275
Total contractual undiscounted payments		55	55	165	1,127	404	1,806

(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 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.

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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	**2021**	2020
	$m	$m
Common Equity Tier 1 capital (CET1 capital)	**2,635**	2,567
Additional Tier 1 capital	**404**	404
Total Tier 1 capital	**3,039**	2,971
Tier 2 capital	**1,576**	1,127
Total regulatory capital	**4,615**	4,098
Total PCA	**2,487**	2,082
PCA multiple	**1.86**	1.97
CET1 multiple	**1.06**	1.23

At 30 June 2021, IAG's Insurance Concentration Risk Charge was $192 million (2020: $169 million).

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

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

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

b. CAPITAL COMPOSITION

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

CAPITAL MIX	**TARGET**	**2021**	2020
	%	%	%
Ordinary equity less goodwill and intangible assets	**60-70**	**62.7**	67.8
Interest-bearing liabilities – hybrid securities and debt	**30-40**	**37.3**	32.2
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 fail, an operational risk incident can cause injury, damage to reputation, have legal or regulatory implications or can lead to financial loss. IAG manages these risks by initiating an appropriate control framework and by monitoring and managing potential risks. The Risk Committee is responsible for oversight of the operational risk framework and approval of the Operational Risk Management 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.

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The operational risk framework and procedures aim to ensure that consistent governance mechanisms and practices are in place, and that activities undertaken which involve operational risk are assessed and managed with appropriate regard to the Group's RAS and the achievement of IAG's objectives. The operational risk framework is supported by aligned frameworks, policies, standards and procedures for key aspects of operational risk.

Over the last 18 months, 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. 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 on the number of matters in respect of which the Group engages with its regulators, including in relation to the pricing issues reported to regulators and which is the subject of ongoing regulatory inquiries and investigations. As stated in Note 7.1, the potential outcomes associated with IAG's review of its pricing systems and processes over and above the related customer refunds provision recognised to date, including in relation to ongoing regulatory enquiries and investigations, are presently uncertain.

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 measures its capital mix on a net tangible equity basis, i.e. after deduction of goodwill and intangibles, giving it strong alignment with both regulatory and rating agency models. IAG's target is a capital mix of ordinary equity (net of goodwill and intangibles) at 60-70% and debt and hybrids at 30-40%.

NOTE 4.1 INTEREST-BEARING LIABILITIES

			2021		2020	
Final Maturity Date	**Principal Amount**	Section	**Carrying Value $m**	**Fair Value $m**	Carrying Value $m	Fair Value $m
A. COMPOSITION						
I. Capital nature						
a. ADDITIONAL TIER 1 REGULATORY CAPITAL						
Capital notes						
No fixed date	$404 million	B. I	**404**	**423**	404	418
b. TIER 2 REGULATORY CAPITAL						
AUD subordinated convertible term notes						
15 December 2036	$450 million	B. II	**450**	**467**	-	-
15 June 2044	$350 million	B. III	**350**	**355**	350	344
15 June 2045	$450 million	B. IV	**450**	**463**	450	443
			1,250		800	
NZD subordinated convertible term notes(1)						
15 June 2043	NZ$350 million	B. V	**326**	**335**	327	344
II. Operational nature						
Other interest-bearing liabilities			**12**	**12**	2	2
Less: capitalised transaction costs			**(5)**		(7)	
			1,987		1,526	

(1) At the reporting date, the Company recognised accrued interest of $1 million (2020: $1 million) which is presented within trade and other payables.

B. SIGNIFICANT TERMS AND CONDITIONS

I. Capital notes

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

II. AUD subordinated convertible term notes due 2036

- face value of $450 million and issued by the Company on 24 August 2020;
- all remain outstanding as at the reporting date;
- floating interest rate equal to the three-month BBSW plus a margin of 2.45% per annum is payable quarterly (with the first interest payment date being 15 December 2020);
- the notes mature on 15 December 2036 unless converted or redeemed earlier, subject to rights of conversion or redemption;
- 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); and
- the notes must be converted into a variable number of ordinary shares of the Company (subject to a maximum of 442.9 million shares) or written off if APRA determines the Company to be non-viable.

III. AUD subordinated convertible term notes due 2044

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

IV. AUD subordinated convertible term notes due 2045

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

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V. NZD subordinated convertible term notes

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

C. RECOGNITION AND MEASUREMENT

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

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

NOTE 4.2 EQUITY

	2021	2020	**2021**	2020
	Number of shares in millions	Number of shares in millions	**$m**	$m
A. SHARE CAPITAL				
Balance at the beginning of the financial year	**2,311**	2,311	**6,617**	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**	2,311	**7,386**	6,617

During the year ended 30 June 2021, the Company undertook the following two issues of ordinary shares to strengthen IAG's capital position following recognition of the increased provision for potential business interruption claims resulting from the test case decision handed down by the NSWCA on 18 November 2020:

- $650 million raised through a fully underwritten institutional placement at $5.05 per ordinary share, of approximately 129 million shares on 26 November 2020; and
- $126 million raised through a Share Purchase Plan at $4.97 per ordinary share, of approximately 25 million shares on 31 December 2020.

B. STRATEGIC RELATIONSHIP WITH BERKSHIRE HATHAWAY (BH)

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

I. Anti-dilution right

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

C. NATURE AND PURPOSE OF EQUITY

I. Ordinary shares

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

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

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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 ninety-five thousand (2020: 4 million) at an average price per share of $4.75 (2020: $7.50).

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

	2021 cents	2020 cents
A. REPORTING PERIOD VALUES		
Continuing and discontinued operations		
Basic earnings per ordinary share[1]	**(17.82)**	18.87
Diluted earnings per ordinary share[2]	**(17.82)**	18.49
Continuing operations		
Basic earnings per ordinary share[1]	**(17.28)**	19.05
Diluted earnings per ordinary share[2]	**(17.28)**	18.65

(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.

	2021 $m	2020 $m
B. RECONCILIATION OF EARNINGS USED IN CALCULATING EARNINGS PER SHARE		
(Loss)/profit attributable to shareholders of the Parent which is used in calculating basic and diluted earnings per share	**(427)**	435
Finance costs of dilutive convertible securities, net of tax	**-**	30
(Loss)/profit attributable to shareholders of the Parent which is used in calculating diluted earnings per share	**(427)**	465
(Loss)/profit from continuing operations attributable to shareholders of the Parent	**(414)**	439
(Loss)/profit from discontinued operations attributable to shareholders of the Parent	**(13)**	(4)

	2021 Number of shares in millions	2020 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	**2,396**	2,305
Weighted average number of dilutive potential ordinary shares relating to:		
Convertible securities	**-**	204
Unvested share-based remuneration rights supported by treasury shares held in trust	**-**	6
	2,396	2,515

NOTE 4.4 DIVIDENDS

	2021 Cents per share	2021 $m	2020 Cents per share	2020 $m
A. ORDINARY SHARES				
2021 unfranked interim dividend paid on 30 March 2021 (2020: 2020 interim dividend, 70% franked based on a tax rate of 30%)	**7.0**	**173**	10.0	231
2019 final dividend paid on 30 September 2019, 70% franked based on a tax rate of 30%	**-**	**-**	20.0	462
		173		693
B. DIVIDEND NOT RECOGNISED AT REPORTING DATE				
2021 unfranked final dividend (2020: 2020 final dividend) to be paid on 22 September 2021	**13.0**	**320**	-	-
C. DIVIDEND FRANKING AMOUNT				
Franking credits available for subsequent financial periods based on a tax rate of 30%		**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 currently has no franking credits available for distribution.

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 2021 interim dividend paid on 30 March 2021 was settled with the on-market purchase of 5.5 million shares priced at $5.02 per share (based on a VWAP for 5 trading days from 22 February 2021 to 26 February 2021 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;
- regulatory guidance urging entities to exercise caution around capital distributions in the face of ongoing uncertainty and heightened economic risk; and
- no dividends can be paid and no returns of capital can be made on ordinary shares if distributions are not paid on the capital notes, unless certain actions are taken by IAG. For further details, refer to Note 4.1.

