B. RECOGNITION AND MEASUREMENT
Trade and other receivables are stated at the amounts to be received in the future, inclusive of GST and less any impairment losses. The amounts are discounted where the effect of the time value of money is material. The recoverability of debts is assessed on an ongoing basis and provision for impairment is made based on objective evidence for individual receivables and having regard to past default experience. The impairment charge is recognised in profit or loss. Debts which are known to be uncollectible are written-off.

NOTE 2.7 TRADE AND OTHER PAYABLES

	2018	2017
	$m	$m
A. COMPOSITION		
I. Reinsurance premium payable[(1)]	**1,157**	712
II. Trade creditors[(2)]		
Commissions payable	**275**	268
Stamp duty payable	**130**	123
GST payable on premium receivable	**175**	157
Corporate treasury derivatives payable	**14**	-
Other[(3)]	**321**	472
	915	1,020
III. Other payables[(2)]		
Other creditors and accruals	**403**	378
Investment creditors	**113**	310
Interest payable on interest-bearing liabilities	**4**	14
	520	702
	2,592	2,434

(1) IAG has a right of offset and settles on a net basis under the agreement with National Indemnity Company (NICO), a Berkshire Hathaway (BH) company, and under the combined 12.5% quota share agreements. This balance includes reinsurance premium payable to BH of $1,166 million (2017: $1,166 million) and the combined 12.5% quota share agreements of $727 million (2017: nil), which have been offset with receivables due from BH of $650 million (2017: $677 million) and the combined 12.5% quota share agreements of $294 million (2017: nil), 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 effect of the time value of money is not material. The carrying amount of payables is a reasonable approximation of the fair value of the liabilities because of the short-term nature of the liabilities.

(3) Other trade creditors include $4 million (2017: $6 million) of reinsurance collateral arrangements with various reinsurers to secure the Group reinsurance recoveries. The balance is anticipated to reduce through the settlement of amounts from reinsurers as they fall due. This payable is interest bearing.

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 effect of the time value of money 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 general insurance business. IAG does not seek to avoid all risks, but to optimally manage and/or price them. Management of those risks is an integral part of delivering IAG's strategy, decision-making and long-term sustainability. 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 six risk categories:

- Strategic
- Insurance
- Reinsurance
- Financial
- Operational
- Regulatory Risk and Compliance

The risk categories, their definition and structured arrangements for their management are included in IAG's Risk Management Strategy (RMS). Risks rarely occur, or should be considered, in isolation. The interconnectivity of IAG's six risk categories and the key risks faced are understood and overseen. Key risks and their 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 IAG Board has responsibility for setting risk strategy. The IAG Risk Committee (RC) assists the Board in fulfilling its risk management responsibilities, oversight of risk management, development of IAG's risk management framework (RMF) and policies and provides advice to the IAG Executives and Board. The RC monitors the effectiveness of the Risk Management function. The Group Chief Risk Officer (CRO) oversees risk management across IAG and is supported by a risk function. IAG's CRO and the risk function provide regular reports to the RC on the operation of IAG's RMF, the status of key risks, risk and compliance incidents and risk framework changes.

IAG's RMF is in place to assist the Board and senior executive management in managing risk. The RMF is the totality of systems, structures, policies and processes within IAG that identify, assess, treat, monitor, report and/or communicate all internal and external sources of risk that could have a material impact on IAG's operations. The RMF supports management by:

- ensuring clear roles and responsibilities for the management of risk;
- standardising risk management language, definitions and processes so risks can be accurately benchmarked and compared;
- establishing common reporting standards, tools and risk management information; and
- defining input for risk management reports as well as the ERP.

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 policy which brings together consistent strategies and sets the minimum acceptable standards for managing the full spectrum of risks associated with pursuing corporate objectives and fulfilling IAG's purpose. IAG uses Group policies and other supporting documents to help ensure the risk management requirements are clear across IAG, and provide context to implement the risk management principles described in the RMS. 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, processes, procedures, controls and assurance to ensure IAG's reinsurance arrangements 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) and the 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 mitigation strategies are set out in the subsequent sections.

