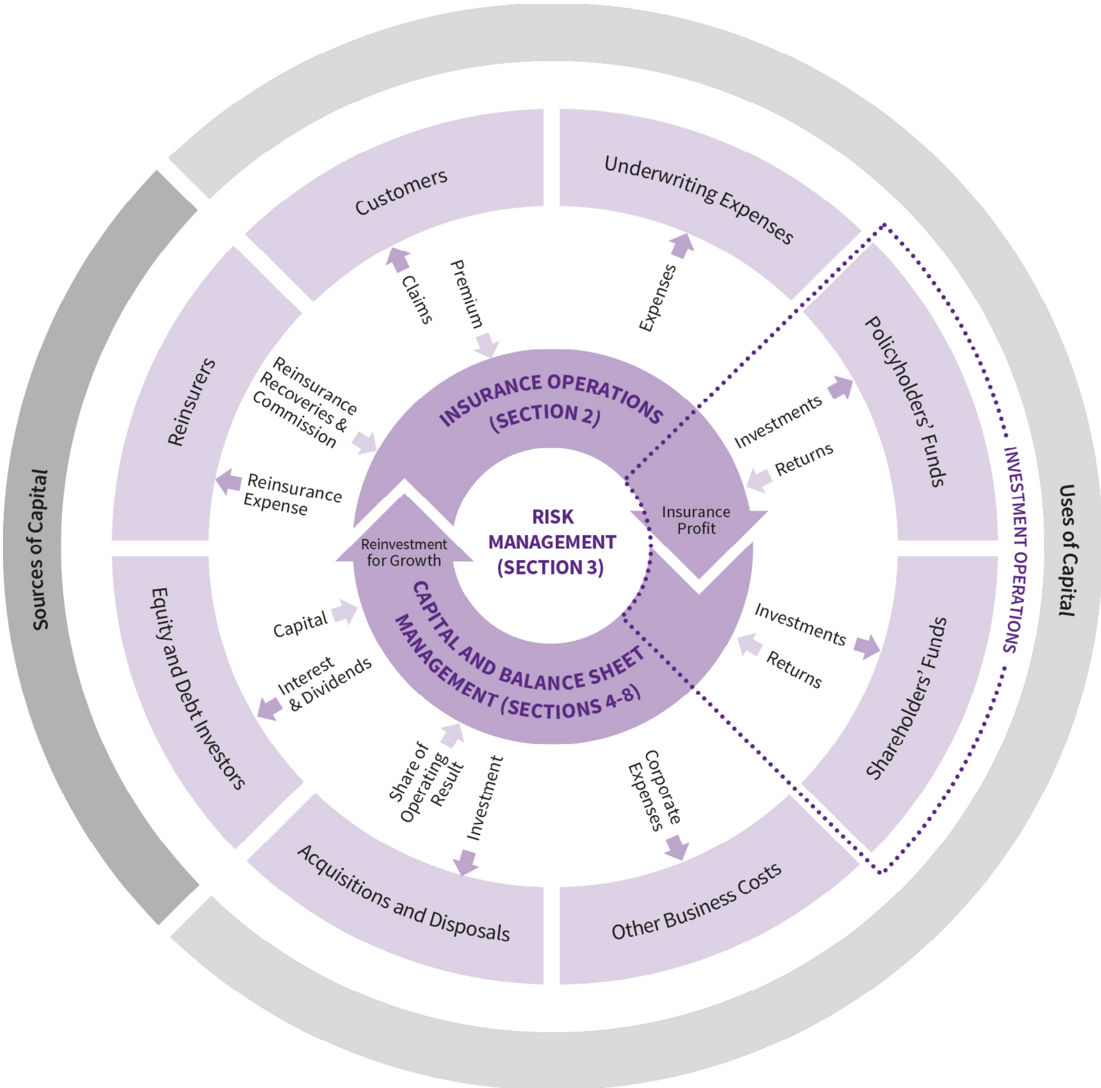
NOTES TO THE FINANCIAL STATEMENTS

1. OVERVIEW

NOTE 1.1 INTRODUCTION

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

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



NOTE 1.2 ABOUT THIS REPORT

A. CORPORATE INFORMATION

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

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

B. STATEMENT OF COMPLIANCE

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

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

C. BASIS OF PREPARATION

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

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

I. Basis of consolidation

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

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

II. Presentation and foreign currency

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

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

III. Reclassification of comparatives

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

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

D. SIGNIFICANT ACCOUNTING POLICIES ADOPTED

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

I. Changes in accounting policies

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

II. Critical accounting estimates and judgements

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

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

Coronavirus (COVID-19) pandemic

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

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

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

- Outstanding claims liability

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

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

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

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

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

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

- Goodwill and intangible assets impairment

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

- Investment in joint venture and associates impairment

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

- Fair value measurement of investments

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

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

- Expected credit losses

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

NOTE 1.3 SEGMENT REPORTING

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

A. REPORTABLE SEGMENTS

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

I. Australia

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

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

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

B. FINANCIAL INFORMATION

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

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

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

2. INSURANCE DISCLOSURES

SECTION INTRODUCTION

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

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

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

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

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

NOTE 2.1 GENERAL INSURANCE REVENUE

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

B. RECOGNITION AND MEASUREMENT

I. Premium revenue

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

II. Reinsurance and other recoveries

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

III. Reinsurance commission revenue

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

NOTE 2.2 CLAIMS AND REINSURANCE AND OTHER RECOVERIES ON OUTSTANDING CLAIMS

A. NET CLAIMS EXPENSE

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

B. NET OUTSTANDING CLAIMS LIABILITY

I. Composition of net outstanding claims liability

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

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

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

II. Reconciliation of movements in net discounted outstanding claims liability

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

III. Maturity analysis

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

IV. Development table

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

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

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

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

C. RECOGNITION AND MEASUREMENT

I. Outstanding claims liability and claims expense

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

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

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

a. CENTRAL ESTIMATE OF THE FUTURE CASH FLOWS

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

b. DISCOUNTING

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

c. RISK MARGIN

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

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

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

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

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

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

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

II. Reinsurance and other recoveries on outstanding claims

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

D. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

I. Outstanding claims liability

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

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

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

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

a. DISCOUNTED AVERAGE TERM TO SETTLEMENT

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

b. INFLATION RATE AND SUPERIMPOSED INFLATION

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

c. DISCOUNT RATE

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

d. CLAIMS HANDLING COSTS RATIO

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

