**INSURANCE AUSTRALIA GROUP LIMITED**
**HALF YEAR REPORT FOR THE PERIOD ENDED 31 DECEMBER 2020**

**APPENDIX 4D (ASX Listing Rule 4.2A)**

## RESULTS FOR ANNOUNCEMENT TO THE MARKET

| | UP / DOWN | % CHANGE | 31 December 2020 $m | 31 December 2019 $m |
|---|---|---|---|---|
| **Revenue from ordinary activities** | Up | 7.2 % | **9,659** | 9,012 |
| Net (loss)/profit after tax from ordinary activities attributable to shareholders of the Parent from continuing operations | Down | 258.9 % | **(456)** | 287 |
| Net loss after tax from ordinary activities attributable to shareholders of the Parent from discontinued operations | Unchanged | - % | **(4)** | (4) |
| **Net (loss)/profit attributable to shareholders of the Parent** | Down | 262.5 % | **(460)** | 283 |

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

| INTERIM DIVIDEND DATE | |
|---|---|
| Record date | 17 February 2021 |
| Payment date | 30 March 2021 |

The Company's Dividend Reinvestment Plan (DRP) will operate likely by acquiring shares on-market with no discount applied. The last date for the receipt of an election notice for participation in the Company's DRP is 18 February 2021. The DRP Issue Price will be based on a volume-weighted average price for a five-day trading window from 22 February 2021 to 26 February 2021 inclusive.

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

Additional Appendix 4D disclosure requirements can be found in the half year financial report of Insurance Australia Group Limited for the period ended 31 December 2020 (Attachment A). This report is also to be read in conjunction with the Annual Report of Insurance Australia Group Limited for the year ended 30 June 2020 and any public announcements made by Insurance Australia Group Limited during the reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the ASX Listing Rules.

This report is based on the consolidated half year financial statements which have been reviewed by KPMG.

ATTACHMENT A

INSURANCE AUSTRALIA GROUP LIMITED

HALF YEAR REPORT FOR THE PERIOD ENDED 31 DECEMBER 2020

# INSURANCE AUSTRALIA GROUP LIMITED

ABN 60 090 739 923

FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2020

**INSURANCE AUSTRALIA GROUP LIMITED**
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# DIRECTORS' REPORT

The Directors present their report together with the consolidated financial report of Insurance Australia Group Limited and its subsidiaries for the half year ended 31 December 2020 and the Auditor's Report.

The following terminology is used throughout the financial report:

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

## DIRECTORS OF INSURANCE AUSTRALIA GROUP LIMITED

The names and details of the Company's Directors in office at any time during, or since the end of, the half year are as follows. Directors were in office for the entire period unless otherwise stated.

**INDEPENDENT NON-EXECUTIVE**

Elizabeth B Bryan AM (Chairman)
Simon C Allen
Duncan M Boyle
Sheila C McGregor
Jonathan (Jon) B Nicholson
Helen M Nugent AO
Thomas (Tom) W Pockett
George Savvides AM
Michelle K Tredenick

**EXECUTIVE**

Nicholas (Nick) B Hawkins (Managing Director and Chief Executive Officer) – Effective 2 November 2020
Peter G Harmer (Managing Director and Chief Executive Officer) – Ceased 1 November 2020

## PRINCIPAL ACTIVITY

The principal continuing activity of IAG is the underwriting of general insurance and related corporate services and investing activities. IAG reports its financial information under the following segments:

| DIVISION | OVERVIEW | PRODUCTS |
|---|---|---|
| Australia<br><br>78% of Group gross written premium (GWP) | This segment is a leading provider of general insurance products to both individuals and businesses in Australia. The Australia division benefits from its access to a variety of distribution channels and an array of well-established brands, as summarised below.<br><br>The Australian division provides consumer insurance products through branches, call centres, the internet and representatives, under the following brands:<br>■ NRMA Insurance in New South Wales, Australian Capital Territory, Queensland and Tasmania;<br>■ SGIO in Western Australia;<br>■ SGIC in South Australia;<br>■ RACV in Victoria, via a distribution agreement with RACV;<br>■ Coles Insurance nationally, via a distribution agreement with Coles;<br>■ WFI nationally; and<br>■ CGU Insurance nationally through affinity and financial institution partnerships and broker and agent channels.<br><br>The division also includes travel insurance, life insurance and income protection products which are underwritten by third parties.<br><br>Business insurance products are sold through a network of around 2,000 intermediaries, such as brokers, agents and financial institutions and directly through call centre and online channels, under the following brands:<br>■ CGU Insurance;<br>■ WFI;<br>■ NRMA Insurance;<br>■ RACV;<br>■ SGIO; and<br>■ SGIC. | Short-tail insurance<br>■ Motor vehicle<br>■ Home and contents<br>■ Lifestyle and leisure, such as boat, veteran and classic car and caravan<br>■ Business packages<br>■ Farm and crop<br>■ Commercial property<br>■ Construction and engineering<br>■ Commercial motor and fleet motor<br><br>Long-tail insurance<br>■ Compulsory Third Party (motor injury liability)<br>■ Workers' compensation<br>■ Professional indemnity<br>■ Directors' and officers'<br>■ Public and products liability |

| DIVISION | OVERVIEW | PRODUCTS |
|---|---|---|
| New Zealand<br><br>22% of Group GWP | The New Zealand business is the leading general insurance provider in the country in both the direct and broker/agent channels. Insurance products are provided directly to customers, primarily under the State and AMI brands, and indirectly through insurance brokers and agents, under the NZI and Lumley Insurance brands. General insurance products are also distributed through agents and under third party brands by corporate partners, which include large financial institutions. | Short-tail insurance<br>■ Motor vehicle<br>■ Home and contents<br>■ Commercial property, motor and fleet motor<br>■ Construction and engineering<br>■ Niche insurance, such as pleasure craft, boat and caravan<br>■ Rural<br>■ Marine<br><br>Long-tail insurance<br>■ Personal liability<br>■ Commercial liability |
| Corporate and other | Corporate and other comprises other activities, including corporate services, capital management activity, shareholders' funds investment activities, inward reinsurance from associates, investment in associates, and other businesses that offer products and services that are adjacent to IAG's insurance business. | |

## RECONCILIATION BETWEEN THE STATUTORY RESULTS (IFRS) AND THE MANAGEMENT REPORTED (NON-IFRS) RESULTS

The discussion of operating performance in the operating and financial review section of this report is presented on a management reported basis unless otherwise stated. Management reported results are non-IFRS financial information and are not directly comparable to the statutory results presented in other parts of this financial report. A reconciliation between the two is provided in this section and the guidance provided in Australian Securities and Investments Commission Regulatory Guide 230 'Disclosing non-IFRS financial information' ('RG 230') has been followed when presenting the management reported results. Non-IFRS financial information has not been reviewed by the external auditor, but has been sourced from the financial reports. IAG's statutory and management reported profit/(loss) before income tax from continuing operations are the same.

IAG's results for the current period contain:

- an increase in the provision for customer refunds that was initially recognised in the prior financial year. The provision comprises premium refunds, interest attributable to those refunds and the cost of administering the associated remediation program. This provision predominantly relates to certain multi-year pricing issues identified by IAG where discounts were not always applied in full to premiums for all customers who may have been eligible; and
- the impact from recognition of an increase in the provision for business interruption-related claims related to the COVID-19 pandemic. This increase was made primarily in response to the Supreme Court of New South Wales Court of Appeal (NSWCA) 18 November 2020 judgement that determined that certain pandemic related policy exclusion wordings were ineffective.

These provisions are not expected to be a feature of the Group's future sustainable earnings profile. As a result, and to ensure consistency of the reporting of key insurance measures and metrics, these items have been shown in the 'Net corporate expense' line in the management reported view of the current period's results. This view is consistent with the approach adopted in IAG's Investor Report.