F. RECOGNITION AND MEASUREMENT

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

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NOTE 4.5 DERIVATIVES

A. REPORTING DATE POSITIONS

	2021			2020		
	Notional contract amount	**Fair value asset**	**Fair value liability**	Notional contract amount	Fair value asset	Fair value liability
	$m	**$m**	**$m**	$m	$m	$m
I. Net investment hedges (hedge accounting applied)						
Forward foreign exchange contracts	**703**	**6**	**(11)**	793	23	(4)
II. Investment-related derivatives (derivatives without hedge accounting applied)						
Bond futures	**2,722**	**-**	**-**	3,523	-	-
Share price index futures	**24**	**-**	**-**	(16)	-	-
Forward foreign exchange contracts	**2,256**	**-**	**(49)**	2,789	88	-
III. Treasury-related derivatives (derivatives without hedge accounting applied)						
Forward foreign exchange contracts	**957**	**2**	**-**	744	-	(6)

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:

	2021		2020	
	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	**17**	**43**	8	60

During the year, IAG recognised nil (2020: 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 the earthquake losses incurred by its New Zealand operations since the 2011 financial year. This asset is expected to unwind over time as the tax benefit recognised for accounting purposes is used to offset future taxable income.
- Provisions –historically this balance has primarily included employee-related costs, for example an annual leave entitlement representing amounts owing to employees at the balance date based on past service. The provisions balance also includes amounts in respect of the customer remediation program.
- 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
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 during the current year.

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

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 refer to Note 1.2.

I. Impairment testing of goodwill

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

Goodwill is allocated to the following CGUs:

	2021	2020
	$m	$m
Direct Insurance Australia	**622**	622
Intermediated Insurance Australia	**1,558**	1,587
Australia	**2,180**	2,209
New Zealand	**649**	653
	2,829	2,862

The cash generating units have been updated to incorporate the changes made to IAG's operating model which reflects the way the businesses are managed and performance monitored. Refer to Note 1.3 for further details.

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

- Cash flow forecasts are based on ten-year valuation forecasts for growth and profitability.
- Terminal value is calculated using a perpetuity growth formula based on the cash flow forecast at the end of the relevant valuation forecast period, terminal growth rate in profit or premium and, where appropriate, terminal insurance margin. Terminal growth rates and insurance margins are based on past performance and management's expectations for future performance in each segment and country. The terminal growth rate assumptions used in IAG's impairment assessment for significant CGUs as at 30 June 2021 are: Direct Insurance Australia 3.7% (2020: 4.6%), Intermediated Insurance Australia 3.5% (2020: 3.6%) and New Zealand 3.5% (2020: 3.7%).
- Discount rates reflect a beta and equity risk premium appropriate to IAG, with risk adjustments for individual segments and countries where applicable. The post-tax discount rates used for significant CGUs as at 30 June 2021 are: Direct Insurance Australia 9.0% (2020: 9.0%), Intermediated Insurance Australia 9.0% (2020: 9.0%) and New Zealand 9.6% (2020: 9.6%).

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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

	2021 $m	2020 $m
A. INCOME TAX EXPENSE		
Current tax	**231**	145
Deferred tax	**(350)**	(105)
Over-provided in prior year	**(6)**	(3)
Income tax (benefit)/expense	**(125)**	37
B. RECONCILIATION OF PRIMA FACIE TAX TO INCOME TAX EXPENSE		
(Loss)/profit for the year before income tax	**(389)**	535
Income tax calculated at 30% (2020: 30%)	**(117)**	161
Amounts which are not deductible/(taxable) in calculating taxable income		
Disposal of investment in associate	**-**	(109)
Difference in tax rate	**(43)**	(20)
Impairment not subject to income tax	**27**	-
Rebatable dividends	**(2)**	(4)
Interest on capital notes and convertible preference shares	**6**	5
Other	**10**	7
Income tax (benefit)/expense applicable to current year	**(119)**	40
Adjustment relating to prior year	**(6)**	(3)
Income tax (benefit)/expense attributable to profit for the year from continuing operations after impact of tax consolidation	**(125)**	37

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	2021 $m	2020 $m
C. DEFERRED TAX ASSETS		
I. Composition		
Tax losses	**622**	259
Insurance provisions	**132**	165
Provisions	**127**	81
Property and equipment	**101**	89
Employee benefits	**91**	75
Investments	**33**	42
Defined benefit superannuation plans	**20**	23
Other	**30**	42
	1,156	776
Amounts set-off against deferred tax liabilities	**(179)**	(201)
	977	575
II. Reconciliation of movements		
Balance at the beginning of the financial year	**776**	646
Adjustment on initial application of AASB 16	**-**	14
Restated balance at the beginning of the financial year	**776**	660
Credited to profit or loss	**345**	104
(Charged)/credited to other comprehensive income*	**(1)**	5
Credited directly to equity	**4**	-
Adjustments relating to prior year	**33**	11
Acquisition of subsidiary	**-**	1
Foreign exchange differences	**(1)**	(5)
Balance at the end of the financial year prior to set-off	**1,156**	776

* 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.

	2021 $m	2020 $m
D. DEFERRED TAX LIABILITIES		
I. Composition		
Investments	**18**	17
Intangible assets	**-**	15
Other	**161**	169
	179	201
Amounts set-off against deferred tax assets	**(179)**	(201)
	-	-
II. Reconciliation of movements		
Balance at the beginning of the financial year	**201**	193
Credited to profit or loss	**(5)**	(1)
Charged to other comprehensive income*	**7**	9
Adjustments relating to prior year	**(24)**	-
Balance at the end of the financial year prior to set-off	**179**	201

* 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.

NOTE 5.3 PROVISIONS

	2021 $m	2020 $m
A. PROVISIONS		
Employee benefits	**384**	337
Restructuring provision	**20**	32
Customer refunds provision	**399**	270
Payroll compliance provision	**63**	-
	866	639
B. EMPLOYEE BENEFITS		
I. Expense recognised in the consolidated statement of comprehensive income		
Defined contribution superannuation plans	**119**	109
Defined benefit superannuation plans	**6**	6
Share-based remuneration	**13**	23
Salaries and other employee benefits expense	**1,610**	1,486
	1,748	1,624
II. Provision recognised on the consolidated balance sheet		
Short-term and other benefits*	**206**	157
Long service leave	**100**	101
Defined benefit superannuation plans	**67**	68
Executive performance rights	**11**	11
	384	337

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

The employee benefits provision includes $133 million (2020: $134 million) which is expected to be settled after more than 12 months from reporting date.

	2021 $m	2020 $m
C. RESTRUCTURING PROVISION		
Balance at the beginning of the financial year	**32**	40
Additions	**26**	19
Amounts settled	**(38)**	(27)
Balance at the end of the financial year	**20**	32

The provision primarily comprises restructuring costs in respect of operating model changes in Australia, New Zealand and Asia. All provisions outstanding at the reporting date are expected to be settled within 12 months (2020: all).

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	2021 $m	2020 $m
D. CUSTOMER REFUNDS PROVISION		
Balance at the beginning of the financial year	**270**	-
Additions	**245**	290
Amounts utilised	**(116)**	(20)
Balance at the end of the financial year*	**399**	270

* This balance includes an offsetting amount of $9 million (2020: $21 million) in respect of recoverable indirect taxes.

The provision comprises customer refunds, interest attributable to those refunds, the cost of administering the associated remediation program and related matters. This relates to multi-year pricing issues identified by IAG and reported to regulators as part of a proactive review of its pricing systems and processes, which is ongoing (refer also to Note 7.1). A related additional recovery of $7 million (2020: $44 million) has been recognised from IAG's whole-of-account quota share arrangements. This recovery has been offset within the reinsurance premium payable balance. The appropriateness of all underlying assumptions will be reviewed as the remediation program progresses and adjustments will be made to the provision where required.