II. Reinsurance and other recoveries on outstanding claims

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

E. SENSITIVITY ANALYSIS

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

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

NOTE 2.3 INVESTMENTS

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

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

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

C. RECOGNITION AND MEASUREMENT

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

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

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

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

I. Level 1 quoted prices

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

II. Level 2 other observable inputs

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

III. Level 3 unobservable inputs

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

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

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

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

NOTE 2.4 UNEARNED PREMIUM LIABILITY

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

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

B. RECOGNITION AND MEASUREMENT

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

C. ADEQUACY OF UNEARNED PREMIUM LIABILITY

I. Liability adequacy test (LAT)

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

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

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

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

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

II. Significant accounting estimates and judgements

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

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

NOTE 2.5 DEFERRED INSURANCE EXPENSES

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

(1) The carrying value of deferred acquisition costs includes $4 million (2019: $9 million) which is expected to be amortised more than 12 months from reporting date.
(2) The carrying value of deferred outwards reinsurance expense includes $24 million (2019: $43 million) which is expected to be amortised more than 12 months from reporting date.

B. RECOGNITION AND MEASUREMENT

I. Acquisition costs

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

II. Outwards reinsurance expense

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

NOTE 2.6 TRADE AND OTHER RECEIVABLES

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

(1) Other than the loan to associates, receivables are non-interest bearing and are normally settled between 30 days and 12 months. The balance has not been discounted as the time value of money effect is not material. The net carrying amount of receivables is a reasonable approximation of the fair value of the assets due to the short-term nature of the assets.
(2) This loan is denominated in Malaysian ringgit and has a fixed term of 15 years from 21 September 2012. A cumulative preference dividend of 1% is payable annually. The loan relates to IAG's increased investment in AmGeneral to acquire Kurnia during the financial year ended 30 June 2013.

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

B. RECOGNITION AND MEASUREMENT

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

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

NOTE 2.7 TRADE AND OTHER PAYABLES

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

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

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

B. RECOGNITION AND MEASUREMENT

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

3. RISK

SECTION INTRODUCTION

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

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

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

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

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

NOTE 3.1 RISK AND CAPITAL MANAGEMENT

A. RISK MANAGEMENT OVERVIEW

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

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

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

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

Other key documents within IAG's RMF include:

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

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

Other key documents within IAG, include:

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

COVID-19

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

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

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

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

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

B. STRATEGIC RISK

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

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

C. CUSTOMER RISK

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

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

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

D. INSURANCE RISK

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

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

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

I. Acceptance and pricing of risk

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

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

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

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

II. Claims management and provisioning

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

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

III. Concentrations of insurance risk

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

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

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

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

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

E. REINSURANCE RISK

Reinsurance risk is the risk of:

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

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

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

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

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

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

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

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

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

I. Current reinsurance program

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

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

F. MARKET, CREDIT, LIQUIDITY AND CAPITAL RISK

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

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

I. Market risk

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

a. FOREIGN EXCHANGE RISK

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

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

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

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

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

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

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

b. PRICE RISK

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

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

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

c. INTEREST RATE RISK

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

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

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

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

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

II. Credit risk

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

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

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

a. INVESTMENTS

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

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

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

b. REINSURANCE RECOVERIES ON PAID CLAIMS

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

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

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

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

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

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

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

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

c. PREMIUM RECEIVABLE

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

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

III. Liquidity risk

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

a. OUTSTANDING CLAIMS LIABILITY AND INVESTMENTS

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

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

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

b. INTEREST-BEARING LIABILITIES

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

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

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

IV. Capital risk

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

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

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

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

a. REGULATORY CAPITAL

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

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

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

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

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

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

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

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

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

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

b. CAPITAL COMPOSITION

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

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

G. OPERATIONAL RISK

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

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

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

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

H. REGULATORY AND COMPLIANCE RISK

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

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

I. CULTURE AND CONDUCT RISK

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

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

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

4. CAPITAL STRUCTURE

SECTION INTRODUCTION

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

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

NOTE 4.1 INTEREST-BEARING LIABILITIES

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

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

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

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

B. SIGNIFICANT TERMS AND CONDITIONS

I. Reset exchangeable securities (RES)

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

II. Capital notes

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

III. AUD subordinated convertible term notes due 2044

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

IV. AUD subordinated convertible term notes due 2045

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

V. NZD subordinated convertible term notes

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

C. RECOGNITION AND MEASUREMENT

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

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

NOTE 4.2 EQUITY

	2020	2019	**2020**	2019
	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**	2,367	**6,617**	7,082
Capital return and share consolidation, including transaction costs	**-**	(56)	**-**	(465)
Balance at the end of the financial year	**2,311**	2,311	**6,617**	6,617

B. STRATEGIC RELATIONSHIP WITH BERKSHIRE HATHAWAY (BH)

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

I. Anti-dilution right

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

C. NATURE AND PURPOSE OF EQUITY

I. Ordinary shares

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

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

II. Treasury shares held in trust

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

III. Foreign currency translation reserve

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

IV. Share-based remuneration reserve

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

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

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

NOTE 4.3 EARNINGS PER SHARE

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

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

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

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

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

NOTE 4.4 DIVIDENDS

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

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

D. DIVIDEND REINVESTMENT

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

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

E. RESTRICTIONS THAT MAY LIMIT THE PAYMENT OF DIVIDENDS

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

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

F. RECOGNITION AND MEASUREMENT

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

NOTE 4.5 DERIVATIVES

A. REPORTING DATE POSITIONS

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

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

B. RECOGNITION AND MEASUREMENT

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

I. Hedge accounting

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

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

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

Hedge of net investments in foreign operations

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

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

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

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

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

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

II. Derivatives without hedge accounting applied

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

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

5. OTHER BALANCE SHEET DISCLOSURES

SECTION INTRODUCTION

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

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

NOTE 5.1 GOODWILL AND INTANGIBLE ASSETS

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

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

E. IMPAIRMENT

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

I. Impairment testing of goodwill

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

Goodwill is allocated to the following CGUs:

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

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

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

II. Impairment testing of identified intangible assets

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

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

F. RECOGNITION AND MEASUREMENT

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

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

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

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

NOTE 5.2 INCOME TAX

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

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

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

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

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

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

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

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

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

NOTE 5.3 PROVISIONS

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

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

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

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

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

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

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

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

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

D. RECOGNITION AND MEASUREMENT

I. Annual leave

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

II. Long service leave

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

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

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

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

VI. Restructuring provision
A provision is recognised for the expected costs associated with restructuring where there is a detailed formal plan for restructure and a valid expectation has been raised in those persons expected to be affected. The provision is based on the direct expenditure to be incurred which is both directly and necessarily caused by the restructuring and may include termination benefits. It does not include costs associated with ongoing activities. The adequacy of the provision is reviewed regularly and adjusted if required. Revisions to the estimated amount of a restructuring provision are reported in the period in which the revision to the estimate occurs.

VII. Customer refund provision
A provision is recognised for the expected costs associated with customer refunds. In establishing this provision, assumptions have been made around the quantum of the premium impact for affected customers, the compound interest attributable to the base premium amount and the costs associated with operating the associated remediation program.