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

| | STATUTORY RESULTS (IFRS) | CUSTOMER REFUNDS PROVISION | BUSINESS INTERRUPTION CLAIM PROVISION | MANAGEMENT RESULTS (NON-IFRS PER INVESTOR REPORT) |
|---|---|---|---|---|
| | $m | $m | $m | $m |
| **31 December 2020** | | | | |
| Gross written premium | **6,159** | **29** | **-** | **6,188** |
| Movement in unearned premium liability | **2** | **-** | **-** | **2** |
| Gross earned premium | **6,161** | **29** | **-** | **6,190** |
| Outwards reinsurance premium expense | **(2,468)** | **1** | **-** | **(2,467)** |
| Net earned premium | **3,693** | **30** | **-** | **3,723** |
| Net claims expense | **(3,431)** | **-** | **1,150** | **(2,281)** |
| Commission expense | **(502)** | **-** | **-** | **(502)** |
| Underwriting expense | **(948)** | **41** | **-** | **(907)** |
| Reinsurance commission revenue | **529** | **4** | **-** | **533** |
| Net underwriting expense | **(921)** | **45** | **-** | **(876)** |
| Underwriting (loss)/profit | **(659)** | **75** | **1,150** | **566** |
| Net investment income on assets backing insurance liabilities | **101** | **-** | **-** | **101** |
| Insurance (loss)/profit | **(558)** | **75** | **1,150** | **667** |
| Net other operating income/(expenses) | **12** | **(75)** | **(1,150)** | **(1,213)** |
| Loss before income tax from continuing operations | **(546)** | **-** | **-** | **(546)** |
| Income tax expense | **187** | **-** | **-** | **187** |
| Loss after income tax from continuing operations | **(359)** | **-** | **-** | **(359)** |
| Non-controlling interests | **(97)** | **-** | **-** | **(97)** |
| Loss after income tax and non-controlling interests | **(456)** | **-** | **-** | **(456)** |
| Net loss after tax from discontinued operations | **(4)** | **-** | **-** | **(4)** |
| Loss attributable to IAG shareholders | **(460)** | **-** | **-** | **(460)** |
| 31 December 2019 | | | | |
| Gross written premium | 5,861 | 101 | - | 5,962 |
| Movement in unearned premium liability | 143 | - | - | 143 |
| Gross earned premium | 6,004 | 101 | - | 6,105 |
| Outwards reinsurance premium expense | (2,377) | (19) | - | (2,396) |
| Net earned premium | 3,627 | 82 | - | 3,709 |
| Net claims expense | (2,433) | - | - | (2,433) |
| Commission expense | (506) | - | - | (506) |
| Underwriting expense | (1,009) | 79 | - | (930) |
| Reinsurance commission revenue | 591 | (11) | - | 580 |
| Net underwriting expense | (924) | 68 | - | (856) |
| Underwriting profit | 270 | 150 | - | 420 |
| Net investment income on assets backing insurance liabilities | 81 | - | - | 81 |
| Insurance profit | 351 | 150 | - | 501 |
| Net other operating income/(expenses) | 6 | (150) | - | (144) |
| Profit before income tax from continuing operations | 357 | - | - | 357 |
| Income tax expense | (90) | - | - | (90) |
| Profit after income tax from continuing operations | 267 | - | - | 267 |
| Non-controlling interests | 20 | - | - | 20 |
| Profit after income tax and non-controlling interests | 287 | - | - | 287 |
| Net loss after tax from discontinued operations | (4) | - | - | (4) |
| Profit attributable to IAG shareholders | 283 | - | - | 283 |

The adjustments summarised above reflect the impact on pre-tax earnings for each respective half year period as a result of the inclusion of the costs associated with the provisions, as noted above.

The gross increase during the current period in the provision for customer refunds, interest attributable to those refunds and the cost of administering the associated remediation program was $70 million (31 December 2019: $180 million) (refer to Note 2.4) and after a reduction of $5 million (31 December 2019: increase of $30 million) on the recovery from IAG's whole-of-account quota share arrangements, the half year net pre-tax earnings impact is $75 million (31 December 2019: $150 million). After tax and outside equity interests, the net cost of this provision to IAG is $54 million (31 December 2019: $82 million).

The gross increase during the current period in the provision for business interruption-related claims was $1,704 million (31 December 2019: nil) and after recognition of a $554 million (31 December 2019: nil) recovery from IAG's whole-of-account quota share arrangements, the half year net pre-tax earnings impact is $1,150 million (31 December 2019: nil). After tax, the net cost of this provision to IAG is $805 million (31 December 2019: nil).

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

# OPERATING AND FINANCIAL REVIEW

## OPERATING RESULT FOR THE HALF YEAR

IAG's reported insurance margin of 17.9%, was higher than the prior corresponding half year (31 December 2019: 13.5%), primarily reflecting favourable impacts from relatively benign motor claims experience, favourable net natural perils and the narrowing of credit spreads partially offset by a modest overall net prior period reserve strengthening.

From the 2021 financial year, IAG's underlying margin definition will no longer factor in an allowance for reserve releases, reflecting IAG's view of uncertainty attached to long-tail reserve development in the current economic and operating environment. The prior period comparatives are reported on the previous basis, which included an allowance of 1% of net earned premium (NEP), reflecting the more benign environment for long-tail claims inflation in the past. Underlying margins continue to be adjusted for prior year reserve releases or strengthening, natural peril claim costs above or below related allowances and credit spread gains or losses. The underlying insurance margin in the current half year of 15.9%, was consistent with the first half of the prior year when allowing for the difference in treatment of reserve releases (16.9% including reserve releases for the six months ended 31 December 2019). Excluding the benefit from COVID-19, the underlying margin in the current half year was approximately 14.2%.

Overall GWP increased by 3.8% (to $6,188 million) in comparison to the prior corresponding half year. This comprised growth of 4.6% in Australia (to $4,819 million) and 1.5% in New Zealand (to $1,368 million), including a modestly unfavourable foreign exchange translation effect. Underlying Group GWP growth was approximately 5% after allowing for estimated unfavourable COVID-19 influences of around $50 million.

### Provision for potential business interruption claims and capital raising

IAG has recognised a pre-tax provision of $1,236 million for potential business interruption claims. This follows the 18 November 2020 unanimous decision of the Supreme Court of New South Wales Court of Appeal (NSWCA), which determined that pandemic exclusions that refer to the *Quarantine Act* and subsequent amendments, rather than the *Biosecurity Act*, are not effective to exclude cover for losses associated with COVID-19. IAG had exposure to policy wordings that referenced the *Quarantine Act*, which accounts for approximately 80% of the total provision recognised. The balance reflects potential exposure to prevention of access clauses that generally operate when actions of governments or other legal authorities cause business interruption by preventing or restricting access to premises. In aggregate, a pre-tax charge of $1,150 million has been included in the current reporting period after allowance for the related COVID-19 provision recognised in the prior financial year. The net post-tax impact on IAG's current half year earnings is $805 million.

To reinforce its capital position following recognition of the business interruption provision, IAG raised $650 million through an institutional placement of approximately 129 million shares and $126 million through a Share Purchase Plan of approximately 25 million shares. In total, $776 million of new equity capital was raised and approximately 154 million new fully paid ordinary shares were issued.

IAG's view remains that the intent of its business interruption policies was to exclude losses related to pandemics such as COVID-19. This view is shared by a number of insurers represented by the Insurance Council of Australia (ICA). Given this, an application for special leave to the High Court of Australia to appeal the NSWCA's judgement has been made. If an appeal proceeds, an outcome is expected in calendar year 2021.

### Other COVID-19 impacts on performance

In addition to the business interruption provision, the COVID-19 pandemic has also had a range of other effects on IAG's financial performance in the current half year.

Estimates associated with these impacts include:

- an estimated GWP reduction of approximately $50 million in comparison to the prior corresponding half year, predominantly from lower new business opportunities in Australian personal lines during the lockdown in Victoria and reduced travel insurance premium. Business retention has held at high levels in most core portfolios and COVID-19 has had a negligible impact on New Zealand GWP during the period;
- approximately $100 million pre-tax earnings benefit from lower motor claims frequency, which was weighted to the September 2020 quarter when the lockdown in Victoria occurred;
- a partial offset to this benefit of approximately $25 million from a combination of claims incurred in other COVID-19 affected business classes such as landlords' insurance, travel insurance and commercial liability and lower earned premium; and
- a further offset from increased operating expenses of $10 million associated with COVID-19 related impacts and responses, mainly from employees 'working from home' and changes to offshore worksite arrangements.

In aggregate, the COVID-19 impacts outlined above had an estimated net positive impact on the underlying insurance profit of around $60 million to $70 million in the current half year (approximately 1.7% of NEP) compared to a net neutral impact in the prior financial year. All underwriting profit impacts are expressed on a post-quota share basis.

### Provision for customer refunds

An ongoing proactive review of pricing systems and processes saw a provision raised in the prior financial year for multi-year pricing issues identified by IAG where discounts were not always applied in full to premiums. The provision has been updated to include four additional refund programs and associated administration costs. An overall pre-tax charge of $75 million (post quota share) for customer refunds has been included in current period earnings. After tax and outside equity interests, the net cost of this provision to IAG was $54 million.

### Swann class action

On 6 October 2020 IAG agreed to a settlement of the class action brought against IAG's subsidiaries, Swann Insurance (Aust) Pty Ltd (Swann) and Insurance Australia Limited. An associated pre-tax charge of $68 million ($48 million after tax) has also been included in current period earnings.

### New divisional operating model in Australia

On 2 November 2020 IAG announced that the Australia Division will be split into Direct Insurance Australia and Intermediated Insurance Australia. The new operating model will provide greater clarity on roles and responsibilities and is more aligned to IAG's brands and customer propositions. This revision has not resulted in any change to the reporting segments in the current reporting period as financial information reviewed and used by the Group Chief Executive Officer (as the chief operating decision maker) has not yet been realigned to the new segment structure.

### Net loss after tax

The Group's loss after tax for the half year was $363 million (31 December 2019: $263 million profit). After adjusting for non-controlling interests in the Group result, net loss attributable to the shareholders of the Company was $460 million (31 December 2019: $283 million profit). This outcome included the net effect of:

- an approximately 33% increase in pre-tax insurance profit to $667 million (31 December 2019: $501 million), primarily owing to favourable net COVID-19 effects (as summarised above), lower net natural perils loss experience, and a positive impact from the narrowing of credit spreads, partially offset by a modest overall strengthening in prior period loss reserves;
- a positive turnaround in contribution from investment income on shareholders' funds, on stronger investment markets; offset by
- the aforementioned post-tax provisions of $805 million for potential business interruption claims, $54 million for customer refunds and $48 million in relation the settlement of the Swann class action lawsuit.