The customer refunds provision includes $107 million (2020: $108 million) which is expected to be settled more than 12 months from reporting date.

	2021 $m	2020 $m
E. PAYROLL COMPLIANCE PROVISION		
Balance at the beginning of the financial year	**-**	-
Additions	**71**	-
Amounts utilised	**(8)**	-
Balance at the end of the financial year	**63**	-

During the current year, IAG recognised a gross provision of $71 million for the historical underpayment of some employee entitlements, interest applicable to those amounts and the cost of administering the associated remediation program. This 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. A related recovery of $15 million has been recognised from IAG's whole-of-account quota share arrangements. This recovery has been offset against the respective reinsurance premium payable balance.

The payroll compliance provision is expected to be settled within 12 months from reporting date (2020: nil).

F. RECOGNITION AND MEASUREMENT

I. Annual leave

Liability for annual leave is recognised at the nominal amounts unpaid at the reporting date using remuneration rates that are expected to be paid when the liability is settled, including on-costs.

II. Long service leave

A liability for long service leave is recognised as the present value of estimated future cash outflows to be made in respect of services provided by employees up to the reporting date. The estimated future cash outflows are discounted using corporate bond yields which have terms to maturity that match, as closely as possible, the estimated future cash outflows. Factors which affect the estimated future cash outflows such as expected future salary increases, experience of employee departures and period of service, are incorporated in the measurement.

III. Short-term incentive plan

The short-term incentive plan continued in operation during the current reporting year. Under the plan, eligible employees have the capacity to earn an incentive, calculated as a proportion of their base salary, which is paid in cash each year. The incentive opportunity is set depending on an employee's role and responsibilities. The majority of employees are on a 10%, 15% or 20% plan. The incentive payments are determined based on an assessment of individual performance and achievement of a range of Group, business unit and individual goals.

IV. Superannuation

For defined benefit superannuation plans, the net financial position of the plans is recognised on the consolidated balance sheet and the movement in the net financial position is recognised in profit or loss, except for remeasurements of defined benefit plans (experience adjustments and changes in actuarial assumptions), which are recognised directly in retained earnings. For defined contribution superannuation plans, obligations for contributions are recognised in profit or loss as they become payable.

V. Executive performance rights

Executive performance rights (EPRs) issued after July 2013 are indeterminate rights in that they can be cash-settled or equity-settled. The choice of settlement is with the Board. Liabilities for the EPRs that are cash-settled are recognised as employee benefit expense over the relevant service period. The liabilities are remeasured to fair value at each reporting date and are presented as employee benefit obligations in the balance sheet.

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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 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 insurance industry, including IAG, is highly regulated and has been the subject of increasing scrutiny by regulators. 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 recent years, there has been an increase on the number of matters on which the Group engages with its regulators, including in relation to the pricing issues reported to regulators and which is the subject of ongoing inquiries and investigations. As stated in Note 7.1, the potential outcomes associated with IAG's review of its pricing systems and processes over and above the related customer refunds provision recognised to date, are presently uncertain.

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
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**
2020				
Balance at the beginning of the financial year	525	26	2	553
Acquisition of subsidiary	31	-	-	31
Additions to right-of-use assets	42	2	2	46
Depreciation and impairment	(88)	(7)	(1)	(96)
Derecognition of right-of-use assets	(1)	-	-	(1)
Net foreign exchange movements	(2)	-	-	(2)
Balance at the end of the financial year	507	21	3	531

The current year derecognition of the right-of-use assets mainly pertains to lease surrenders undertaken during the year. In 2020, IAG recognised an impairment of $10 million on its right-of-use assets as a result of the planned closure of the AMI retail network across New Zealand.

II. Lease liabilities

	2021	2020
	$m	$m
Current	**79**	82
Non-current	**506**	573
Carrying value of lease liabilities	**585**	655
Due within 1 year	**93**	99
Due within 1 to 2 years	**83**	96
Due within 2 to 5 years	**195**	225
Due after 5 years	**267**	321
Total undiscounted lease liabilities	**638**	741

III. Net investment in sub-lease

The Group has leased out a portion of one of its leased properties, which it has classified as a finance sub-lease. At the reporting date, the Group recognised net investment in sub-lease of $32 million (2020: $35 million) which is presented within trade and other receivables in the consolidated balance sheet.

B. AMOUNTS RECOGNISED IN THE STATEMENT OF COMPREHENSIVE INCOME

	2021 $m	2020 $m
Depreciation and impairment (included in underwriting expense and fee-based, corporate and other expenses)	**(85)**	(96)
Interest expense (included in finance costs)	**(18)**	(19)
Expense relating to short-term leases (included in underwriting expense and fee-based, corporate and other expenses)	**(4)**	(2)
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

	2021 $m	2020 $m
Total cash outflow for leases	**104**	95

D. RECOGNITION AND MEASUREMENT

Properties, motor vehicles and equipment of the Group are leased under non-cancellable lease agreements, which are measured under *AASB 16*. Most leases are subject to annual review and, where appropriate, a right of renewal has been incorporated into the lease agreements. There are no options to purchase the relevant assets on expiry of the lease.

Assets and liabilities arising from a lease are initially measured as the present value of lease payments over the term of the agreement that are not paid at that date. Lease liabilities include the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable; and
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date.

The lease term is determined as the non-cancellable period of a lease, considering any options to extend or early terminate the lease that the entity reasonably expects to exercise.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- identifies the relevant risk-free yield curve for the country-specific lease and lease term; and
- applies a margin to the risk-free rate that reflects the entity-specific credit risk which reflects the rate at which it could borrow from external markets. The margin has been identified by taking an average of those applied in external markets by entities with a similar credit rating issuing debt for durations which are consistent with the terms of leases held by IAG.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost representing the time value of money is charged to the profit or loss over the lease period. The discount rate applied is unchanged from that applied at the initial recognition of the lease, unless there are material changes to the lease.

Right-of-use assets are measured at cost comprising the following:

- the initial measurement of lease liability; adjusted for
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases of property, motor vehicles and equipment are recognised on a straight-line basis as an expense in profit or loss. Short-term leases have a lease term of 12 months or less.

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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

On 19 June 2018, IAG announced it had entered into a sale agreement with Tokio Marine & Nichido Fire Insurance Co., Ltd. (Tokio Marine) for IAG's operations in Thailand and Indonesia. Separate to the transactions with Tokio Marine, IAG agreed the sale of its interest in AAA Assurance Corporation, based in Vietnam. These consolidated Asian businesses have been identified as discontinued operations. The sale of IAG's operations in Thailand and Indonesia were completed on 31 August 2018 and 30 September 2019 respectively, with the performance of these operations being included up to their respective completion dates.

The counterparty to the agreed sale of AAA Assurance Corporation, noted above, failed to receive the necessary regulatory approvals and the transaction did not proceed. IAG continues to assess alternative exit options for its Vietnam business and expects to dispose of its economic interest over the coming twelve months.

	2021	2020
	$m	$m
A. RESULTS OF DISCONTINUED OPERATIONS		
Revenue	**14**	20
Expenses	**(27)**	(22)
Loss before income tax	**(13)**	(2)
Income tax expense	**-**	-
Loss for the year from discontinued operations	**(13)**	(2)
Loss on sale of subsidiaries after income tax	**-**	(2)
Loss from discontinued operations	**(13)**	(4)
Other comprehensive income, net of tax	**-**	2
Total comprehensive loss from discontinued operations	**(13)**	(2)
Loss for the year attributable to shareholders of the Parent	**(13)**	(4)
Loss for the year from discontinued operations	**(13)**	(4)
Total comprehensive loss for the year attributable to shareholders of the Parent	**(13)**	(2)
Total comprehensive loss from discontinued operations	**(13)**	(2)
B. EARNINGS PER SHARE FROM DISCONTINUED OPERATIONS		
Basic earnings per share, from discontinued operations – cents per share	**(0.54)**	(0.17)
Diluted earnings per share, from discontinued operations – cents per share	**(0.54)**	(0.16)
C. CASH FLOW FROM DISCONTINUED OPERATIONS		
Net cash flows from operating activities	**-**	(4)
Net cash flows from investing activities*	**7**	3
Net cash flows for the year from discontinued operations	**7**	(1)

* The net cash flows from investing activities for the year ended 30 June 2020 includes a net inflow of $5 million from the sale of IAG's Indonesian operations, which is comprised of the net cash consideration received of $14 million and the cash and cash equivalents disposed which totalled $9 million.