The RMS is supported by risk culture and behaviours that are the foundation for appropriate risk management and business sustainability. IAG is committed to conducting businesses in a manner aligned with IAG's purpose which is supported by principles developed in conjunction with the Ethics and Consumer Advisory Board which includes external representation.

B. STRATEGIC RISK

Strategic risk is defined as the risk of not achieving corporate or strategic goals due to:

- poor business decisions regarding future business plans and strategies, and/or
- lack of responsiveness to changes in the business environment.

Strategic risk is managed by the IAG Group Leadership Team with Board oversight. Key elements in the management of strategy and strategic risk include a rigorous strategic planning program and associated oversight arrangements, with progress against strategic priorities regularly considered. 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 (scarce resources) 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 & Acquisitions Framework to help ensure the associated risks are appropriately managed. Strategic risk mitigation is further enhanced by the accountabilities of the Customer Labs function operated under the Chief Customer Officer. This function ensures IAG is accessing data-driven customer insights and reacting to such through the innovation of products, services and adjacencies.

C. INSURANCE RISK

Insurance risk is defined as the risk that IAG is exposed to financial loss as a result of:

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

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 Insurance Business Licences, which are issued to each operating division. The Insurance Business Licence is prepared by the Group Chief Underwriting Officer in consultation with the customer-facing divisions and is approved by the Group CEO. The Insurance Business Licences are reviewed annually or more frequently if required. In addition to Insurance Business 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 adopts a disciplined approach to the underwriting of risks, 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. IAG's significant underwriting and pricing expertise, coupled with its data and analytics capability, allow IAG to effectively underwrite policies to the desired level of risk.

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 businesses 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 effective claims management and provisioning, reinsurance and capital management further mitigate the impact of this risk to IAG.

As referenced above, business divisions underwrite within set criteria as contained in the Insurance Business 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 claims 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 claims 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. Efforts are made, including plain language policy terms, to ensure there is no misalignment between policyholders' perceived benefits when a policy is initially sold and their actual entitlement when a claim is made.

Claims provisions are established using actuarial valuation models, including a risk margin to cover inherent uncertainty in the ultimate cost of the claims, to ensure adequate capital is allocated to settle the 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 IAG's 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 financial 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 contributes 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 the 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 tables 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):

	2018	2017*
	%	%
a. REGION		
Australia	**79**	80
New Zealand	**21**	20
	100	100
b. PRODUCT		
Motor	**32**	31
Home	**29**	28
Short-tail commercial	**22**	22
CTP (motor liability)	**7**	8
Liability	**6**	6
Other short-tail	**1**	2
Workers' compensation	**3**	3
	100	100

* Prior year comparatives have been re-presented due to the discontinued operations. Refer to Note 6.5.

D. REINSURANCE RISK

Reinsurance risk is defined as the risk of:

- insufficient or inappropriate reinsurance coverage;
- inadequate underwriting and/or pricing of reinsurance exposures retained;
- inadequate or inappropriate reinsurance recovery management;
- reinsurance arrangements not being legally binding;
- reinsurance concentration risk; and
- credit counterparty concentration risk to reinsurers, which is covered under the credit risk section of financial risk.

IAG's reinsurance program is an important part of IAG's 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. IAG's ReMS outlines the reinsurance principles, including the requirement that IAG's reinsurance retention for catastrophe must not exceed 4% of net earned premium.

IAG purchases catastrophe reinsurance protection to the greater of:

- a 1-in-250 year return period for earthquake loss calculated on a whole-of-portfolio basis for Australia;
- a 1-in-1000 year return period for earthquake loss calculated on a whole-of-portfolio basis for New Zealand.

This is a more conservative view than APRA’s prescribed minimum approach of 1-in-200 year return period loss calculated on a whole-of-portfolio, all perils basis.