### Gross written premium

Total GWP of $6,188 million (31 December 2019: $5,962 million) represented a 3.8% increase compared to the prior corresponding half year. This increase encompassed:

- $4,819 million in Australia, representing growth of 4.6% predominantly resulting from rate increases; and
- $1,368 million in New Zealand, translating to reported growth of 1.5% driven by a combination of premium rates, strong retention and sound new business levels.

Underlying Group GWP growth was closer to 5% after allowing for estimated COVID-19 influences of around $50 million, predominantly in Australian personal lines.

### Insurance margin

IAG's current half year reported insurance profit of $667 million (31 December 2019: $501 million) was 33% higher than the prior corresponding half year. The resultant reported insurance margin of 17.9% (31 December 2019: 13.5%) reflects the combined impact of:

- favourable net natural peril experience;
- the narrowing of credit spreads; partially offset by
- a $15 million impact from strengthening prior year loss reserves, compared to reserve releases of $5 million in the prior corresponding period.

### Underlying margin

The underlying insurance margin in the current half year of 15.9%, was consistent to the first half of the prior financial year when allowing for the difference in treatment of prior year reserve movements (prior corresponding half was 16.9% including a 1% allowance for favourable prior year reserve movements as a percentage of NEP). Excluding the benefit from COVID-19, the underlying margin in the current half year was approximately 14.2%.

IAG defines its underlying margin as the reported insurance margin adjusted for:

- net natural peril claim costs less the related allowance for the period;
- changes in prior period reserves; and
- credit spread movements.

| | | **31 December 2020** | | 31 December 2019 |
|---|---|---|---|---|
| INSURANCE MARGIN | **$m** | **%** | $m | % |
| Management reported insurance margin(1) | **667** | **17.9** | 501 | 13.5 |
| Net natural peril claim costs in excess of allowance | **(39)** | **(1.0)** | 99 | 2.7 |
| Changes in prior period reserves(2) | **15** | **0.4** | 32 | 0.9 |
| Credit spread movements | **(51)** | **(1.4)** | (7) | (0.2) |
| Underlying insurance margin | **592** | **15.9** | 625 | 16.9 |

(1) Management reported insurance margin is the insurance profit as a percentage of NEP as disclosed in the Investor Report. Based on the statutory results, the equivalent statutory insurance margin for the current period is (15.1)%.

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

### Tax expense

IAG reported an income tax benefit of $187 million in the current half year compared to $90 million expense in the prior corresponding half year. The movement is largely attributable to the tax impact of the $1,150 million expense associated with the provision for business interruption claims. Excluding the effect of this provision, IAG's effective tax rate was 26%.

Contributory elements reconciling the current half year's effective tax rate to the Australian corporate rate of 30% are:

- differences in tax rates applicable to IAG's foreign operations, principally in New Zealand, Singapore and Malaysia; and
- franking credits generated from IAG's investment portfolio.

### Investment income on shareholders' funds

Net investment income on shareholders' funds was a profit of $138 million, compared to a $50 million profit in the prior corresponding half year. This result included:

- positive investment returns in the current half year reflecting strong market performances, partially diluted by the defensive strategy of IAG's international equity portfolio;
- positive mark-to-market impacts in alternative assets, primarily from higher yielding credit strategies, global convertible bonds and hedge funds;
- the move to a more defensive asset allocation in the second half of the prior financial year; and
- a further $6 million write-down of IAG's 16.9% interest in Bohai Property Insurance Company Ltd in China, reflecting the challenging operating environment for that business which is placing pressure on its financial performance.

## DIVISIONAL HIGHLIGHTS

### A. AUSTRALIA

Australia accounted for 78% of Group GWP. This segment delivered a higher reported insurance margin of 17.3% (31 December 2019: 12.1%), primarily reflecting favourable overall COVID-19 effects, including low motor claims frequency, natural peril experience below allowance and credit spread gains in the current half year.

#### I. Premiums

Australia's current half year GWP rose by 4.6% to $4,819 million, compared to the prior corresponding half year GWP of $4,608 million.

Most of this growth was driven by higher rates across personal short-tail and commercial portfolios. Excluding COVID-19 effects estimated at approximately $50 million, GWP growth would have exceeded 5%.

#### II. Insurance profit

Australia reported an insurance profit of $505 million, compared to $349 million in the prior corresponding half year. This equates to a higher reported insurance margin of 17.3% (31 December 2019: 12.1%).

#### III. Underlying margin

Australia's underlying performance of 15.3% was lower than 16.1% in the prior corresponding half year, however it improved on the equivalent metric of 13.9% reported in the second half of the prior financial year. Two key elements should be noted to assist with comparisons:

- underlying margins in both halves of the prior financial year assumed a normalised level of reserve releases of 1% of NEP, in line with IAG's definition of underlying margins at that time, whereas no normalised releases are assumed for the 2021 financial year; and
- the current half year includes a net COVID-19 benefit of approximately $60 million to $70 million (approximately 2.2% of NEP), predominantly from reduced motor claims frequency. The first half of the prior year had no COVID-19 related effects, whereas the second half of the prior financial year included a small net negative impact.

The current half year's underlying margin was 13.1% excluding the impact of COVID-19, which was a small increase over the second half of the prior financial year (12.9% on a like-for-like basis).

#### IV. Fee-based business

Fee-based income in Australia will in the future comprise of contributions from two main sources:

- investment in new businesses focusing on advanced technologies, data asset capabilities, innovation and mobility initiatives; and
- the car servicing operations of Motorserve, an acquisition that was completed during the second half of the prior financial year.

Fee-based income in the current year will include the last contribution from IAG's role as agent under the Victorian workers' compensation scheme, which is underwritten by the state government. IAG informed WorkSafe Victoria in December 2020 that it would not be accepting the offer of a two-year contract extension to its role as agent under the scheme. A provision for restructuring costs associated with IAG's exit, which will become effective on or before 30 June 2021, is included in the Group's current period earnings.

The loss from fee-based operations in the current half year was $5 million (31 December 2019: $6 million profit). This included:

- an overall contribution of $7 million (31 December 2019: $8 million) from the Victorian workers' compensation business. A similar underlying performance was achieved after allowance for $2 million of prior period fee income (31 December 2019: $5 million), which is typically reported in the opening half of the financial year;
- a loss of approximately $3 million from Motorserve's car servicing activities, largely due to the impact of the NSW lockdown on volumes; and
- net costs associated with digital initiatives of around $8 million.

## B. NEW ZEALAND

New Zealand accounted for 22% of Group GWP and produced a higher reported insurance margin of 20.4% (31 December 2019: 18.9%). The higher insurance margin largely reflected higher reserve releases and reduced impact from natural perils.

### I. Premiums

New Zealand's reported current half year GWP rose by 1.5% to $1,368 million, compared to the prior corresponding half year GWP of $1,348 million, incorporating a modestly unfavourable foreign exchange translation effect (130bps or $17 million). New Zealand's local currency GWP grew by 2.8% to NZ$1,468 million (31 December 2019: NZ$1,428 million). This growth was driven by a combination of premium rate growth, strong retention rates and sound new business levels.

There have been no material COVID-19 GWP impacts in the current half year. The economy has been more resilient than expected, supported by the government's economic response as well as the relatively short duration of lockdowns.

### II. Insurance profit

The New Zealand business produced a higher insurance profit of $162 million in the current half year, compared to $156 million in the prior corresponding half year. This equates to a reported insurance margin of 20.4% (31 December 2019: 18.9%) with the increase reflecting a combination of higher reserve releases and reduced impact from natural perils.

Prior period reserve releases of $18 million were recognised in the current half year, compared to $14 million in the prior corresponding half year. The current half year's net reserve releases were predominantly attributable to favourable prior year working claims development across a number of classes of business.

### III. Earthquake settlements

Steady progress continues to be made with the settlement of claims associated with the financial year 2011 Canterbury earthquake events. At 31 December 2020, over NZ$7.1 billion of claim settlements had been completed, with less than 850 claims remaining open out of more than 90,000 received.

Outstanding Canterbury earthquake claims include those subject to dispute and litigation, as well as recently received over-cap claims from the Earthquake Commission (EQC). It remains IAG's expectation that finalisation of all residual claims will take several years given their associated complexity.

IAG recently settled its claims against the EQC in relation to land recoveries and financial wash-up. This had no net impact on the current period's results.

## C. CORPORATE AND OTHER

A statutory pre-tax profit of $18 million was reported, which compares to a loss of $4 million in the prior corresponding half year. The movement primarily reflects the increase in net investment income on shareholders' funds of $88 million partially offset by an unfavourable movement of $73 million in other net operating result. The unfavourable movement in other operating result predominantly reflects $68 million in costs associated with the Swann class action. Further details on the operating segments are set out in Note 1.3 within the financial statements.

### I. Share of net profit/(loss) of associates

The Group's share of net profit of associates was a statutory profit of $17 million (31 December 2019: $27 million), largely derived from IAG's interest in AmGeneral Holdings Berhad (AmGeneral) in Malaysia. The prior corresponding half year included IAG's interest in SBI General Insurance Company Limited in India which was sold in March 2020.