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.

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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 holds a 49% interest, has signed an Implementation Agreement for the proposed sale of its insurance business to Liberty Insurance Berhad (Liberty). Liberty will acquire 100% of the shares in AmGeneral Insurance Berhad, a wholly-owned subsidiary of AmGeneral. AMMB Group, which owns the remaining 51% interest in AmGeneral, will hold a 30% interest in the insurance operations of Liberty and AmGeneral Insurance Berhad, while IAG will exit its investment in AmGeneral. The transaction is expected to complete during the financial year ending 30 June 2022, subject to regulatory processes and approvals.

As a result of the expected sale, IAG's investment in AmGeneral has been reclassified as being held for sale in the current financial year, and an impairment of $89 million was recognised within 'Fee-based, corporate and other expenses' in the statement of comprehensive income. Assets and liabilities related to IAG's business in Vietnam continue to be classified as held for sale.

	2021	2020
	$m	$m
Cash held for operational purposes	**1**	1
Investments	**28**	22
Loan to associate	**95**	-
Reinsurance and other recoveries on outstanding claims	**-**	1
Deferred insurance expenses	**-**	2
Other assets	**-**	7
Investment in associate	**224**	-
Total assets held for sale	**348**	33
Trade and other payables	**11**	4
Outstanding claims liability	**3**	5
Unearned premium liability	**5**	5
Total liabilities held for sale	**19**	14

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.

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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%	
		2021	2020
		%	%
A. ULTIMATE PARENT			
Insurance Australia Group Limited	Australia		
B. SUBSIDIARIES			
I. Australian general insurance operations			
Insurance Australia Limited	Australia		
Insurance Manufacturers of Australia Pty Limited	Australia	**70.00**	70.00
II. New Zealand general insurance operations			
IAG New Zealand Limited	New Zealand		
III. International insurance operations			
IAG Re Singapore Pte Ltd	Singapore		

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	
	2021	2020
	$m	$m
I. Summarised statement of comprehensive income		
Net premium revenue	**3,660**	3,413
Profit after tax attributable to the Parent entity	**358**	149
Profit after tax attributable to non-controlling interest	**153**	64
Other comprehensive income	**-**	(2)
Total comprehensive income	**511**	211
II. Summarised balance sheet		
Total assets	**5,253**	4,832
Total liabilities	**(4,234)**	(3,927)
Net assets	**1,019**	905
Carrying amount of non-controlling interest	**306**	272
III. Summarised cash flow		
Net cash flows from operating and investing activities	**671**	644
Dividends paid to other IAG entities	**(277)**	(204)
Dividends paid to non-controlling interest	**(119)**	(87)
Total net cash flows	**275**	353

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NOTE 6.5 INVESTMENT IN JOINT VENTURE AND ASSOCIATES

A. INTERESTS IN JOINT VENTURE AND ASSOCIATES

Summarised information of interests in material associates and joint venture accounted for on an equity basis is as follows:

	COUNTRY OF INCORPORATION/ FORMATION	PRINCIPAL ACTIVITY	CARRYING VALUE		OWNERSHIP INTEREST	
			2021	2020	**2021**	2020
			$m	$m	**%**	%
AmGeneral Holdings Berhad (AmGeneral)	Malaysia	Insurance underwriting	**-**	341	**-**	49.00
Other			**30**	10		
			30	351		

As at 30 June 2021, IAG's 49% interest in AmGeneral of $224 million has been reclassified as held for sale. Refer to Note 6.2 for further details.

B. RECOGNITION AND MEASUREMENT

IAG's investments in its associates and joint venture are accounted for using the equity method and are those entities over which it exercises significant influence or joint control, generally reflecting a shareholding of between 20% and 50% of the voting rights of an entity. The investment in associates is initially recognised at cost (fair value of consideration provided plus directly attributable costs) and subsequently adjusted for the post-acquisition change in the investor's share of net assets of the investee. The investor's share of the profit or loss of the investee is included in the profit or loss of IAG and disclosed as a separate line in the consolidated statement of comprehensive income. Distributions received reduce the carrying amount of the investment and are not included as dividend revenue of IAG. Movements in the total equity of the investee that are not recognised in the profit or loss of the investee are recognised directly in equity of IAG and disclosed in the statement of changes in equity. The carrying values of the investments are reviewed annually for impairment.

Where an entity either began or ceased to be an associate during the current financial reporting year, the investment is equity accounted from the date significant influence commenced or up to the date significant influence ceased.

The financial statements of associates are adjusted where necessary to comply with the significant accounting policies of IAG.

When IAG's share of losses exceeds its interest in the investee, the carrying amount of the investment is reduced to nil and recognition of further losses is discontinued except to the extent that IAG has incurred obligations or made payments on behalf of the investee.

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NOTE 6.6 PARENT ENTITY DISCLOSURES

The ultimate Parent entity in the Group is Insurance Australia Group Limited, which is incorporated in Australia. The following information of the Parent entity is disclosed as required by the current regulatory requirements in Australia.

	PARENT	
	2021	2020
	$m	$m
A. FINANCIAL RESULTS		
Profit for the year	**145**	1,385
Total comprehensive income for the year, net of tax	**145**	1,385
B. FINANCIAL POSITION		
Current assets	**424**	357
Total assets	**13,266**	11,264
Current liabilities	**380**	199
Total liabilities	**3,440**	2,179
C. SHAREHOLDERS' EQUITY		
Share capital	**7,386**	6,617
Retained earnings	**2,440**	2,468
Total shareholders' equity	**9,826**	9,085

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 (2020: nil).

Recognition and measurement

Contingent liabilities are not recognised on the balance sheet but are disclosed where the possibility of settlement is less than probable but more than remote. Provisions are not required with respect to these matters as it is not probable that a future sacrifice of economic benefits will be required or the amount is not reliably measurable. If settlement becomes probable, a provision is recognised. The best estimate of the settlement amount is used in measuring a contingent liability for disclosure.

E. COMMITMENTS

The Parent has no material commitments (2020: nil).

7. UNRECOGNISED ITEMS

SECTION INTRODUCTION

This section provides an overview of those items that are not required to be recognised in the financial statements, but may have informative content in relation to IAG's performance or financial position and are required to be disclosed under the accounting standards. These include:

- contingencies – these primarily relate to contingent liabilities that are only recognised in the financial statements when their settlement becomes probable or the amount to be settled can be reliably measured; and
- events subsequent to reporting date – information is included on non-adjusting events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. For example, disclosure of the final dividend in relation to a financial year as it is declared to be paid by the Board subsequent to the reporting date.

NOTE 7.1 CONTINGENCIES

In the normal course of business, transactions are entered into that may generate a range of contingent liabilities. These include litigation arising out of insurance policies and IAG's undertakings for maintenance of net worth and liquidity support to subsidiaries. Such undertakings constitute a statement of present intent only and are not intended to give rise to any binding legal obligation. The Directors are of the opinion that provisions are not required in respect of these matters, as it is either not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

In the previous financial year, the Group first recognised insurance liabilities for potential COVID-19 claim impacts that remain highly uncertain. These liabilities have been recognised on a probability-weighted basis in accordance with the relevant accounting standard (AASB 1023). Given the extent of the related uncertainty, the range of potential financial outcomes is unusually wide. For further information refer to Note 1.2.