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 market.

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

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

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

I. Current reinsurance program

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

- a 32.5% whole-of-account quota share arrangements;
- a Group catastrophe cover which is placed in line with the strategy of buying to the level of a 1-in-250 year event on a whole-of-portfolio basis. IAG's catastrophe reinsurance protection 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 2018 was $8 billion placed to 67.5%. Should a loss event occur that is greater than $8 billion, IAG could potentially incur a net loss greater than the retention. IAG holds capital to mitigate the impact of this possibility;
- an aggregate sideways cover which protects 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, Thailand, Malaysia, Vietnam and Indonesia;
- excess of loss reinsurance for all casualty portfolios including CTP, public liability, workers' compensation and home owners warranty products;
- quota share protection for agency-distributed financial lines products including surety and trade credit;
- quota share protection for cyber;
- excess of loss reinsurance for all marine portfolios;
- excess of loss reinsurance cover for retained natural peril losses;
- crop quota share and stop loss;
- adverse development cover (ADC) and quota share protection on 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 asbestos relating to legacy general liability and/or workers' compensation policies.

E. FINANCIAL RISK

Financial risk is defined as the risk of:

- adverse movements in market prices (foreign exchange, equities, credit spreads, interest rates etc) or inappropriate concentration within the investment funds;
- a counterparty failing to meet its obligations (credit risk);
- inadequate liquidity; and
- inappropriate capital management.

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

- the Board Risk and Audit Committees with Non-Executive Directors as members;
- an Asset and Liability Committee (ALCo) comprising key Executives with relevant oversight responsibilities;
- value-at-risk analysis is performed, position limits are in place and monitored and monthly stress testing is undertaken to determine 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 and Investment Management Agreements;
- 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

a. FOREIGN EXCHANGE RISK

IAG operates internationally and so is exposed to foreign exchange risk from various activities conducted in the normal course of business. Foreign exchange exposure is managed by IAG Asset Management and the Group Treasury function.

The key foreign exchange risk exposures and mitigation strategies are set out below:

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

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	**2018** **$m** **Impact directly to equity**	2017 $m Impact directly to equity
Net investments in foreign operations and related hedge arrangements		
New Zealand dollar	**63**	66
Malaysian ringgit	**18**	18
Other currencies where considered significant	**5**	13
	86	97

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) and the use of equity-related derivative contracts. The impact on the measurement of the investments held at reporting date of a change in equity values by +10% or -10% on profit before tax, net of related derivatives, is shown in the table below:

IMPACT OF CHANGE IN EQUITY VALUE		**2018** **$m** **Impact to profit**	2017 $m Impact to profit
Investments – equity and trust securities and related equity derivatives	+10%	**108**	108
	-10%	**(105)**	(107)

c. INTEREST RATE RISK

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

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

The impact on the measurement of investments in fixed interest-bearing securities held at reporting date of a change in interest rates by +1% or -1% on profit before tax, net of related derivatives, is shown in the following table. The sensitivity analysis provided demonstrates the effect of a change in interest rates only, whilst other assumptions remain unchanged.

IMPACT OF CHANGE IN FIXED INTEREST-BEARING SECURITIES VALUE		**2018**	2017
		$m	$m
		Impact to profit	Impact to profit
Investments – interest-bearing securities and related interest rate derivatives	+1%	**(159)**	(200)
	-1%	**167**	213

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

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 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 Group Treasury function responsible for implementation. IAG maintains sufficiently diverse credit exposures to avoid a concentration charge added to the regulatory capital requirement.

The maximum exposure to credit risk loss as at reporting date is the carrying amount of the assets/receivables on the balance sheet as they are measured at fair value.

a. INVESTMENTS

IAG is exposed to credit risk from investments in third parties, for example debt or similar securities issued by those companies. 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 credit rating, counterparty, industry and geography. The assets backing insurance liabilities 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	**2018**	2017
	$m	$m
AAA	**3,520**	3,794
AA	**3,514**	3,776
A	**482**	433
BBB and below	**1,652**	2,365
	9,168	10,368

b. REINSURANCE RECOVERIES ON PAID CLAIMS

Reinsurance arrangements mitigate insurance risk but expose IAG to credit risk. Reinsurance is placed with companies (reinsurers) 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 and so there is the potential for additional risk such as country risk and transfer risk.