AmGeneral's current half year insurance margin of 15.8% declined modestly relative to 16.2% in the prior corresponding half year, resulting in an insurance profit of $38 million, approximately 7% below the prior corresponding half year. This reflects lower investment income, while underwriting profits improved modestly, mainly due to COVID-19 related motor claims frequency benefits.

## REVIEW OF FINANCIAL CONDITION

### A. FINANCIAL POSITION

The total assets of the Group as at 31 December 2020 were $32,360 million compared to $29,694 million as at 30 June 2020. Movements within the overall net increase in assets of $2,666 million include:

- an increase in investments of $1,614 million associated with funds inflow from the $776 million equity raising, the issue of $450 million subordinated convertible term notes and the operating activities for the half year, partially offset by a $330 million funds outflow following the transfer of the management of the IAG and NRMA Superannuation Plan to a third party;
- an increase of $799 million in reinsurance and other recoveries on outstanding claims primarily associated with recoveries due from the whole-of-account quota shares, largely driven by the recognition of the additional provision for potential business interruption-related claims; and
- an increase of $324 million in deferred tax assets primarily due to the recognition of tax losses incurred by the Australian tax consolidated group for the current period driven by the business interruption-related provisioning.

The total liabilities of the Group as at 31 December 2020 were $25,688 million compared with $23,340 million as at 30 June 2020. Movements within the overall net increase in liabilities of $2,348 million include:

- a $1,995 increase in outstanding claims liability primarily driven by the increase during the current period in the provision for potential business interruption-related claims;
- a $450 million increase in interest-bearing liabilities owing to the issuance of subordinated convertible term notes in August 2020;
- a $217 million overall increase in provisions mainly due to the Swann class action lawsuit and including an uplift in customer refunds provision during the period; partially offset by
- a $330 million decrease in non-controlling interests in unitholders' funds as a result of the transfer of the management of the IAG and NRMA Superannuation Plan to a third party in November 2020.

IAG shareholders' equity (excluding non-controlling interests) increased from $6,077 million as at 30 June 2020 to $6,380 million as at 31 December 2020, reflecting the combined effect of:

- $768 million from the issuance of ordinary shares, net of transaction costs; and
- current half year net loss attributable to shareholders of $460 million.

### B. CASH FROM OPERATIONS

The net cash inflows from operating activities for the half year ended 31 December 2020 were $800 million compared with $183 million for the prior corresponding half year. The $617 million movement is mainly attributable to the net effect of:

- a $240 million decrease in claims costs paid, predominantly driven by lower natural perils payments compared to the prior corresponding half year and reduction from other impacts, including lower motor claim payments reflecting lower motor claims frequency;
- a $233 million increase in reinsurance and other recoveries received, which reflects the recoveries on the significant natural peril events that occurred during the prior financial year; and
- a $178 million decrease in net outflows from other operating payments and receipts, predominantly driven by the absence of short-term incentive payments in the current period and timing in settlement of trade debtors and creditors.

### C. INVESTMENTS

The Group's investments totalled $11,714 million as at 31 December 2020, excluding investments held in joint venture and associates. Total investments at 30 June 2020 were $10,100 million. The increase in total investments since 30 June 2020 reflects the combined effect of:

- $450 million in proceeds from the subordinated convertible term notes issue on 24 August 2020;
- $765 million in net proceeds from the $650 million institutional placement and the $126 million retail Share Purchase Plan;
- positive investment returns over the period;
- funds generated from operating activities during the period; partially offset by
- a $330 million reduction following transfer of the management of the IAG and NRMA Superannuation Plan to a third party in November 2020.

IAG's overall investment allocation is defensively positioned, with nearly 90% of total investments in fixed interest and cash as at 31 December 2020. Technical reserves, which back insurance liabilities, are wholly invested in fixed interest and cash, while a more diversified approach is taken to shareholders' funds, comprising a mix of fixed interest and cash and growth assets (equities and alternatives). IAG's allocation to growth assets was 27% of shareholders' funds at 31 December 2020, a similar level to 30 June 2020.

### D. INTEREST-BEARING LIABILITIES

IAG's interest-bearing liabilities stood at $1,976 million at 31 December 2020, compared to $1,526 million at 30 June 2020. The net movement in the period largely reflects the $450 million subordinated convertible term notes issued by the Company on 24 August 2020.

**E. CAPITAL MIX**
IAG measures its capital mix on a net tangible equity basis, i.e. after deduction of goodwill and intangibles, giving it strong alignment with regulatory and rating agency models. IAG targets the following ranges:
- ordinary equity (net of goodwill and intangibles) 60-70%; and
- debt and hybrids 30-40%.

At 31 December 2020, debt and hybrids represented 36.1% (30 June 2020: 32.2%) of total tangible capitalisation, towards the mid-point of IAG's targeted range. This follows the $450 million subordinated convertible term notes issue on 24 August 2020.

**F. CAPITAL POSITION**
Under the Australian Prudential Regulatory Authority's (APRA) Prudential Standards, IAG's Common Equity Tier 1 (CET1) capital was $2,767 million (30 June 2020: $2,567 million) and total regulatory capital was $4,747 million (30 June 2020: $4,098 million) at 31 December 2020. IAG has set the following related targeted benchmarks:
- a CET1 target range of 0.9 to 1.1 times the Prescribed Capital Amount (PCA), compared to a regulatory requirement of a minimum 0.6 times; and
- a total capital position equivalent to 1.6 to 1.8 times the PCA, compared to a regulatory requirement of a minimum of 1.0 times.

At 31 December 2020, IAG had a CET1 multiple of 1.19 (30 June 2020: 1.23) and a PCA multiple of 2.04 (30 June 2020: 1.97).

## STRATEGY AND RISK MANAGEMENT

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

COVID-19 materially disrupted local and global markets and the lives of customers in 2020. In these uncertain times, IAG's Purpose is more important than ever and guides IAG's ambition to serve every Australian and New Zealander. Achieving this ambition requires being Purpose-led, customer focused and commercially disciplined.

Through IAG's investment in customer experience, simplification and agility over the last five years, it is well positioned for the future. IAG's trusted brands, supply chain scale, deep data assets and financial strength are key attributes, providing competitive advantage.

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

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

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

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

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

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

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

# Clear strategic focus

| Purpose | Strategy |
|---|---|
| We make your world a safer place | Create a stronger, more resilient IAG |

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

**B. BUSINESS RISK AND RISK MANAGEMENT**
IAG acknowledges that it has to take risk in an informed manner in pursuit of its strategic objectives and to meet expectations of its stakeholders, including customers, industry and regulators. IAG clearly articulates the levels, boundaries and nature of risk it is willing to accept, actively manage or avoid in pursuit of the Group's strategic objectives.

IAG uses an enterprise-wide approach to risk management and its Risk Management Framework (RMF) is a core part of the governance structure, which includes internal policies, key management processes and culture. The Group Risk Management Strategy (RMS) articulates the strategy to manage risks at IAG and describes the key elements of the RMF to implement this strategy. The RMS is reviewed annually, or more frequently as required, by the Risk Committee before being recommended for approval by the Board. IAG's Group Risk function provides regular reports to the Risk Committee on the operation of, and any changes to, IAG's Risk Management Framework, the status of material risks, risk and compliance incidents, risk trends and IAG's risk profile. IAG's Group Internal Audit function provides reports to the Audit Committee on significant audit findings and other audit related matters.

Roles and responsibilities of the Board and its standing committees, the Risk Committee, the Audit Committee, the People and Remuneration Committee and the Nomination Committee, are set out in the Corporate Governance section of the IAG website.

IAG is exposed to multiple risks relating to its businesses and pursuit of its strategic objectives. The risks noted below are not exhaustive, but outline the material risks faced by the Group as identified in the RMS:

- strategic risk – risk that internal or external factors disrupt the assumptions underpinning IAG's strategy or compromise its ability to set and execute an appropriate strategy;
- organisational conduct and customer risk – risk of behaviour or action taken by entities and employees associated with IAG and its controlled entities that may have negative outcomes for IAG's customers, staff, communities and markets in which IAG operates. It includes the risk of failing to meet customer expectations as well as the risk that products are designed, priced and distributed in a way that does not meet the needs and expectations of customers;
- insurance risk – risk of loss as a result of:
  - inadequate or inappropriate underwriting;
  - inadequate or inappropriate product pricing;
  - unforeseen, unknown or unintended liabilities that may eventuate;
  - inadequate or inappropriate claims management including reserving; and
  - insurance concentration risk (i.e. by locality, segment factor, or distribution);
- reinsurance risk – risk of:
  - lack of capacity in the reinsurance market;
  - insufficient or inappropriate reinsurance coverage;
  - inadequate underwriting and/or pricing of reinsurance exposures retained by IAG's reinsurance captives;
  - inadequate or inappropriate reinsurance recovery management;
  - reinsurance arrangements not legally binding; and
  - reinsurance concentration risk;
- market risk – risk of adverse movements in market prices (equities, derivatives, interest rates, foreign exchange, etc) or inappropriate concentration within the investment funds;
- credit risk – risk arising from a counterparty's failure to meet its obligations in accordance with the agreed terms. This includes investment and derivative counterparties, reinsurers and premium debtors;
- liquidity risk – risk of inadequate funds and/or illiquid asset portfolios to meet liabilities as they fall due;
- capital risk – risk that capital is:
  - insufficient or excessive given the nature, strategies and objectives of the firm; or
  - comprised of a mix of equity, debt, reinsurance or other expiring sources of capital that is unsuitable or unsustainable due to its cost, structure, flexibility, or IAG's ability to renew or replace on acceptable terms;
- operational risk – the failure to achieve objectives due to inadequate or failed internal processes, people and systems or from external events; and
- regulatory risk and compliance – risk of legal or regulatory impacts or reputational loss arising from failure to manage compliance obligations or failure to anticipate and prepare for changes in the regulatory environment.