NOTE 5.4 LEASES

A. AMOUNTS RECOGNISED IN THE BALANCE SHEET

I. Right-of-use assets

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

IAG recognised an impairment of $10 million on its right-of-use assets as a result of the planned closure of the AMI retail network across New Zealand.

II. Lease liabilities

	2020
	$m
Current	82
Non-current	573
Carrying value of lease liabilities	655
Due within 1 year	94
Due within 1 to 2 years	153
Due within 2 to 5 years	210
Due after 5 years	284
Total undiscounted lease liabilities	741

III. Net investment in sub-lease

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

B. AMOUNTS RECOGNISED IN THE STATEMENT OF COMPREHENSIVE INCOME

	2020 $m
Depreciation and impairment (included in underwriting expense and fee-based, corporate and other expenses)	(96)
Interest expense (included in finance costs)	(19)
Expense relating to short-term leases (included in underwriting expense and fee-based, corporate and other expenses)	(2)
Interest income from sub-leasing right-of-use assets (included in fee and other income)	1

C. AMOUNTS RECOGNISED IN THE CASH FLOW STATEMENT

	2020 $m
Total cash outflow for leases	95

D. RECOGNITION AND MEASUREMENT

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

For lessees, until the 2019 financial year, leases of property, motor vehicles and equipment were classified as either finance leases or operating leases. From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date in which the Group has the right to use the asset. See Note 8.5 for details on the impact of the change.

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

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

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

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

To determine the incremental borrowing rate, the Group:

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

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

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

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

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

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

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

6. GROUP STRUCTURE

SECTION INTRODUCTION
This section provides disclosures on the Group structure, including details of the significant controlled entities and equity accounted investments. It also provides details of any significant acquisitions and divestments during the year.

NOTE 6.1 DISPOSALS OF BUSINESSES

A. SALE OF SUBSIDIARY

On 30 September 2019, IAG completed the sale of its Indonesian subsidiary, PT Asuransi Parolamas, for a net consideration of $14 million.

B. SALE OF ASSOCIATE

On 30 March 2020, IAG announced the completion of the disposal of its 26% interest in its joint venture with the State Bank of India, SBI General Insurance Company Limited, following completion of all the requisite regulatory processes and approvals. Details of the sale are as follows:

	2020 $m
Consideration received:	
Cash consideration	692
Transaction costs, including withholding tax and hedging costs	(113)
Net cash consideration received	579
Carrying amount of investment in associate	(202)
Other transaction costs	(64)
Gain on sale before income tax and reclassification of foreign currency translation reserve	313
Reclassification of foreign currency translation reserve	(4)
Gain on sale before income tax	309
Income tax benefit	17
Gain on sale after income tax	326

NOTE 6.2 DISCONTINUED OPERATIONS

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

The counterparty to the agreed sale of AAA Corporation has failed to receive the necessary regulatory approvals and will not be proceeding. IAG is assessing alternative exit options for its Vietnam business but still expects to dispose of its economic interest over the coming twelve months.

	2020 $m	2019 $m
A. RESULTS OF DISCONTINUED OPERATIONS		
Revenue	**20**	224
Expenses	**(22)**	(227)
Loss before income tax	**(2)**	(3)
Income tax expense	**-**	(1)
Loss for the year from discontinued operations	**(2)**	(4)
(Loss)/gain on sale of subsidiaries after income tax	**(2)**	208
(Loss)/profit from discontinued operations	**(4)**	204
Other comprehensive income, net of tax	**2**	20
Total comprehensive (loss)/income from discontinued operations	**(2)**	224
(Loss)/profit for the year attributable to shareholders of the Parent	**(4)**	205
Loss for the year attributable to non-controlling interests	**-**	(1)
(Loss)/profit for the year from discontinued operations	**(4)**	204
Total comprehensive (loss)/income for the year attributable to shareholders of the Parent	**(2)**	225
Total comprehensive loss for the year attributable to non-controlling interests	**-**	(1)
Total comprehensive (loss)/income from discontinued operations	**(2)**	224

	2020 $m	2019 $m

B. EARNINGS PER SHARE FROM DISCONTINUED OPERATIONS

Basic earnings per share, from discontinued operations – cents per share	**(0.17)**	8.81
Diluted earnings per share, from discontinued operations – cents per share	**(0.16)**	8.14

C. CASH FLOW FROM DISCONTINUED OPERATIONS

Net cash flows from operating activities	**(4)**	(24)
Net cash flows from investing activities*	**3**	382
Net cash flows from financing activities	**-**	23
Net cash flows for the year from discontinued operations	**(1)**	381

* The net cash flows from investing activities for the year ended 30 June 2020 includes a net inflow of $5 million from the sale of IAG's Indonesian operations, which is comprised of the net cash consideration received of $14 million and the cash and cash equivalents disposed which totalled $9 million (2019: a net inflow of $383 million from the sale of IAG's Thailand operations, which is comprised of the net cash consideration received of $506 million and the cash and cash equivalents disposed of totalling $123 million).