As at 30 June 2021, the Group had contingent liabilities in respect of the matter outlined below:

- IAG first advised on 24 January 2020 that a proactive review of IAG's pricing systems and related business processes was ongoing. This review is continuing and the outcome of the review, and the scale of any further potential costs over and above the related customer refunds provision recognised to date, are presently uncertain.

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 19 July 2021, IAG announced that AmGeneral Holdings Berhad (AmGeneral), the Malaysian business in which it holds a 49% interest, has signed an Implementation Agreement for the proposed sale of its insurance business to Liberty Insurance Berhad (Liberty). Liberty will acquire 100% of the shares in AmGeneral Insurance Berhad, a wholly-owned subsidiary of AmGeneral. AMMB Group, which owns the remaining 51% interest in AmGeneral, will hold a 30% interest in the insurance operations of Liberty and AmGeneral Insurance Berhad, while IAG will exit its investment in AmGeneral. The transaction is expected to complete during the financial year ending 30 June 2022, subject to regulatory processes and approvals.
- On 20 July 2021, IAG announced the appointment of Tim Plant to the newly created role of Chief Insurance and Strategy Officer. He is expected to join IAG before the end of the calendar year from Zurich, where he spent three years as Chief Executive Officer, General Insurance Australia and New Zealand.
- On 9 August 2021, IAG Chairman, Elizabeth Bryan, announced the following major changes to the Company's Board, subject to regulatory approvals:
  - Ms Bryan will retire from the Company at the Annual General Meeting (AGM) on 22 October 2021. She will be succeeded as Chairman by Tom Pockett;
  - Duncan Boyle will also retire from the Company on 22 October 2021; and
  - three new Directors will join the Company's Board as part of the ongoing process of Board renewal to ensure it has the optimum mix of skills and experience to support the Company. The new members of the Board are David Armstrong and George Sartorel, commencing 1 September 2021, and Scott Pickering, commencing 1 November 2021. Mr Armstrong will become the new Chairman of the Audit Committee at the conclusion of the 2021 AGM.
- On 11 August 2021, the Board determined to pay an unfranked final dividend of 13.0 cents per share. The dividend will be paid on 22 September 2021. The DRP will operate likely by acquiring shares on-market for participants with no discount applied.

In a COVID-19 context, IAG notes recent developments across Australia, including the lockdowns in New South Wales and Victoria, where the related business effects remain highly uncertain.

8. ADDITIONAL DISCLOSURES

SECTION INTRODUCTION

This section includes other information that must be disclosed to comply with the Accounting Standards, Corporations Act and ASX Listing Rules, but which is considered less relevant to understanding IAG's performance or financial position.

NOTE 8.1 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

	2021 $m	2020 $m
A. COMPOSITION OF CASH AND CASH EQUIVALENTS		
Cash held for operational purposes	**326**	405
Cash and cash equivalents held in investments	**1,674**	1,893
Cash and cash equivalents in discontinued operations	**29**	24
Cash and cash equivalents	**2,029**	2,322

	2021 $m	2020 $m
B. RECONCILIATION OF PROFIT FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/profit for the year	**(277)**	494
I. Non-cash items		
Net losses/(gains) on disposal of subsidiaries excluding transaction costs	**14**	(373)
Net (gains)/losses on investments	**(271)**	304
Amortisation of intangible assets and impairment	**133**	45
Depreciation of right-of-use assets and property and equipment and impairment	**134**	152
Other non-cash items	**16**	(42)
II. Movement in operating assets and liabilities		
Insurance assets	**(1,341)**	(539)
Insurance liabilities	**3,075**	145
Net movement in other operating assets and liabilities	**(7)**	155
Net movement in tax assets and liabilities	**(94)**	(209)
Provisions	**228**	249
Net cash flows from operating activities	**1,610**	381

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C. SIGNIFICANT NON-CASH TRANSACTIONS RELATING TO FINANCING AND INVESTING TRANSACTIONS
There were no financing or investing transactions during the year which have had a material effect on the assets and liabilities that did not involve cash flows.

D. RECOGNITION AND MEASUREMENT
Cash and cash equivalents represent cash at bank and on hand 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.

	2021	2020
	$000	$000
Short-term employee benefits	**13,240**	10,141
Post-employment benefits	**405**	342
Other long-term benefits	**89**	92
Termination benefits	**1,015**	-
Share-based payments	**9,742**	7,050
	24,491	17,625

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

	2021	2020
	$000	$000
A. KPMG		
Audit of the financial statements prepared for the Parent and subsidiaries	**8,229**	7,806
Audit of statutory returns in accordance with regulatory requirements	**572**	572
Other assurance services	**77**	160
Advisory services	**1,514**	1,472
Total remuneration of auditors	**10,392**	10,010

NOTE 8.4 NET TANGIBLE ASSETS

	2021	2020
	$	$
Net tangible assets per ordinary share	**1.23**	1.27

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.

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NOTE 8.5 IMPACT OF NEW AUSTRALIAN ACCOUNTING STANDARDS ISSUED

A. ISSUED AND EFFECTIVE

The new Australian Accounting Standards and Interpretations applicable for the current reporting year are given below.

TITLE	DESCRIPTION
Revised Conceptual Framework for Financial Reporting	
AASB 2018-6	Amendments to Australian Accounting Standards – Definition of a Business
AASB 2018-7	Amendments to Australian Accounting Standards – Definition of Material
AASB 2019-1	Amendments to Australian Accounting Standards – References to the Conceptual Framework

Adoption of the new and amended accounting standards had no material financial impact on the Group.

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

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

AASB 17, the new accounting standard for insurance contracts, was adopted by the Australian Accounting Standards Board on 19 July 2017. Since the standard was issued, various implementation matters have been raised by stakeholders. Subsequently, the IASB reissued the standard including targeted amendments to the standard and the deferral of the effective date to 1 January 2023, with early adoption permitted. These amendments were adopted by the AASB in July 2020.

The first applicable reporting period for IAG is for the year ending 30 June 2024, with the comparative period for the year ending 30 June 2023 restated on a *AASB 17* basis. The standard introduces a new general measurement model for accounting for insurance contracts, with the application of a simplified approach (similar to *AASB 1023*) permitted in certain circumstances. IAG has completed a detailed impact assessment of the new standard and has determined that the Group is expected to be eligible to apply the simplified approach to the insurance contracts issued by the Group and to its non-proportional reinsurance contracts held (based on the current portfolio mix). A full assessment of the remaining contracts is in progress.

The standard introduces substantial changes in presentation of the financial statements and disclosures introducing new balance sheet and income statement line items and increased disclosure requirements compared with existing reporting.

Given the complexity and differing interpretations around key requirements of the standard, the final impact of certain requirements may not be determined until global interpretations and regulatory responses to the new standard are finalised.

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

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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 2021 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 2021.

Signed at Sydney this 11th day of August 2021 in accordance with a resolution of the Directors.