It is IAG policy to only deal with reinsurers with credit ratings of at least Standard & Poor's BBB+ (or other rating agency equivalent) without collateralisation, other than a mandatory placement to meet local regulatory requirements. Where the credit rating of a reinsurer falls below the required quality during the period of risk a contractual right to replace the counterparty exists. Some of the reinsurance protection is purchased on a 'collateralised' basis, where reinsurers 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		**2018**		2017
	$m	**% of total**	$m	% of total
AA	**3,667**	**89**	3,367	86
A	**456**	**11**	526	14
BBB and below	**11**	**-**	12	-
Total	**4,134**	**100**	3,905	100

Of these, approximately $1,025 million (2017: $1,001 million) is secured directly as follows, reducing the credit risk:

- deposits held in trust: $23 million (2017: $144 million);
- letters of credit: $1,000 million (2017: $854 million); and
- loss deposits: $2 million (2017: $3 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
2018					
Reinsurance recoveries on paid claims	**70**	**8**	**3**	**11**	**92**
2017					
Reinsurance recoveries on paid claims	128	11	44	59	242

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
2018					
Premium receivable	**2,981**	**315**	**278**	**48**	**3,622**
Provision for impairment	**(3)**	**(3)**	**(7)**	**(20)**	**(33)**
	2,978	**312**	**271**	**28**	**3,589**
2017					
Premium receivable	2,771	308	273	50	3,402
Provision for impairment	(5)	(3)	(7)	(24)	(39)
	2,766	305	266	26	3,363

III. Liquidity risk
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 expose 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	
	2018	2017	**2018**	2017
	$m	$m	**$m**	$m
Floating interest rate (at call)	**-**	-	**755**	944
Within 1 year or less	**2,446**	2,776	**1,607**	2,255
Within 1 to 2 years	**920**	1,182	**773**	880
Within 2 to 5 years	**1,200**	1,601	**2,656**	2,550
Over 5 years	**422**	554	**3,377**	3,739
Total	**4,988**	6,113	**9,168**	10,368

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
2018							
Principal repayments[1]	**1,974**	**-**	**-**	**-**	**1,020**	**954**	**1,974**
Contractual interest payments[1]		**91**	**91**	**274**	**-**	**-**	**456**
Total contractual undiscounted payments		**91**	**91**	**274**	**1,020**	**954**	**2,430**
2017							
Principal repayments[1]	1,638	-	-	-	684	954	1,638
Contractual interest payments[1]		73	73	220	-	-	366
Total contractual undiscounted payments		73	73	220	684	954	2,004

(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 management risk
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 (ICAAP) and reports annually on the operation of the ICAAP 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). 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 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 financial ruin over the next one to three years;
- the probability of falling below the APRA prescribed capital amount (PCA) over the next one to 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 maintains an adequate capital position.

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

- a total regulatory capital position equivalent to 1.4 to 1.6 times the PCA, compared to a regulatory requirement of 1.0 times; and
- Common Equity Tier 1 capital of 0.9 to 1.1 times the PCA, compared to a regulatory requirement of 0.6 times.

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

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

REGULATORY CAPITAL POSITION	**2018**	2017
	$m	$m
Common Equity Tier 1 capital (CET1 capital)	**3,114**	2,888
Additional Tier 1 capital	**624**	679
Total Tier 1 capital	**3,738**	3,567
Tier 2 capital	**1,280**	959
Total regulatory capital	**5,018**	4,526
Total PCA	**2,468**	2,661
PCA multiple	**2.03**	1.70
CET1 multiple	**1.26**	1.09

At 30 June 2018, IAG's Insurance Concentration Risk Charge (ICRC) from a catastrophe event was $169 million (2017: $200 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.