D. ASSETS AND LIABILITIES HELD FOR SALE

The assets and liabilities that were classified as held for sale as at 30 June 2019, related to IAG's consolidated businesses in Vietnam and Indonesia. Following the completion of the sale of the operations in Indonesia in the current financial year, the remaining assets and liabilities classified as held for sale now relate solely to the business in Vietnam.

	2020 $m	2019 $m
Cash held for operational purposes	**1**	10
Investments	**22**	33
Trade and other receivables	**-**	3
Reinsurance and other recoveries on outstanding claims	**1**	3
Deferred insurance expenses	**2**	3
Other assets	**7**	8
Goodwill and intangible assets	**-**	1
Total assets held for sale	**33**	61
Trade and other payables	**4**	7
Outstanding claims liability	**5**	9
Unearned premium liability	**5**	10
Other liabilities	**-**	1
Total liabilities held for sale	**14**	27

E. RECOGNITION AND MEASUREMENT

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and contractual rights under insurance contracts, which are specifically exempt from this requirement. Assets and liabilities classified as held for sale are presented separately in the balance sheet.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss. When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

NOTE 6.3 DETAILS OF SUBSIDIARIES

The following table details IAG's general insurance operations and other significant controlled entities:

	COUNTRY OF INCORPORATION/ FORMATION	OWNERSHIP INTEREST HELD BY GROUP IF NOT 100%	
		2020	2019
		%	%
A. ULTIMATE PARENT			
Insurance Australia Group Limited	Australia		
B. SUBSIDIARIES			
I. Australian general insurance operations			
Insurance Australia Limited	Australia		
Insurance Manufacturers of Australia Pty Limited	Australia	**70.00**	70.00
II. New Zealand general insurance operations			
IAG New Zealand Limited	New Zealand		
III. International insurance operations			
AAA Assurance Corporation*	Vietnam	**73.07**	73.07
IAG Re Labuan (L) Berhad	Malaysia		
IAG Re Singapore Pte Ltd	Singapore		

* On 19 June 2018, IAG announced the sale of its businesses in Thailand, Vietnam and Indonesia. The sale of IAG's operations in Thailand and Indonesia were completed on 31 August 2018 and 30 September 2019 respectively. Refer to Notes 6.1 and 6.2.

NOTE 6.4 NON-CONTROLLING INTERESTS

A. SUMMARISED FINANCIAL INFORMATION

Set out below is summarised financial information (before intercompany eliminations) of controlled entities where significant non-controlling interests exist, being Insurance Manufacturers of Australia Pty Limited of which IAG's beneficial interest is 70%.

	INSURANCE MANUFACTURERS OF AUSTRALIA PTY LIMITED	
	2020	2019
	$m	$m
I. Summarised statement of comprehensive income		
Net premium revenue	**3,413**	3,344
Profit after tax attributable to the Parent entity	**149**	229
Profit after tax attributable to non-controlling interest	**64**	98
Other comprehensive income	**(2)**	(2)
Total comprehensive income	**211**	325
II. Summarised balance sheet		
Total assets	**4,832**	4,603
Total liabilities	**(3,927)**	(3,619)
Net assets	**905**	984
Carrying amount of non-controlling interest	**272**	295
III. Summarised cash flow		
Net cash flows from operating and investing activities	**644**	168
Dividends paid to other IAG entities	**(204)**	(168)
Dividends paid to non-controlling interest	**(87)**	(72)
Total net cash flows	**353**	(72)

NOTE 6.5 INVESTMENT IN JOINT VENTURE AND ASSOCIATES

A. INTERESTS IN JOINT VENTURE AND ASSOCIATES

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

	COUNTRY OF INCORPORATION/ FORMATION	PRINCIPAL ACTIVITY	CARRYING VALUE		OWNERSHIP INTEREST	
			2020	2019	**2020**	2019
			$m	$m	**%**	%
AmGeneral Holdings Berhad (AmGeneral)	Malaysia	Insurance underwriting	**341**	356	**49.00**	49.00
SBI General Insurance Company Limited (SBI General)*	India	Insurance underwriting	**-**	172	**-**	26.00
Other			**10**	16		
			351	544		

* The sale of SBI General was completed on 30 March 2020. Refer to Note 6.1 for further details.