IAG aims to have a disciplined approach to risk management and believes this approach provides the greatest long-term likelihood of being able to meet the objectives of all stakeholders.

IAG's purpose is to 'make your world a safer place' and the Group is committed to managing the risks and opportunities resulting from environmental, social and governance issues. IAG's Social and Environmental Policy was reviewed this year and relaunched as a Board-approved Social and Environmental Framework. It includes IAG's commitments to community engagement and impact, human rights, supporting its people and addressing climate change and environmental impacts. IAG addresses Human Rights and Modern Slavery legislative requirements across its business, including in its procurement, asset management and human resources business units and will publish its first Modern Slavery Statement during the 2021 financial year.

IAG has long recognised it needs to play a role in adapting to climate change, and has a unique ability to help communities prepare for and manage climate impacts, while realising the business opportunities of a safer world. IAG's expertise in natural perils research and data gives the business a unique insight into extreme weather events, that are influenced by climate change. As well as the impacts of those events on IAG's customers, business and the wider community, IAG's safer communities partnerships and programs and its role on the Australian Business Roundtable for Disaster Resilience & Safer Communities provide examples of IAG's collaborative approach on mitigation and adaptation efforts in response to climate risk.

IAG has completed assessments of the physical and transition impacts of climate change on its business and is integrating the findings into its Risk Management Framework and Enterprise Risk Profile and strategy and planning processes.

IAG is committed to continuing to enhance its understanding of climate risk and providing disclosures consistent with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. An update can be found in IAG's current half year Investor Report. More information can be found in IAG's expanded 2020 climate-related disclosure both within the 30 June 2020 Annual Report and the Safer Communities section of www.iag.com.au. Further information on how IAG is taking action on climate change is detailed in its Climate Action Plan Scorecards, which are published on the Safer Communities section of www.iag.com.au.

Detail of IAG's overall Risk Management Framework, which is outlined in the RMS, is set out in Note 3.1 within the 30 June 2020 Annual Report and in the Corporate Governance Statement, which is available at www.iag.com.au/about-us/corporate-governance. Effective from 1 September 2020, the IAG Board approved a revised Risk Management Strategy, consolidating the number of risk classes from eleven to ten, as defined above. The Customer risk class merged with Organisational Conduct to create the Organisational Conduct and Customer risk class.

## OUTLOOK

Consistent with the approach adopted when the prior financial year result was presented in August 2020, IAG has determined not to provide guidance for the current financial year. This decision will be reviewed periodically.

## DIVIDENDS

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

Cash earnings are used for the purposes of targeted ROE and dividend payout policy and are defined as:

- net profit after tax attributable to shareholders of the Parent;
- plus amortisation and impairment of acquired identifiable intangibles; and
- excluding any unusual items (non-recurring in nature).

| CASH EARNINGS | **31 December 2020 $m** | 31 December 2019 $m |
|---|---|---|
| Net (loss)/profit after tax | **(460)** | 283 |
| Acquired intangible amortisation and impairment | **4** | 15 |
| | **(456)** | 298 |
| **Non-recurring items:** | | |
| Corporate expenses | | |
| - Business interruption provision | **1,150** | - |
| - Customer refunds provision | **75** | 150 |
| - Swann class action | **68** | - |
| - Victorian workers' compensation restructuring cost | **17** | - |
| - Other | **-** | 2 |
| Tax effect on corporate expenses(1) | **(394)** | (47) |
| Non-controlling interest in net corporate expense | **2** | (23) |
| Cash earnings(2) | **462** | 380 |
| Interim dividend | **173** | 231 |
| Cash payout ratio(2) | **37.4%** | 60.8% |

(1) Includes Australian income tax benefits in relation to the corporate expense items listed above.

(2) Cash earnings and cash payout ratio represent non-IFRS financial information.

IAG's full year dividend payout policy is to pay dividends equivalent to approximately 60-80% of reported full year cash earnings in respect of any given financial year.

The Board has determined to pay an unfranked interim dividend of 7.0 cents per share (31 December 2019: 10.0 cents per share, 70% franked). The interim dividend is payable on 30 March 2021 to shareholders registered as at 5pm Australian Eastern Daylight Time (AEDT) on 17 February 2021.

The dividend reinvestment plan (DRP) will operate for the interim dividend for shareholders registered for the DRP as at 5pm AEDT on 18 February 2021. The issue price per share will be the Average Market Price as defined in the DRP terms with no discount for participants. Shares allocated under the DRP are likely to be purchased on-market. Information about IAG's DRP is available at http://www.iag.com.au/shareholder centre/dividends/reinvestment.

## SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the half year, the following changes became effective:

- On 24 August 2020, the Company issued $450 million of subordinated convertible term notes in Australia. The subordinated notes qualify as Tier 2 Capital under APRA's Prudential Framework for General Insurance.
- On 21 September 2020, the Board announced the appointment of Nick Hawkins as IAG Managing Director and Chief Executive Officer (CEO), effective 2 November 2020. Mr Hawkins succeeded Peter Harmer whose retirement was announced in April 2020.
- On 2 November 2020, IAG confirmed the appointment of Michelle McPherson as Group Chief Financial Officer after acting in that capacity since joining IAG in April 2020.
- On 2 November 2020, IAG also announced that the Australia Division will be split into Direct Insurance Australia and Intermediated Insurance Australia. As a result, IAG CEO Australia, Mark Milliner, left the Group at the end of November 2020. While an internal and external search is underway, Amanda Whiting, currently IAG Executive General Manager, Consumer Distribution, is acting as Group Executive Direct Insurance Australia. Julie Batch is acting as Group Executive Intermediated Insurance Australia, in addition to her current responsibilities of leading IAG's Strategy and Innovation division. There has been no change to the reporting segments in the current reporting period as financial information was prepared and reviewed by the chief operating decision maker based on the pre-existing segment structure.
- During the half year ended 31 December 2020, the Company undertook the following two issues of ordinary shares to strengthen IAG's capital position following recognition of the increased provision for potential business interruption claims resulting from the test case decision handed down by the NSWCA on 18 November 2020:
  - $650 million raised through a fully underwritten institutional placement at $5.05 per ordinary share, of approximately 129 million shares on 26 November 2020; and
  - $126 million raised through a Share Purchase Plan at $4.97 per ordinary share, of approximately 25 million shares on 31 December 2020.

## EVENTS SUBSEQUENT TO REPORTING DATE

Detail of matters subsequent to the end of the half year are set out below and in Note 3.7 within the financial statements. These include:

- The Board determined to pay an unfranked interim dividend of 7.0 cents per share. The dividend will be paid on 30 March 2021. The dividend reinvestment plan will operate likely by acquiring shares on-market for participants with no discount applied.

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

The lead auditor's independence declaration is set out on page 14 and forms part of the Directors' Report for the half year ended 31 December 2020.

## ROUNDING OF AMOUNTS

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

Signed at Sydney this 10th day of February 2021 in accordance with a resolution of the Directors.

**Nick Hawkins**
Director

# LEAD AUDITOR'S INDEPENDENCE DECLARATION

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

**TO THE DIRECTORS OF INSURANCE AUSTRALIA GROUP LIMITED**

I declare that, to the best of my knowledge and belief, in relation to the review of Insurance Australia Group Limited for the half year ended 31 December 2020 there have been:

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

KPMG

**KPMG**

**Andrew Yates**
Partner

Sydney
10 February 2021

# CONSOLIDATED FINANCIAL STATEMENTS

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## FOR THE HALF YEAR ENDED 31 DECEMBER 2020

| | NOTE | **31 December 2020 $m** | 31 December 2019 $m |
|---|---|---|---|
| Gross earned premium | | **6,161** | 6,004 |
| Outwards reinsurance premium expense | | **(2,468)** | (2,377) |
| Net earned premium (i) | | **3,693** | 3,627 |
| Claims expense | | **(6,049)** | (4,617) |
| Reinsurance and other recoveries revenue | | **2,618** | 2,184 |
| Net claims expense (ii) | 2.1 | **(3,431)** | (2,433) |
| Commission expense | | **(502)** | (506) |
| Underwriting expense | | **(948)** | (1,009) |
| Reinsurance commission revenue | | **529** | 591 |
| Net underwriting expense (iii) | | **(921)** | (924) |
| Underwriting (loss)/profit (i) + (ii) + (iii) | | **(659)** | 270 |
| Investment income on assets backing insurance liabilities | | **109** | 89 |
| Investment expenses on assets backing insurance liabilities | | **(8)** | (8) |
| Insurance (loss)/profit | | **(558)** | 351 |
| Investment income on shareholders' funds | | **141** | 58 |
| Fee and other income | | **84** | 59 |
| Share of net profit of associates | | **17** | 27 |
| Finance costs | | **(42)** | (54) |
| Fee-based, corporate and other expenses | | **(187)** | (82) |
| Net loss attributable to non-controlling interests in unitholders' funds | | **(1)** | (2) |
| (Loss)/profit before income tax from continuing operations | | **(546)** | 357 |
| Income tax benefit/(expense) | | **187** | (90) |
| (Loss)/profit after income tax from continuing operations | | **(359)** | 267 |
| Loss after income tax from discontinued operations | | **(4)** | (4) |
| (Loss)/profit for the period | | **(363)** | 263 |
| **OTHER COMPREHENSIVE INCOME/(EXPENSE)** | | | |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Net movement in foreign currency translation reserve, net of tax | | **(9)** | 3 |
| **Items that will not be reclassified to profit or loss:** | | | |
| Remeasurements of defined benefit plans, net of tax | | **1** | (1) |
| Other comprehensive (loss)/income from continuing operations, net of tax | | **(8)** | 2 |
| Other comprehensive income from discontinued operations, net of tax | | **-** | 2 |
| Total comprehensive (loss)/income for the period, net of tax | | **(371)** | 267 |
| **PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO** | | | |
| Shareholders of the Parent - continuing operations | | **(456)** | 287 |
| Shareholders of the Parent - discontinued operations | | **(4)** | (4) |
| Non-controlling interests - continuing operations | | **97** | (20) |
| (Loss)/profit for the period | | **(363)** | 263 |
| **TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO** | | | |
| Shareholders of the Parent - continuing operations | | **(464)** | 289 |
| Shareholders of the Parent - discontinued operations | | **(4)** | (2) |
| Non-controlling interests - continuing operations | | **97** | (20) |
| Total comprehensive (loss)/income for the period, net of tax | | **(371)** | 267 |

# STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

| | NOTE | **31 December 2020 cents** | 31 December 2019 cents |
|---|---|---|---|
| **EARNINGS PER SHARE – CONTINUING AND DISCONTINUED OPERATIONS** | | | |
| Basic earnings per ordinary share | 3.2 | **(19.73)** | 12.28 |
| Diluted earnings per ordinary share | 3.2 | **(19.73)** | 12.16 |
| **EARNINGS PER SHARE – CONTINUING OPERATIONS** | | | |
| Basic earnings per ordinary share | 3.2 | **(19.56)** | 12.45 |
| Diluted earnings per ordinary share | 3.2 | **(19.56)** | 12.32 |

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

# CONSOLIDATED BALANCE SHEET

## AS AT 31 DECEMBER 2020

| | NOTE | 31 December 2020 $m | 30 June 2020 $m |
|---|---|---|---|
| **ASSETS** | | | |
| Cash held for operational purposes | | **418** | 405 |
| Investments | 3.1 | **11,714** | 10,100 |
| Trade and other receivables | | **4,223** | 4,419 |
| Current tax assets | | **238** | 212 |
| Assets held for sale | | **37** | 33 |
| Reinsurance and other recoveries on outstanding claims | 2.1 | **6,868** | 6,069 |
| Deferred insurance expenses | | **3,594** | 3,501 |
| Deferred levies and charges | | **137** | 119 |
| Deferred tax assets | | **899** | 575 |
| Right-of-use assets | | **474** | 531 |
| Property and equipment | | **126** | 132 |
| Other assets | | **115** | 113 |
| Investment in joint venture and associates | 3.5 | **341** | 351 |
| Goodwill and intangible assets | | **3,176** | 3,134 |
| Total assets | | **32,360** | 29,694 |
| **LIABILITIES** | | | |
| Trade and other payables | | **2,842** | 2,800 |
| Current tax liabilities | | **68** | 31 |
| Liabilities held for sale | | **20** | 14 |
| Unearned premium liability | | **6,271** | 6,276 |
| Outstanding claims liability | 2.1 | **12,579** | 10,584 |
| Lease liabilities | | **596** | 655 |
| Non-controlling interests in unitholders' funds | | **-** | 330 |
| Provisions | 2.4 | **856** | 639 |
| Other liabilities | | **480** | 485 |
| Interest-bearing liabilities | 2.2 | **1,976** | 1,526 |
| Total liabilities | | **25,688** | 23,340 |
| Net assets | | **6,672** | 6,354 |
| **EQUITY** | | | |
| Share capital | 2.3 | **7,385** | 6,617 |
| Treasury shares held in trust | | **(34)** | (49) |
| Reserves | | **11** | 30 |
| Retained earnings | | **(982)** | (521) |
| Parent interest | | **6,380** | 6,077 |
| Non-controlling interests | | **292** | 277 |
| Total equity | | **6,672** | 6,354 |

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE HALF YEAR ENDED 31 DECEMBER 2020

| | SHARE CAPITAL $m | TREASURY SHARES HELD IN TRUST $m | FOREIGN CURRENCY TRANSLATION RESERVE $m | SHARE-BASED REMUN-ERATION RESERVE $m | RETAINED EARNINGS $m | NON-CONTROLLING INTERESTS $m | TOTAL EQUITY $m |
|---|---|---|---|---|---|---|---|
| **31 December 2020** | | | | | | | |
| Balance at the beginning of the financial period | **6,617** | **(49)** | **1** | **29** | **(521)** | **277** | **6,354** |
| (Loss)/profit for the period | **-** | **-** | **-** | **-** | **(460)** | **97** | **(363)** |
| Other comprehensive (expense)/income | **-** | **-** | **(9)** | **-** | **1** | **-** | **(8)** |
| Total comprehensive (loss)/income for the period | **-** | **-** | **(9)** | **-** | **(459)** | **97** | **(371)** |
| **Transactions with owners in their capacity as owners** | | | | | | | |
| Shares issued under institutional placement, net of transaction costs | **642** | **-** | **-** | **-** | **-** | **-** | **642** |
| Shares issued under Share Purchase Plan, net of transaction costs | **126** | **-** | **-** | **-** | **-** | **-** | **126** |
| Share-based remuneration | **-** | **15** | **-** | **(10)** | **(2)** | **-** | **3** |
| Dividends determined and paid | **-** | **-** | **-** | **-** | **-** | **(84)** | **(84)** |
| Additional investment in subsidiaries | **-** | **-** | **-** | **-** | **-** | **2** | **2** |
| Balance at the end of the financial period | **7,385** | **(34)** | **(8)** | **19** | **(982)** | **292** | **6,672** |
| 31 December 2019 | | | | | | | |
| Balance at the beginning of the financial period | 6,617 | (48) | 20 | 26 | (211) | 306 | 6,710 |
| Adjustment on initial application of AASB 16, net of tax | - | - | - | - | (33) | - | (33) |
| Restated balance at the beginning of the financial period | 6,617 | (48) | 20 | 26 | (244) | 306 | 6,677 |
| Profit/(loss) for the period | - | - | - | - | 283 | (20) | 263 |
| Other comprehensive income/(expense) | - | - | 5 | - | (1) | - | 4 |
| Total comprehensive income/(loss) for the period | - | - | 5 | - | 282 | (20) | 267 |
| **Transactions with owners in their capacity as owners** | | | | | | | |
| Share-based remuneration | - | (2) | - | (9) | (8) | - | (19) |
| Dividends determined and paid | - | - | - | - | (462) | (87) | (549) |
| Disposal of subsidiaries | - | - | - | - | - | (1) | (1) |
| Balance at the end of the financial period | 6,617 | (50) | 25 | 17 | (432) | 198 | 6,375 |

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

# CONSOLIDATED CASH FLOW STATEMENT

## FOR THE HALF YEAR ENDED 31 DECEMBER 2020

| | **31 December 2020 $m** | 31 December 2019 $m |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Premium received | **6,264** | 6,172 |
| Reinsurance and other recoveries received | **2,164** | 1,931 |
| Claim costs paid | **(4,204)** | (4,444) |
| Outwards reinsurance premium expense paid | **(2,484)** | (2,410) |
| Dividends, interest and trust distributions received | **120** | 214 |
| Finance costs paid | **(40)** | (54) |
| Income taxes paid | **(117)** | (145) |
| Other operating receipts | **1,014** | 935 |
| Other operating payments | **(1,917)** | (2,016) |
| Net cash flows from operating activities | **800** | 183 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Net cash flows on (acquisition)/disposal of subsidiaries | **(21)** | 13 |
| Net cash flows from (purchase)/sale of investments and plant and equipment | **(1,930)** | 249 |
| Net cash flows from investing activities | **(1,951)** | 262 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from issue of shares, net of transaction costs | **765** | - |
| Proceeds from borrowings, net of transaction costs | **449** | - |
| Repayment of borrowings | **-** | (551) |
| Principal element of lease payments | **(40)** | (32) |
| Net cash flow from issue and redemption of trust units | **(331)** | (17) |
| Dividends paid to shareholders of the Parent | **-** | (462) |
| Dividends paid to non-controlling interests | **(84)** | (87) |
| Net cash flows from financing activities | **759** | (1,149) |
| Net movement in cash held | **(392)** | (704) |
| Cash and cash equivalents at the beginning of the financial period | **2,322** | 1,698 |
| Cash and cash equivalents at the end of the financial period* | **1,930** | 994 |

* Includes $418 million of cash held for operational purposes, $1,484 million of cash and short-term money held for investments and $28 million of cash and cash equivalents in discontinued operations (31 December 2019: $324 million of cash held for operational purposes, $645 million of cash and short-term money held for investments and $25 million of cash and cash equivalents in discontinued operations).