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

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

b. CAPITAL COMPOSITION

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

CAPITAL MIX	**Target**	**2018**	2017
	%	%	%
Ordinary equity less goodwill and intangible assets	**60-70**	**65.7**	68.1
Interest-bearing liabilities – hybrid securities and debt	**30-40**	**34.3**	31.9
Total capitalisation		**100.0**	100.0

F. OPERATIONAL RISK

Operational risk is defined as the risk of loss resulting from 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 does not aim to eliminate all operational risks, but manages these by initiating an appropriate control framework and by monitoring and managing potential risks. The Board is responsible for oversight of the Operational Risk Framework and approval of the Operational Risk Management Policy, and any changes to it. The Board and Group Leadership Team believe an effective, documented and structured approach to operational risk is a key part of the broader RMF that is outlined in IAG's RMS.

IAG's Operational Risk Framework, inclusive of the Group Operational Risk Policy, operates within IAG's RMF. The Operational Risk Framework and supporting Operational Risk Policy and procedures aim to ensure that consistent governance mechanisms and practices are in place, and that activities undertaken which involve operational risk are continually 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 and procedures for key aspects of operational risk. For example, Fraud and Business Continuity Frameworks and policies are in place as are various other operational risk policies.

Management and staff are responsible for identifying, assessing and managing operational risks in accordance with their roles and responsibilities. IAG's Internal Audit function also reviews the effectiveness of controls and processes surrounding operational risk.

G. REGULATORY RISK AND COMPLIANCE

Regulatory Risk and Compliance is defined as failure or inability to comply with applicable laws, regulations or codes excluding failure of staff to adhere to internal policies/procedures and meeting contractual obligations. IAG works closely with regulators and regularly monitors developments across its international operations to assess potential impacts on its ongoing ability to meet the various regulatory requirements.

IAG acknowledges that a Royal Commission is the highest level of public inquiry in Australia. The Board, together with Management, is committed to cooperating fully with the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the Royal Commission). IAG has provided submissions to the Royal Commission, and resources and expertise have been allocated to ensure any request arising from the Royal Commission is addressed with the appropriate consideration and importance. While it is likely the Royal Commission will make recommendations that could impact the broader financial services landscape in Australia, it remains too early to predict the nature and extent of these changes and any consequential impact these may have for IAG's businesses.

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

			2018		2017	
Final Maturity Date	**Principal Amount**	Section	**Carrying Value $m**	**Fair Value $m**	Carrying Value $m	Fair Value $m
A. COMPOSITION						
I. Capital nature[1]						
a. ADDITIONAL TIER 1 REGULATORY CAPITAL[2]						
Reset exchangeable securities						
No fixed date	$550 million	B. I	**550**	**565**	550	569
Capital notes						
No fixed date	$404 million	B. II	**404**	**423**	404	431
b. TIER 2 REGULATORY CAPITAL						
AUD subordinated convertible term notes						
19 March 2040	$350 million	B. III	**350**	**354**	350	356
15 June 2044	$350 million	B. IV	**350**	**353**	-	-
			700		350	
NZD subordinated convertible term notes[3]						
15 June 2043	NZ$350 million	B. V	**320**	**332**	334	337
II. Operational nature						
Other interest-bearing liabilities			**-**	**-**	2	2
Less: capitalised transaction costs			**(14)**		(16)	
			1,960		1,624	

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

(2) Instruments issued prior to 1 January 2013 are eligible for inclusion in the relevant category of regulatory capital up to limits prescribed by APRA under transitional arrangements. Any capital that is ineligible to be included in Tier 1 capital as a consequence may be included in Tier 2 capital to the extent there is residual capacity within Tier 2 transitional limits.

(3) At the reporting date, the Company recognised accrued interest of $1 million (2017: $1 million) which is presented within trade and other payables.