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

B. SUMMARISED FINANCIAL INFORMATION

Summarised financial information of IAG's material associate, AmGeneral, is provided below. The summarised financial information represents the financial position and performance of the entity as a whole (100% stand-alone basis) and not just IAG's share. The financial statements below are for the year ended 31 March.

	AMGENERAL HOLDINGS BERHAD	
	2020	2019
	$m	$m
I. Summarised statement of comprehensive income		
Revenue	**625**	570
Profit after tax	**84**	71
Total comprehensive income	**84**	71
Dividends received from associate	**18**	80
II. Summarised balance sheet		
Total assets	**2,020**	1,914
Total liabilities	**(1,261)**	(1,210)
Net assets as at reporting date	**759**	704
IAG's ownership interest	**372**	345
Other adjustments*	**(30)**	11
Carrying value as at 30 June	**342**	356

* Other adjustments include IFRS adjustments, foreign exchange revaluations, goodwill, intangibles and share of profit/(loss) from financial statement date to 30 June.

AmGeneral Holdings Berhad is not listed on a stock exchange. It has a 31 March financial year end and is equity accounted using financial information for the reporting year to 30 June which includes, at least in part, unaudited management results.

C. RECOGNITION AND MEASUREMENT

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

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

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

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

NOTE 6.6 PARENT ENTITY DISCLOSURES

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

	PARENT	
	2020	2019
	$m	$m
A. FINANCIAL RESULTS		
Profit for the year	**1,385**	511
Total comprehensive income for the year, net of tax	**1,385**	511
B. FINANCIAL POSITION		
Current assets	**357**	238
Total assets	**11,264**	10,441
Current liabilities	**199**	87
Total liabilities	**2,179**	2,047
C. SHAREHOLDERS' EQUITY		
Share capital	**6,617**	6,617
Retained earnings	**2,468**	1,777
Total shareholders' equity	**9,085**	8,394

D. CONTINGENT LIABILITIES

There are no known material exposures to the Parent or events that would require it to satisfy any guarantees or take action under a support agreement (2019: nil).

Recognition and measurement

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

E. COMMITMENTS

The Parent has no material commitments (2019: nil).

7. UNRECOGNISED ITEMS

SECTION INTRODUCTION

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

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

NOTE 7.1 CONTINGENCIES

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

IAG conducts fiduciary activities in the form of investment management as it operates as manager, custodian or trustee for a number of investments and trusts. The funds managed on behalf of third parties which are not included in IAG's balance sheet had a fair value as at the reporting date of $419 million (2019: $358 million).

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

As at 30 June 2020, the Group had a contingent liability in respect of the matters outlined below:

- As was communicated in an ASX announcement dated 11 April 2019, a representative proceeding has been filed by Johnson Winter & Slattery in the Federal Court of Australia against IAG subsidiaries, Swann Insurance (Aust) Pty Ltd and Insurance Australia Limited, on behalf of Jones Asirifi Otchere. Given the stage these proceedings are at, it is currently not possible to determine the ultimate financial impact this claim will have on IAG, if any. IAG is defending this claim.
- As advised on 24 January 2020, a proactive review of IAG's pricing systems and processes is ongoing. The outcome of this review, and the scale of any further potential costs over and above the customer refund provision recognised during the current financial year, are presently uncertain.
- To satisfy itself of compliance, and in keeping with a number of other large corporations, IAG is currently undertaking a retrospective compliance review across a number of its payroll-related procedures. It is too early to definitively determine what the financial outcome may be.

NOTE 7.2 EVENTS SUBSEQUENT TO REPORTING DATE

Details of matters subsequent to the end of the financial year are set out below. These include:

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

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

8. ADDITIONAL DISCLOSURES

SECTION INTRODUCTION

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

NOTE 8.1 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

	2020	2019
	$m	$m
A. COMPOSITION OF CASH AND CASH EQUIVALENTS		
Cash held for operational purposes	**405**	538
Cash and short-term money held in investments	**1,893**	1,121
Cash and cash equivalents in discontinued operations	**24**	39
Cash and cash equivalents	**2,322**	1,698
B. RECONCILIATION OF PROFIT FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	**494**	1,173
I. Non-cash items		
Net gains on disposal of subsidiaries excluding transaction costs	**(373)**	(300)
Net losses/(gains) on investments	**304**	(191)
Amortisation of intangible assets	**45**	106
Depreciation of right-of-use assets and property and equipment and impairment	**152**	64
Other non-cash items	**(42)**	(16)
II. Movement in operating assets and liabilities		
Insurance assets	**(539)**	(398)
Insurance liabilities	**145**	(37)
Net movement in other operating assets and liabilities	**155**	217
Net movement in tax assets and liabilities	**(209)**	(91)
Provisions	**249**	62
Net cash flows from operating activities	**381**	589

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

There were no financing or investing transactions during the year which have had a material effect on the assets and liabilities that did not involve cash flows.