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

# NOTES TO THE FINANCIAL STATEMENTS

## 1. OVERVIEW

### NOTE 1.1 INTRODUCTION

The financial report is structured to provide prominence to the disclosures that are considered most relevant to 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 impacts the financial report as a whole, as well as segment reporting disclosures.
2. Significant events and transactions – disclosure of significant changes in the Group's financial position and performance.
3. Interim disclosures – disclosures required to comply with Australian Accounting Standard *AASB 134 Interim Financial Reporting*.

### 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 half year ended 31 December 2020.

This report is also to be read in conjunction with the Annual Report for the year ended 30 June 2020 and any public announcements made by Insurance Australia Group Limited during the reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the ASX Listing Rules.

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 half year financial report was authorised by the Board of Directors for issue on 10 February 2021 and complies with Australian Accounting Standard *AASB 134 Interim Financial Reporting* and the recognition and measurement requirements of other applicable Australian Accounting Standards adopted by the Australian Accounting Standards Board (AASB), the *Corporations Act 2001* and the ASX Listing Rules.

The current IFRS standard for insurance contracts does not include a comprehensive set of recognition and measurement criteria. On 10 July 2020, the International Accounting Standards Board (IASB) published the final IFRS 17 standard (*IFRS 17 Insurance Contracts* – adopted as *AASB 17 Insurance Contracts* in an Australian context) that does include such criteria, with an effective date of 1 January 2023. Until this standard takes effect, the financial reports of insurers in different countries that comply with IFRS may not be comparable in terms of the recognition and measurement of insurance contracts.

#### C. BASIS OF PREPARATION

The financial statements have been prepared on the basis of historical cost principles, as modified by certain exceptions, 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 financial report is presented in Australian dollars, which is the functional currency of the Company.

#### 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 in the Annual Report for the year ended 30 June 2020.

### I. Changes in accounting policies

The following new Australian Accounting Standards and Interpretations are applicable for the current reporting period.

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

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

### 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. The areas where material estimates and judgements are applied in preparing the financial statements for the half year ended 31 December 2020 are set out below, with further details provided within the relevant note in the Annual Report for the year ended 30 June 2020.

| AREAS OF CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS |
|---|
| Claims and reinsurance and other recoveries on outstanding claims |
| Liability adequacy test |
| Intangible assets and goodwill impairment testing, initial measurement and useful life |
| Income tax and related assets and liabilities |
| Customer refunds provision |
| Investment in joint venture and associates impairment testing |

#### 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 31 December 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 the accounting estimates relating to the outstanding claims liability is discussed further below, with details of the other impacted accounting estimates noted above provided within both Note 1.2 and the related note in the Annual Report for the year ended 30 June 2020. Readers should carefully consider these disclosures in light of the inherent uncertainty described above.

- Outstanding claims liability

IAG's insurance portfolio continues to experience impacts as a result of COVID-19. There is a risk that the associated economic factors could be more severe than estimated and, as a result, the development of the claims over time could result in the ultimate cost of those claims being higher than the current outstanding claims liability established. The impact of COVID-19 on claims experience is expected to materially differ between classes of business and, for certain classes, potentially impact across more than one accident year. During the current period, the motor portfolio has continued to be impacted through favourable claim frequency as a result of a sequence of mobility restrictions introduced to slow the spread of COVID-19, primarily from those introduced in Victoria from 2 August 2020. In respect of other classes of business, where the effect of COVID-19 on insurance liabilities is quantifiable and reflected in the data, the impact has been appropriately captured within the outstanding claims liability, including the estimated impact of an economic downturn on the future cost of settling certain long-tail claims.

Where potential COVID-19 claim impacts remain highly uncertain, as outlined in the Directors' Report, IAG has recognised a net outstanding claims provision of $1,236 million (30 June 2020: $86 million) in relation to business interruption exposure within its Australian business. This provision has been estimated on a probability-weighted basis and covers potential business interruption related claims, including:

- all policies with wordings that include the *Quarantine Act* and without specific reference to the *Biosecurity Act*, which replaced the *Quarantine Act*; and
- all policies with prevention of access extensions used on certain broker platforms which reference the *Biosecurity Act*. Prevention of access clauses vary in terms but generally operate when actions of governments or other legal authorities cause business interruption by preventing or restricting access to premises. Whilst the prevention of access issue was not subject to the test case heard by the NSWCA, IAG has prudently increased the provision to cover all policies with prevention of access extensions.

In establishing the business interruption element of the net outstanding claims liability, a detailed assessment of underwriting exposure has been undertaken and significant judgement has been applied to derive an estimate of the probability-weighted view of potential future cash flows. Key areas of judgement relate to the exposure period, the estimation of potential economic loss, related key macroeconomic variables, reinsurance coverage and legal risk. While it does not explicitly allow for any future state or national lockdowns, IAG's exposure to the *Quarantine Act* wording issue will progressively reduce as all new and renewing policies now reference the *Biosecurity Act*. 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 2.1 of this financial report and Note 2.2 in the Annual Report for the year ended 30 June 2020 for further details on the net outstanding claims liability.

The table below summarises the ways in which the various elements of the COVID-19 specific provisioning has been reflected within these financial statements. At 30 June 2020, the total insurance liabilities also incorporated a number of other COVID-19 affected business classes, other than business interruption, where a significant amount of uncertainty remained. Given the uncertainty associated with these classes of business has largely been resolved, the associated provisioning is now being managed through IAG's business-as-usual reserving process. Accordingly, at 31 December 2020, the total insurance liabilities shown below only relate to potential business interruption-related claims. All values are calibrated to a 90% probability of adequacy (PoA) and are shown net of related reinsurance recoveries but before tax:

| | **31 December 2020 $m** | 30 June 2020 $m | DESCRIPTION |
|---|---|---|---|
| Net outstanding claims liability | **1,236** | 106 | Probability-weighted view across impacted classes of business. At 31 December 2020, the provision of $1,236 million (30 June 2020: $86 million) relates to potential business interruption exposure and includes the related risk margin. |
| 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 31 December 2020, no premium liabilities (30 June 2020: $127 million) were recognised in relation to potential business interruption exposure. |
| Total insurance liabilities | **1,236** | 265 | |

## NOTE 1.3 SEGMENT REPORTING

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

The split of the Australia Division into Direct Insurance Australia and Intermediated Insurance Australia, announced on 2 November 2020, has not resulted in any change to the reporting segments shown in this report as financial information reviewed and used by the Group Chief Executive Officer during the current period has not yet been realigned to the new segment structure.

### A. REPORTABLE SEGMENTS

IAG has general insurance operations in Australia and New Zealand, with reportable segments for the period ended 31 December 2020 comprising the following business divisions:

#### I. Australia

This segment provides general insurance products to individuals, families and businesses throughout Australia, primarily through 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 $m | NEW ZEALAND $m | CORPORATE AND OTHER $m | TOTAL $m |
|---|---|---|---|---|
| **31 December 2020** | | | | |
| **I. Financial performance** | | | | |
| Total external revenue[1] | **7,668** | **1,821** | **170** | **9,659** |
| Underwriting (loss)/profit | **(815)** | **154** | **2** | **(659)** |
| Net investment income/(loss) on assets backing insurance liabilities | **95** | **8** | **(2)** | **101** |
| Insurance (loss)/profit | **(720)** | **162** | **-** | **(558)** |
| Net investment income on shareholders' funds | **-** | **-** | **138** | **138** |
| Share of net profit of associates | **(1)** | **-** | **18** | **17** |
| Finance costs | **-** | **-** | **(42)** | **(42)** |
| Other net operating result | **(5)** | **-** | **(96)** | **(101)** |
| Total segment result from continuing operations | **(726)** | **162** | **18** | **(546)** |
| Income tax benefit | | | | **187** |
| Loss for the period from continuing operations | | | | **(359)** |
| **II. Other segment information** | | | | |
| Capital expenditure[2] | **-** | **-** | **77** | **77** |
| Depreciation and amortisation expense | **57** | **13** | **5** | **75** |
| 31 December 2019 | | | | |
| **I. Financial performance** | | | | |
| Total external revenue[1] | 7,135 | 1,771 | 106 | 9,012 |
| Underwriting profit/(loss) | 125 | 150 | (5) | 270 |
| Net investment income on assets backing insurance liabilities | 74 | 6 | 1 | 81 |
| Insurance profit/(loss) | 199 | 156 | (4) | 351 |
| Net investment income on shareholders' funds | - | - | 50 | 50 |
| Share of net profit of associates | - | - | 27 | 27 |
| Finance costs | - | - | (54) | (54) |
| Other net operating result | 6 | - | (23) | (17) |
| Total segment result from continuing operations | 205 | 156 | (4) | 357 |
| Income tax expense | | | | (90) |
| Profit for the period from continuing operations | | | | 267 |
| **II. Other segment information** | | | | |
| Capital expenditure[2] | - | - | 50 | 50 |
| Depreciation and amortisation expense | 67 | 19 | 1 | 87 |

(1) Total external revenue comprises premium revenue, 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. SIGNIFICANT EVENTS AND TRANSACTIONS

**SECTION INTRODUCTION**
This section comprises disclosures on the events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the end of the last annual reporting period. Information disclosed in relation to those events and transactions provides an update on the relevant information presented in the most recent annual financial report.