Nick Hawkins
Director

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF INSURANCE AUSTRALIA GROUP LIMITED

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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 2021 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 2021;
- Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated cash flow statement for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The Group consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

The Key Audit Matters we identified are:

- Valuation of Gross outstanding claims liability
- Valuation of Reinsurance and other recoveries on outstanding claims
- Valuation of Goodwill
- 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 ($13,312 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 to the Group;

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;
- obtaining an understanding of the Group's governance processes, including Reserving Committees and actuarial control cycles for the valuation of the outstanding claims liabilities;

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- judgement is required when considering the Group's application of historical experience of claims development to determine current estimates, including the greater variability between the original estimation and the ultimate settlement of claims where there is a long time delay between the claim being incurred and the ultimate settlement. Examples include claims arising from Workers' Compensation, Liability, Compulsory Third Party (CTP) and the main Canterbury earthquakes of September 2010 and February 2011;
- claims estimation uses an actuarial modelling process which involves complex and subjective actuarial methodologies, as well as judgements and assumptions about future events and developments, both within and external to the Group. Actuarial assumptions include loss ratios, claim frequency and average size of claims, and allowance for future claims inflation. Changes in methodologies, judgements and assumptions can have significant implications to the quantification of outstanding claims liabilities, as outlined in Note 2.2(D). Specific to the current environment, COVID-19 continues to cause significant disruption across Australia and New Zealand. As a result, claims activity through the period may not be representative of future claims activity and judgement is required when considering the use of recent experience to determine outstanding claims liabilities;
- judgement is required to assess the Group's estimation of the probability of claims arising from circumstances connected with the COVID-19 pandemic, including Business Interruption claims. This includes interpretation of policy wordings, outcomes of 'test cases' before Australian courts, estimation of potential losses on a probability-weighted basis, assumptions on economic recovery and the probable timing of the emergence of such potential claims;
- the Canterbury earthquake claims require judgement and technical actuarial expertise to evaluate the Group's attribution of claims costs between the September 2010 and the February 2011 Canterbury earthquake events;
- judgement is required to assess the Group's estimation of the periods the claims are expected to be settled in;
- the estimation of claims at year end relies on the integrity of the underlying data, including claim payments and individual estimates of unsettled claims, which is gathered from a number of different systems; and
- outstanding claims includes statistically determined risk margins developed by the Group to make allowance for the inherent uncertainty in estimating ultimate claim settlements. The risk margins are included to achieve a specified probability of adequacy for the total outstanding claims reserves. This is an area of significant complexity and judgement for us.

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

- evaluating the actuarial methodologies and the assumptions including loss ratios, claim frequency and average size of claims, ultimate claims costs and allowance for future claims inflation applied in the previous reporting period by comparing the actual claims development to the prior year claims liability estimate. We used the information to assess the current year's actuarial assumptions applied in the valuation;
- challenging key actuarial assumptions by comparing these to our expectations based on the Group's historical experience, our industry knowledge and externally observable trends (e.g. APRA and regulatory statistics);
- evaluating the Group's assessment of COVID-19 on insurance liabilities including key judgements in relation to potential claims arising from circumstances connected with the COVID-19 pandemic inclusive of Business Interruption claims and associated sensitivities;
- evaluating scenario analyses prepared by management to support the estimation of insurance liabilities associated with Business Interruption claims, including the outcomes of the industry 'test cases', the estimated duration and severity of the financial impacts to the affected industries to the first national lockdown, and including allowance for specific additional material lockdowns;
- evaluating the attribution of claims cost to Canterbury earthquake events, by comparing these to our expectations based on the Group's historical experience, our industry knowledge and externally observable trends;
- considering judgements by the Group to estimate the period in which the claims will be settled by analysing historical payment patterns and any significant changes;
- assessing the risk margin parameters for significant portfolios to external sources of data including published statistics (e.g. APRA-published data), prior periods, our industry knowledge and externally observable trends (e.g. published data for large general insurance companies);
- assessing the business interruption risk margin having regard to the scenario analyses;
- critically evaluating the Group's judgement in the execution of the outstanding claims liability calculations by comparing the overall results to our expectations based on the Group's historical experience, our industry knowledge and externally observable trends (e.g. listed competitors);
- for certain classes of business, we independently projected the gross outstanding claims liability by applying our own actuarial methodologies and selecting assumptions for those methodologies. We used this re-projection to compare our results to the Group's estimates and challenge any significant differences;
- our procedures for testing key inputs such as claim payments and estimates of unsettled claims in the valuation, financial records and controls included:
  - testing accounting and actuarial controls, such as reconciliations of key data. We involved our IT specialists for testing data integrity risks within the claims process and claims systems;
  - testing key controls (e.g. reconciliations, limits of authority or segregation of duties) within the estimation of claims case estimates and claims payments;
  - testing samples of claims case estimates and paid claims to third party evidence (such as quotes or invoices); and
- assessing the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.

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Valuation of Reinsurance and other recoveries on outstanding claims ($7,272 million)
Refer to Note 2.2 of the Financial Report

The key audit matter

The valuation of Reinsurance and other recoveries on outstanding claims is a Key Audit Matter as:

- reinsurance and other recoveries are quantified from claims case estimates, paid claims data and estimates of ultimate claims settlement amounts;
- the Group has extensive reinsurance arrangements designed to protect its aggregate exposure to catastrophic claim events; and
- the Group also has a range of significant reinsurance contracts, including the whole-of-account quota share arrangements, the catastrophe excess of loss program, adverse development covers in the form of excess of loss contracts, other quota share arrangements and other agreements covering particular exposures.

Our consideration of the accounting treatment across multiple contracts, assessment of recoverability in line with the reinsurance agreements (including those pertaining to the claims liabilities connected with the COVID-19 pandemic), the assessment of counterparty credit worthiness and capital strength requires significant effort by our senior personnel.

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;
- evaluating a sample of reinsurance recoveries held to underlying contracts to assess the existence of cover the contracts provide. We selected our sample across different arrangements and contract types. We also tested the appropriateness of the recognition of the reinsurance recoveries held (including those pertaining to the claims liabilities connected with the COVID-19 pandemic) in the financial statements, with reference to accounting standards and our expectations based on past experience and our industry knowledge;
- evaluating a sample of reinsurance recoveries for whole-of-account quota share contracts. We referred to the key terms of the reinsurance contracts, and applied them to the Group's underlying claims estimates and paid claims data as tested above to recalculate the reinsurance and other recoveries due. These independently generated results were compared to the amounts recognised by the Group;
- where applicable, evaluating reinsurance and other agreements by considering external legal advice obtained by the Group and provided confidentially to support the operative provisions of the collective agreements;
- assessing the recoverability of balances owed by reinsurer counterparties by considering their credit worthiness and capital strength based on external sources of information, payment history of amounts and evaluation of any indicators of disputes with counterparties; and
- assessing the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.

Valuation of Goodwill ($2,829 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 particularly given the changes to the underlying segments in the current year;
- our evaluation of potential impairment involves applying judgement by us in relation to the Group's forecast cash flows and key forward looking assumptions. Instances where judgement is required by us include discount rates, risk premium, growth rates, profit measures and terminal growth rates. We focused specifically on those cash-generating units and associates where there were potential impairment indicators (e.g. performance compared to budget); and

How the matter was addressed in our audit

With the assistance of our specialists, our procedures included:

- evaluating the Group's determination of their cash-generating units, including the impact of the changes to the underlying segments, based on our knowledge of the business, and understanding of the industries in which the Group operates, against the accounting standard requirements;
- performing sensitivity testing, using the Group's models, to evaluate the impact of varying key assumptions such as growth rates and discount rates within a reasonably possible range. This enabled us to critically challenge the Group's quantification of assumptions and focus our procedures to the most sensitive assumptions;

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- the Group uses complex discounted cash flow models to perform their annual testing of goodwill for impairment. The models use adjusted historical performance, and a range of internal and external sources as inputs to the assumptions. Complex modelling, particularly those containing highly judgemental allocations of corporate costs to cash-generating units, using forward-looking assumptions tends to be prone to greater risk for potential bias, error and inconsistent application. These conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used for assumptions, and their consistent applications.

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

- assessing the Group's key assumptions used in the discounted cash flow models such as discount rates, risk premium, growth rates, profit measures and terminal growth rates by comparing them to external, observable metrics (e.g. GDP growth and inflation including forecasts provided by Oxford Economics and IBIS World), historical experience, our knowledge of the markets, and current market practice;
- considering the appropriateness of the discounted cash flow methodology applied by the Group to perform the annual test of impairment against the requirements of the accounting standards;
- comparing the forecast cash flows contained in the discounted cash flow models to Board reviewed budgets and business plans; assessing the accuracy of past budgets to actual cash flows in order to challenge the Group's current forecasts;
- assessing the Group's allocation of corporate costs to the forecast cash flows contained in the value-in-use model, based on the requirements of the accounting standard and our understanding of the business;
- involving our specialists, we evaluated the internally prepared discounted cash flow model. This included:
  - assessing the valuation approach and methodology against market and industry practices and accounting standards; and
  - assessing the integrity of the models used, including the accuracy of the underlying formulas; and
- assessing the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.