D. RECOGNITION AND MEASUREMENT

Cash and cash equivalents represent cash at bank and on hand, deposits at call and short-term money held in investments, net of any bank overdraft. Money held in investments is readily convertible to cash within two working days and subject to insignificant risk of change in value. The majority of the amounts bear variable rates of interest based on daily bank deposit rates. Those balances bearing a fixed rate of interest mature in less than one year.

NOTE 8.2 RELATED PARTY DISCLOSURES

A. KEY MANAGEMENT PERSONNEL

I. Details of compensation

Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity. It is important to note that the Company's Non-Executive Directors are specifically required to be included as KMP in accordance with *AASB 124 Related Party Disclosures*. However, the Non-Executive Directors do not consider that they are part of 'management'. The aggregate compensation disclosed in the table below represents the KMP's estimated compensation received from IAG in relation to their involvement in the activities within the Group.

	2020	2019
	$000	$000
Short-term employee benefits	**10,141**	12,854
Post-employment benefits	**342**	333
Other long-term benefits	**92**	14
Share-based payments	**7,050**	8,856
	17,625	22,057

II. Other benefits

Remuneration does not include premiums paid by IAG for an insurance contract covering current and former Non-Executive Directors' and Executives' liabilities and legal expenses incurred in respect of the relevant office, as the insurance policies do not specify premiums paid on behalf of specific individual Non-Executive Directors and Executives and the terms of the contract specifically prohibit the disclosure of the premium paid. Insurance products provided by IAG are available to all Non-Executive Directors and Executives on the same terms and conditions available to other employees.

NOTE 8.3 REMUNERATION OF AUDITORS

	2020	2019
	$000	$000
A. KPMG		
Audit of the financial statements prepared for the Parent and subsidiaries	**7,806**	7,504
Audit of statutory returns in accordance with regulatory requirements	**572**	576
Other assurance services	**160**	175
Advisory services	**1,472**	3,031
Total remuneration of auditors	**10,010**	11,286

During the 2019 financial year, IAG engaged external legal advisors in relation to the Royal Commission. As part of this engagement, the legal advisors appointed IAG's auditors, KPMG, to provide project administration, documentation and preparation assistance, process and control review and testing and general assistance. The costs incurred for this engagement relating to KPMG totalled $1,526 thousand, which were presented within advisory services costs above for the 2019 financial year. No costs in relation to this engagement have been incurred during the current financial year.

NOTE 8.4 NET TANGIBLE ASSETS

	2020	2019
	$	$
Net tangible assets per ordinary share	**1.27**	1.43

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

NOTE 8.5 IMPACT OF NEW AUSTRALIAN ACCOUNTING STANDARDS ISSUED

A. ISSUED AND EFFECTIVE

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

TITLE	DESCRIPTION
AASB 16	Leases
AASB 2017-6	Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation
AASB 2017-7	Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures
AASB 2018-1	Amendments to Australian Accounting Standards – Annual Improvements 2015–2017 Cycle
AASB 2018-2	Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement
AASB Interpretation 23	Uncertainty over Income Tax Treatments, and relevant amending standards

Adoption of the new and amended accounting standards had no material financial impact on the Group. Information on the impact of *AASB 16* is provided below for clarity.

AASB 16 Leases

AASB 16, which was issued in 2016, sets out the principles for the recognition, measurement, presentation and disclosure of leases. It replaced the previous accounting requirements for leases, under *AASB 117*, effective from 1 July 2019 for IAG.

AASB 16 requires lessees to recognise most leases on the balance sheet in the form of a right-of-use asset (ROUA) and a corresponding lease liability. The standard allows exemptions for short-term leases (less than 12 months) and for leases on low value assets. For IAG, the main impact of the new standard was on leases which were previously classified as operating leases, being predominantly property and motor vehicle related leases.

As a result of the adoption of *AASB 16*, IAG has recognised depreciation expense on ROUAs, on a straight-line basis over the lease term, and interest expense on lease liabilities.

