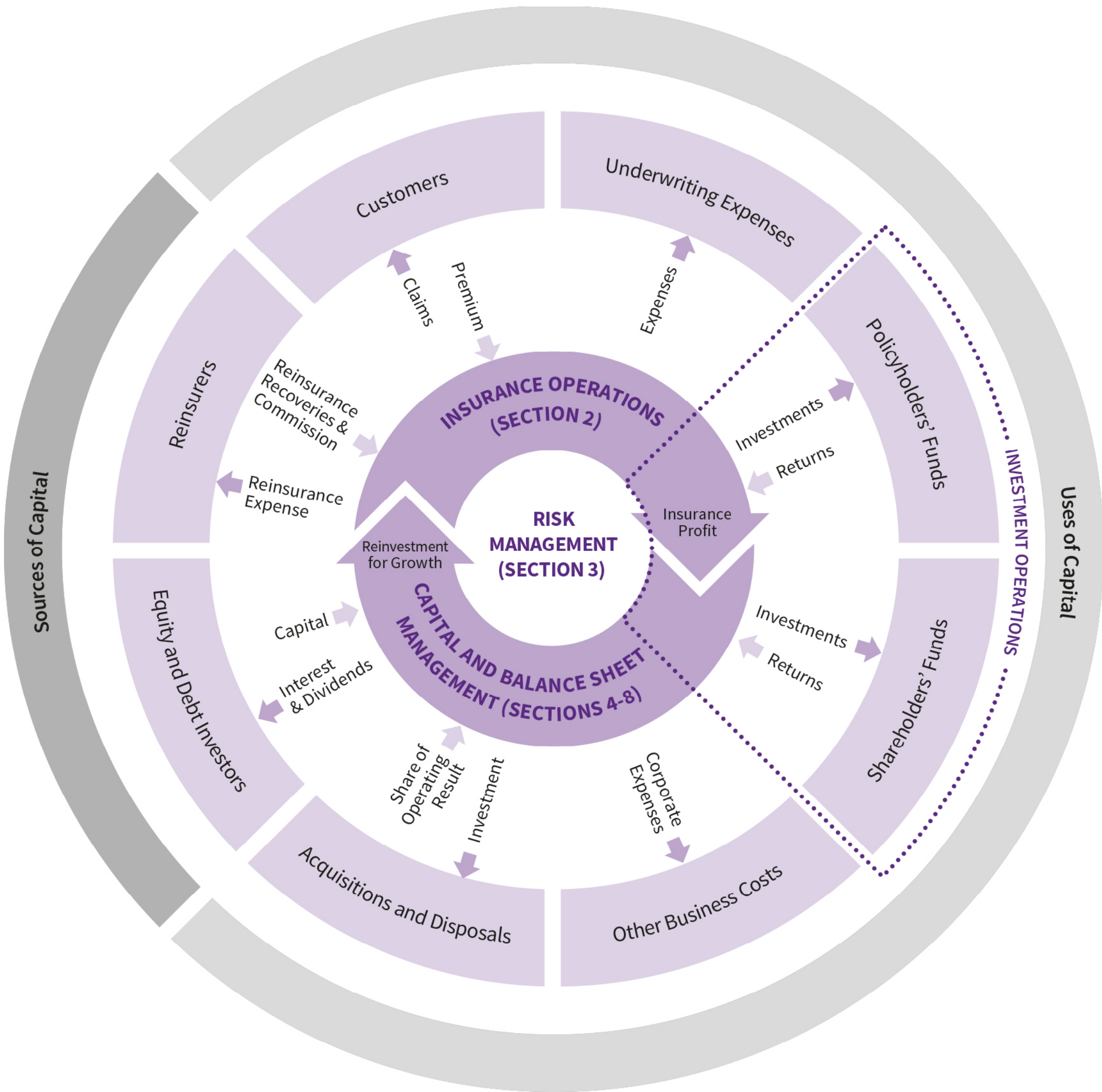
NOTES TO THE FINANCIAL STATEMENTS

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).

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.

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.

- 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.

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.

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	2020
	$m	$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.

NOTE 2.2 CLAIMS AND REINSURANCE AND OTHER RECOVERIES ON OUTSTANDING CLAIMS

A. NET CLAIMS EXPENSE

	2021			2020		
	CURRENT YEAR $m	**PRIOR YEARS $m**	**TOTAL $m**	CURRENT YEAR $m	PRIOR YEARS $m	TOTAL $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 $m	2020 $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.

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

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$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.

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.

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.

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

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.

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).

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.

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.

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.

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.

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** **$m** **Impact directly to equity**	2020 $m 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** **$m** **Impact to profit**	2020 $m 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.

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** **$m** **Impact to profit**	2020 $m 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** **$m**	2020 $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.

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

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.

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.

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.

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.

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.

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.

	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%).

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	2020
	$m	$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

	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).

	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.

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.

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.

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.

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

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.

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
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

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.

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