Customer refunds provision ($399 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;
- judgement is involved in determining a reliable estimate of the amounts which may be ultimately paid based on available information, including estimates of related costs; and
- our considerations of the accounting treatment and valuation of the provision requires significant effort by our senior personnel.

How the matter was addressed in our audit

Our procedures included:

- obtaining an understanding of the Group's processes for identifying and assessing the financial impact of customer refund payments and associated project costs to confirm a present obligation exists in accordance with the criteria in the accounting standards;
- assessing the methodologies applied against both internal and external information available;
- understanding and challenging the assumptions used based on available information utilised to identify policyholders impacted in order to estimate the provision amounts;
- testing completeness by evaluating where exposures may have arisen based on the Group's documentation, including assessing the reconciliations performed by the Group;
- testing a sample of estimated customer refund amounts by independently recalculating them, using the same assumptions and methodologies as management;
- testing a sample of customer refund payments to internal and third party evidence (such as refund letters and bank reports);
- assessing the nature and quantum of management's estimation of project costs against expectations and industry ranges;
- understanding the status of the Group's ongoing reviews into other pricing systems and process matters; and
- assessing the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.

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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 http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

REPORT ON THE REMUNERATION REPORT

Opinion
In our opinion, the Remuneration Report of Insurance Australia Group Limited for the year ended 30 June 2021, 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 37 to 58 of the Directors' report for the year ended 30 June 2021.

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

KPMG

KPMG

Andrew Yates
Partner

Andrew Reeves
Partner

Sydney
11 August 2021

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SHAREHOLDER INFORMATION

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

STOCK EXCHANGE LISTING

Insurance Australia Group Limited's ordinary shares are listed on the ASX under IAG and its capital notes are listed on the ASX under IAGPD.

In addition to the ASX, IAG has securities listed on the New Zealand Exchange (NZX) Debt Market. As such IAG is subject to the NZX Listing Rules as a primary debt-only issuer, subject to certain waivers. IAG 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 2021 Annual General Meeting (AGM) of Insurance Australia Group Limited will commence at 9.30am on Friday, 22 October 2021.

ONLINE VOTING

Shareholders can lodge voting instructions electronically either as a direct vote or by appointing a proxy for the 2021 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 15 October 2021.

Shareholders may also submit a question after completing their voting instructions online at www.iag.com.au. Shareholders will also be given a reasonable opportunity to ask questions of the Company and the auditor at the AGM.

During the course of the AGM, IAG intends to answer as many of the frequently asked questions as practicable but will not be responding to individual written questions. Responses to the most commonly asked questions will be added to the website at www.iag.com.au/shareholder-centre/annual-meetings.

DIVIDEND PAYMENT METHODS

Insurance Australia Group Limited does not issue dividend payments by cheque to shareholders resident in Australia. Shareholders should provide the share registry with their alternative instructions as detailed below:

IAG ordinary shares

- Paid directly into a New Zealand bank account or to an Australian bank, credit union, building society or nominated account; or
- Eligible shareholders can choose to participate in the Company's Dividend Reinvestment Plan (DRP), if available, providing the option to increase their shareholding without incurring brokerage or GST.

MANAGEMENT OF HOLDING

Using their Shareholder Reference Number (SRN) or Holder Identification Number (HIN) and postcode of their registered address, shareholders can view their holding online through IAG's share registry, Computershare, by following the easy prompts on their website at www.investorcentre.com where shareholders will be able to:

- view holding balance;
- review dividend payment history;
- access shareholder forms; and
- retrieve holding statements, including recent dividend payment advices.

The share registry investor centre site also allows shareholders to update or add details to their shareholding. If shareholders wish to amend or update any of the current details, they will be asked to register by choosing a User ID and Password.

Shareholders will also be asked to enter answers to three personal questions for verification purposes should they forget their password in the future.

If shareholders have previously used the Investor Centre site, they will be asked to key in their password only.

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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 2021	NUMBER OF SHARES	% OF ISSUED SHARES
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	672,543,355	27.28
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	327,528,944	13.29
CITICORP NOMINEES PTY LIMITED	175,917,037	7.14
NATIONAL INDEMNITY COMPANY	97,513,199	3.96
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	88,181,191	3.58
NATIONAL NOMINEES LIMITED	81,028,722	3.29
BNP PARIBAS NOMS PTY LTD <DRP>	28,032,074	1.14
BNP PARIBAS NOMINEES PTY LTD SIX SIS LTD <DRP A/C>	19,206,531	0.78
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	18,854,728	0.76
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	14,013,748	0.57
AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	9,527,455	0.39
MILTON CORPORATION LIMITED	6,026,948	0.24
ARGO INVESTMENTS LIMITED	4,910,330	0.20
BNP PARIBAS NOMS (NZ) LTD <DRP>	4,398,108	0.18
IAG SHARE PLAN NOMINEE PTY LIMITED <IAG DAP UNALLOCATED ACCOUNT>	4,162,987	0.17
MUTUAL TRUST PTY LTD	3,403,925	0.14
DJERRIWARRH INVESTMENTS LIMITED	3,142,221	0.13
AMP LIFE LIMITED	2,883,033	0.12
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD <DRP A/C>	2,854,002	0.12
PETER & LYNDY WHITE FOUNDATION PTY LTD <P & L WHITE FOUNDATION A/C>	2,035,999	0.08
Total for top 20	1,566,164,537	63.56

RANGE OF ORDINARY SHAREHOLDERS AS AT 7 JULY 2021	NUMBER OF HOLDERS	NUMBER OF SHARES	% OF ISSUED SHARES
1-1,000	375,522	195,982,634	7.95
1,001-5,000	241,087	459,292,090	18.63
5,001-10,000	13,886	95,810,929	3.89
10,001-100,000	5,533	105,367,026	4.27
100,001 and over	132	1,608,647,527	65.26
Total	636,160	2,465,100,206	100.00
Shareholders with less than a marketable parcel of 102 shares as at 7 July 2021	8,516	382,237	

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 every fully paid ordinary share.

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DIVIDEND DETAILS

SHARE CLASS	DIVIDEND	FRANKING	AMOUNT PER SHARE	DRP ISSUE PRICE	PAYMENT DATE
Ordinary	Interim	Unfranked	7.0 cents	$5.0212	30 March 2021
Ordinary	Final	Unfranked	13.0 cents	*	22 September 2021

* The DRP issue price for the final dividend is scheduled to be announced on 7 September 2021.