IAG has adopted *AASB 16* using the modified retrospective approach with the date of initial application being 1 July 2019. Under this approach, the cumulative effect of adoption is recognised as an adjustment to opening retained earnings as at 1 July 2019, with no restatement of comparative information.

The modified retrospective approach allows entities to use a number of practical expedients on adoption of the new standard, of which IAG elected to use the following:

- the use of a single discount rate applied to a portfolio of leases with similar characteristics;
- reliance on previous assessments of whether a lease was onerous immediately before the date of initial application;
- for some leases which meet the definition of a short-term lease, non-application of *AASB 16*; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate a lease.

The effect of adoption of *AASB 16* as at 1 July 2019 is as follows:

	Increase/(decrease) $m
Assets	
Right-of-use assets	553
Trade and other receivables	35
Property and equipment	(35)
Deferred tax assets	14
Other assets	(6)
Total assets	561
Liabilities	
Lease liabilities	655
Trade and other payables	(29)
Other liabilities	(32)
Total liabilities	594
Equity	
Retained earnings	(33)

On transition to *AASB 16*, the modified retrospective approach provides two options for measurement of the ROUA. The first option is to measure the ROUA as an amount equal to the lease liability adjusted for any prepaid or accrued lease payments. The second option is to measure the ROUA as if *AASB 16* had always been applied from the initial recognition of the lease. These measurement options have been applied on a lease-by-lease basis.

The following is a reconciliation of total operating lease commitments as at 30 June 2019 to the lease liabilities recognised as at 1 July 2019:

	$m
Operating lease commitments disclosed as at 30 June 2019	792
Discounted using IAG's incremental borrowing rate at the date of initial application	(98)
Add: finance lease liabilities recognised as at 30 June 2019	33
Less: contracts reassessed as service agreements	(72)
Lease liability recognised as at 1 July 2019	655

When measuring lease liabilities for leases that were classified as operating leases, IAG discounted lease payments using its incremental borrowing rate at 1 July 2019. The weighted-average rate applied is 2.7%.

B. ISSUED BUT NOT YET EFFECTIVE

As at the date of this financial report, there are a number of new and revised accounting standards published by the Australian Accounting Standards Board for which the mandatory application dates fall after the end of this current reporting year.

None of these standards have been early adopted and applied in the current reporting year.

TITLE	DESCRIPTION	OPERATIVE DATE	NOTE
AASB 17	Insurance Contracts	1 January 2021	B
AASB 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate	1 January 2022	A
AASB 2018-6	Amendments to Australian Accounting Standards – Definition of a Business	1 January 2020	A
AASB 2018-7	Amendments to Australian Accounting Standards – Definition of Material	1 January 2020	A
AASB 2019-1	Amendments to Australian Accounting Standards – References to the Conceptual Framework	1 January 2020	A
AASB 2020-1	Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current	1 January 2022	A
AASB 2020-3	Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments	1 January 2022	A
AASB 2020-4	Amendments to Australian Accounting Standards – Covid-19-Related Rent Concessions	1 June 2020	A

TABLE NOTE

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

B The changes may have financial impact, however the assessment has not been completed yet. This standard is subject to change based on revisions issued by the IASB, including the effective date which has been proposed to be changed to 1 January 2023.

The Australian Accounting Standards and amendments detailed in the table above are not mandatory for IAG until the operative dates stated, however, early adoption is permitted. IAG currently plans to apply the standards and amendments detailed above for the reporting periods beginning on or after the operative dates set out above.

AASB 17 Insurance Contracts

AASB 17, the new accounting standard for insurance contracts, was adopted by the Australian Accounting Standards Board on 19 July 2017 subsequent to being issued by the IASB on 18 May 2017. Since the standard was issued, various implementation matters have been raised by stakeholders and the IASB has considered these concerns and suggested targeted amendments to the standard. The proposed amendments have been considered by the IASB and industry constituents with a finalised standard issued on 10 July 2020. One of the changes to the standard, in addition to several others, is an agreed effective date for periods beginning 1 January 2023, with early adoption permitted.

The first applicable reporting period for IAG is expected to be the year ending 30 June 2024, with the comparative period for the year ending 30 June 2023. The standard introduces a new general measurement model for accounting for insurance contracts, with the application of a simplified approach (similar to *AASB 1023*) permitted in certain circumstances. IAG has completed a detailed impact assessment of the new standard and has determined that the Group is expected to be eligible to apply the simplified approach to the insurance contracts issued by the Group (based on the current portfolio mix). It is expected that there will be substantial changes in presentation of the financial statements and disclosures.

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