SUBSTANTIAL SHAREHOLDINGS INFORMATION

SUBSTANTIAL SHAREHOLDERS AS AT 7 JULY 2021	NUMBER OF SHARES	% OF ISSUED SHARES
Ordinary shares		
BlackRock Group	141,377,642	5.74
State Street Corporation	124,782,545	5.06

IAGPD CAPITAL NOTES INFORMATION

TWENTY LARGEST CAPITAL NOTE HOLDERS AS AT 7 JULY 2021	NUMBER OF NOTES	% OF ISSUED NOTES
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	345,655	8.55
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	279,727	6.92
MUTUAL TRUST PTY LTD	136,556	3.38
CITICORP NOMINEES PTY LIMITED	108,844	2.69
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD <DRP A/C>	88,704	2.19
NATIONAL NOMINEES LIMITED	79,861	1.98
NAVIGATOR AUSTRALIA LTD <JB WERE LIST FIX INT SMA A/C>	68,819	1.70
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <IPS SUPER A/C>	60,621	1.50
NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	41,201	1.02
NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	39,904	0.99
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	37,569	0.93
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	37,182	0.92
VISION AUSTRALIA FOUNDATION <VISION AUSTRALIA CREDIT A/C>	31,956	0.79
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <NO 1 ACCOUNT>	28,131	0.70
BNP PARIBAS NOMINEES PTY LTD <PITCHER PARTNERS DRP>	26,350	0.65
SANDHURST TRUSTEES LTD <ENDEAVOR ASSET MGMT MDA A/C>	25,479	0.63
INVIA CUSTODIAN PTY LIMITED <INCOME POOL A/C>	24,925	0.62
FIRST SAMUEL LTD ACN 086243567 <ANF ITS MDA CLIENTS A/C>	18,501	0.46
CITICORP NOMINEES PTY LIMITED <DPSL>	14,110	0.35
TRUSTEES OF CHURCH PROPERTY FOR THE DIOCESE OF NEWCASTLE <SAVINGS & DEVELOPMENT A/C>	12,870	0.32
Total for top 20	1,506,965	37.29

RANGE OF CAPITAL NOTE HOLDERS AS AT 7 JULY 2021	NUMBER OF HOLDERS	NUMBER OF NOTES	% OF ISSUED NOTES
1-1,000	4,440	1,408,302	34.85
1,001-5,000	409	850,058	21.03
5,001-10,000	31	208,535	5.16
10,001-100,000	22	703,588	17.41
100,001 and over	4	870,782	21.55
Total	4,906	4,041,265	100.00
Capital note holders with less than a marketable parcel of 5 notes as at 7 JULY 2021	5	12	

Capital note holders have no voting rights in respect of meetings of the Company.

SHARE RIGHTS

As at 7 July 2021, there were 1,631,180 Deferred Award Rights held by 384 participants, 10,288,801 Executive Performance Rights held by 95 participants, and 4,548 Non-Executive Director Award Rights are held by 1 participant. Details of the employee share rights plans are set out in the Remuneration Report.

CORPORATE DIRECTORY

KEY DATES

2021 financial year end	30 June 2021
Full year results and dividend announcement	11 August 2021
Final dividend for ordinary shares	
■ Record date	18 August 2021
■ Payment date	22 September 2021
Annual general meeting information	
■ Written questions for the auditor close	15 October 2021
■ Proxy return close	20 October 2021
■ Annual general meeting	22 October 2021
Half year end	31 December 2021
Half year results and dividend announcement	11 February 2022*
Interim dividend for ordinary shares	
■ Record date	16 February 2022*
■ Payment date	24 March 2022*
2022 financial year end	30 June 2022
Full year results and dividend announcement	12 August 2022*

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

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FIVE-YEAR FINANCIAL SUMMARY

	2021	2020	2019	2018	2017[13]
	$m	$m	$m	$m	$m
Gross written premium	**12,602**	12,135	12,005	11,647	11,439
Gross earned premium	**12,345**	12,164	11,942	11,522	11,321
Outwards reinsurance premium expense	**(4,872)**	(4,801)	(4,704)	(3,851)	(3,122)
Net premium revenue	**7,473**	7,363	7,238	7,671	8,199
Net claims expense	**(4,807)**	(5,010)	(4,619)	(4,617)	(5,082)
Net underwriting expense	**(1,798)**	(1,757)	(1,716)	(1,877)	(2,079)
Underwriting profit[1]	**868**	596	903	1,177	1,038
Net investment income on assets backing insurance liabilities	**139**	145	321	230	232
Management reported insurance profit[1]	**1,007**	741	1,224	1,407	1,270
Net investment income/(loss) from shareholders' funds	**306**	(181)	227	165	246
Other income	**165**	441	111	164	180
Share of net profit of associates[2]	**35**	57	42	31	19
Finance costs	**(89)**	(92)	(94)	(82)	(93)
Corporate and administration expenses[3]	**(1,705)**	(404)	(124)	(185)	(222)
Acquired intangible amortisation and impairment	**(108)**	(27)	(54)	(90)	(57)
(Loss)/profit before income tax	**(389)**	535	1,332	1,410	1,343
Income tax benefit/(expense)	**125**	(37)	(363)	(384)	(328)
(Loss)/profit after tax from continuing operations	**(264)**	498	969	1,026	1,015
(Loss)/profit after tax from discontinued operations	**(13)**	(4)	204	(25)	(10)
Net profit attributable to non-controlling interests	**(150)**	(59)	(97)	(78)	(76)
Net (loss)/profit attributable to shareholders of the Parent	**(427)**	435	1,076	923	929
Cash earnings[4]	**747**	279	931	1,034	990
Ordinary shareholders' equity ($ million)	**6,246**	6,077	6,404	6,669	6,562
Total assets ($ million)	**33,449**	29,694	29,286	29,766	29,597
KEY RATIOS					
Gross written premium growth	**3.8 %**	1.1 %	3.1 %	1.8 %	n/a
Loss ratio[5]	**64.3 %**	68.0 %	63.8 %	60.2 %	62.0 %
Expense ratio[6]	**24.1 %**	23.8 %	23.7 %	24.5 %	25.3 %
Combined ratio[7]	**88.4 %**	91.8 %	87.5 %	84.7 %	87.3 %
Reported insurance margin[8]	**13.5 %**	10.1 %	16.9 %	18.3 %	15.5 %
Underlying insurance margin[9]	**14.7 %**	16.0 %	16.6 %	14.1 %	12.4 %
SHARE INFORMATION					
Dividends per ordinary share (cents)[10]	**20.00**	10.00	37.50	34.00	33.00
Basic earnings per ordinary share (cents)[11]	**(17.82)**	18.87	46.26	39.06	39.03
Basic earnings per ordinary share - cash basis (cents)[12]	**31.16**	12.12	40.04	43.78	41.60
Diluted earnings per ordinary share (cents)[11]	**(17.82)**	18.49	44.58	38.30	37.72
Diluted earnings per ordinary share - cash basis (cents)[12]	**28.51**	12.12	38.83	42.75	40.13
Ordinary share price at 30 June ($) (ASX: IAG)	**5.16**	5.77	8.26	8.53	6.78
Capital notes price at 30 June ($) (ASX: IAGPD)	**104.57**	103.54	106.95	104.67	106.53
Issued ordinary shares (million)	**2,465**	2,311	2,311	2,367	2,367
Issued capital notes (million)	**4**	4	4	4	4
Market capitalisation (ordinary shares) at 30 June ($ million)	**12,719**	13,334	19,089	20,191	16,048
Net tangible asset backing per ordinary share ($)	**1.23**	1.27	1.43	1.47	1.36

(1) The amounts for the 2021 and 2020 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 $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, and a $246 million pre-tax net impact of the customer refunds provision for 2020.

(4) Cash earnings represent non-IFRS financial information. It is defined as net profit after tax attributable to shareholders of the Parent, plus amortisation and impairment of acquired identifiable intangibles, and excluding any unusual items (non-recurring in nature).

(5) The loss ratio refers to the net claims expense as a percentage of net premium revenue.

(6) The expense ratio refers to net underwriting expense as a percentage of net premium revenue.

(7) The combined ratio refers to the sum of the loss ratio and expense ratio.

(8) Reported insurance margin is a ratio of insurance profit over net premium revenue.

(9) 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 unfranked for the 2021 financial year, partially franked for the 2019 to 2020 financial years, and fully franked for the 2017 to 2018 financial years.

(11) Reflects basic and diluted earnings per ordinary share on an accounting basis.

(12) Basic and diluted earnings per ordinary share on a cash basis are calculated with reference to cash earnings.

(13) The financial information for 2017 has been re-presented to reflect the changed treatment of the Asian businesses as discontinued operations.

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PEFC™
PEFC/21-31-119

Pacesetter Laser Recycled is 30% recycled and made up from elemental chlorine free bleached pulp which is PEFC™ certified sourced from sustainably managed sources. It is manufactured by an ISO 14001 certified mill.

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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.

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