## NOTE 2.1 CLAIMS AND REINSURANCE AND OTHER RECOVERIES ON OUTSTANDING CLAIMS

### A. NET CLAIMS EXPENSE

| | **31 December 2020 $m** | 31 December 2019 $m |
|---|---|---|
| Gross claims – discounted | **6,049** | 4,617 |
| Reinsurance and other recoveries – discounted | **(2,618)** | (2,184) |
| Net claims expense | **3,431** | 2,433 |

### B. NET OUTSTANDING CLAIMS LIABILITY

**I. Composition of net outstanding claims liability**

| | **31 December 2020 $m** | 30 June 2020 $m |
|---|---|---|
| Gross central estimate - discounted | **9,543** | 8,052 |
| Reinsurance and other recoveries - discounted | **(5,245)** | (4,637) |
| Net central estimate - discounted | **4,298** | 3,415 |
| Claims handling costs - discounted | **375** | 363 |
| Risk margin | **1,038** | 737 |
| Net outstanding claims liability - discounted | **5,711** | 4,515 |

### C. SIGNIFICANT MOVEMENTS DURING THE PERIOD

On 18 November 2020, the Supreme Court of New South Wales Court of Appeal (NSWCA) delivered its judgement on the business interruption insurance test case, which determined pandemic exclusions that refer to the *Quarantine Act* and subsequent amendments, rather than the *Biosecurity Act*, are not effective to exclude cover for losses associated with COVID-19. In response, IAG has recognised a net outstanding claims provision of $1,236 million (30 June 2020: $86 million) for business interruption-related claims in relation to its Australian business. In determining the business interruption provision, significant management judgement has been applied to derive a reasonable estimate of the probability-weighted view of potential future cash flows. Key areas of judgement relate to the exposure period, the estimation of potential economic loss, related key macroeconomic variables, reinsurance coverage and legal risk. Given the extent of the uncertainty being faced, the range of potential financial outcomes in relation to these matters is unusually wide. All related uncertainties have been factored into the probability weighting when estimating the provision. For further details on the impact from COVID-19 refer to Note 1.2.

### D. 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.

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 period in which the estimates are changed.

b. DISCOUNTING

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

c. RISK MARGIN

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

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

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

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

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

| | **31 December 2020** | 30 June 2020 |
|---|---|---|
| | **%** | % |
| The percentage risk margin applied to the net outstanding claims liability | **22** | 20 |
| The probability of adequacy of the risk margin | **90** | 90 |

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

**II. Reinsurance and other recoveries on outstanding claims**

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

## NOTE 2.2 INTEREST-BEARING LIABILITIES

| | | **31 December 2020** | | 30 June 2020 | |
|---|---|---|---|---|---|
| **Final Maturity Date** | **Principal Amount** | **Carrying Value $m** | **Fair Value $m** | Carrying Value $m | Fair Value $m |
| **A. COMPOSITION** | | | | | |
| **I. Capital nature** | | | | | |
| a. ADDITIONAL TIER 1 REGULATORY CAPITAL | | | | | |
| Capital notes | | | | | |
| No fixed date | $404 million | **404** | **421** | 404 | 418 |
| b. TIER 2 REGULATORY CAPITAL | | | | | |
| AUD subordinated convertible term notes | | | | | |
| 15 December 2036 | $450 million | **450** | **455** | - | - |
| 15 June 2044 | $350 million | **350** | **351** | 350 | 344 |
| 15 June 2045 | $450 million | **450** | **455** | 450 | 443 |
| | | **1,250** | | 800 | |
| NZD subordinated convertible term notes(1),(2) | | | | | |
| 15 June 2043 | NZ$350 million | **327** | **340** | 327 | 344 |
| **II. Operational nature** | | | | | |
| Other interest-bearing liabilities | | **4** | **4** | 2 | 2 |
| Less: capitalised transaction costs | | **(9)** | | (7) | |
| | | **1,976** | | 1,526 | |

(1) At the reporting date, the Company recognised accrued interest of $1 million (30 June 2020: $1 million) which is presented within trade and other payables.

(2) IAG is a "dual listed issuer" that is listed on both the ASX and the NZX Debt Market. As such, IAG is subject to some, but not all of the NZX Main Board/Debt Market Listing Rules ("NZX Listing Rules"). In particular, the rules set out in Appendix 17 to the NZX Listing Rules do not apply to IAG.

**B. SIGNIFICANT MOVEMENTS DURING THE PERIOD**
On 24 August 2020, the Company issued $450 million of subordinated convertible term notes. The subordinated notes qualify as Tier 2 Capital under APRA's Prudential Framework for General Insurance.

The significant terms and conditions of the issued subordinated notes are as follows:
- face value of $450 million and issued by the Company on 24 August 2020;
- all remain outstanding as at the reporting date;
- floating interest rate equal to the three-month BBSW plus a margin of 2.45% per annum is payable quarterly (with the first interest payment date being 15 December 2020);
- the notes mature on 15 December 2036 unless converted or redeemed earlier, subject to rights of conversion or redemption;
- IAG has an option to redeem the notes at face value on 15 December 2026 and on any interest payment date following the first call date and for certain tax and regulatory events (in each case subject to APRA's prior written approval); and
- the notes must be converted into a variable number of ordinary shares of the Company (subject to a maximum of 442.9 million shares) or written off if APRA determines the Company to be non-viable.

**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 2.3 EQUITY

| | **31 December 2020** | 30 June 2020 | **31 December 2020** | 30 June 2020 |
|---|---|---|---|---|
| | **Number of shares in millions** | Number of shares in millions | **$m** | $m |
| **A. SHARE CAPITAL** | | | | |
| **Ordinary shares** | | | | |
| Balance at the beginning of the financial period | **2,311** | 2,311 | **6,617** | 6,617 |
| Shares issued under institutional placement, net of transaction costs | **129** | - | **642** | - |
| Shares issued under Share Purchase Plan, net of transaction costs | **25** | - | **126** | - |
| Balance at the end of the financial period | **2,465** | 2,311 | **7,385** | 6,617 |

**B. NATURE AND PURPOSE OF EQUITY**
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.

**C. SIGNIFICANT MOVEMENTS DURING THE PERIOD**
During the half year ended 31 December 2020, the Company undertook the following two issues of ordinary shares to strengthen IAG's capital position following recognition of the increased provision for potential business interruption claims resulting from the test case decision handed down by the NSWCA on 18 November 2020:
- $650 million raised through a fully underwritten institutional placement at $5.05 per ordinary share, of approximately 129 million shares on 26 November 2020; and
- $126 million raised through a Share Purchase Plan at $4.97 per ordinary share, of approximately 25 million shares on 31 December 2020.

## NOTE 2.4 PROVISIONS

| | **31 December 2020** | 30 June 2020 |
|---|---|---|
| | **$m** | $m |
| **A. PROVISIONS** | | |
| Employee benefits | **382** | 337 |
| Restructuring provision | **40** | 32 |
| Customer refunds provision* | **296** | 270 |
| Swann class action provision | **138** | - |
| | **856** | 639 |

* This balance includes an offsetting amount of $17 million (30 June 2020: $21 million) in respect of recoverable indirect taxes.

**B. SIGNIFICANT MOVEMENTS DURING THE PERIOD**

On 23 December 2020, IAG announced that the settlement of the class action brought against its subsidiaries, Swann Insurance (Aust) Pty Ltd (Swann) and Insurance Australia Limited, by Johnson Winter & Slattery as previously advised on 6 October 2020, was approved by the Federal Court of Australia. During the current half year, IAG recognised a gross provision of $138 million in relation to this matter. A related gross insurance recovery of $65 million has been recognised within trade and other receivables.

**C. RECOGNITION AND MEASUREMENT**

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

# 3. INTERIM DISCLOSURES

## SECTION INTRODUCTION

This section includes information that is required to be disclosed in accordance with the interim reporting Accounting Standard (*AASB 134*), Corporations Act and ASX Listing Rules, and which are relevant to understanding the changes in IAG's financial position and performance since the end of the last annual reporting period.

## NOTE 3.1 INVESTMENTS

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 period. 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 are 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, listed equities and cash and short-term money market securities.

**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 period, in addition to changes in fair value, movements in level 3 investments included:

- purchases of $4 million (31 December 2019: $94 million) and sales of $7 million (31 December 2019: $8 million) in interest-bearing instruments;
- purchases of $46 million (31 December 2019: $34 million) and sales of $60 million (31 December 2019: nil) in unlisted equity; 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<br>$m | LEVEL 2<br>$m | LEVEL 3<br>$m | TOTAL<br>$m |
|---|---|---|---|---|
| **31 December 2020** | | | | |
| Interest-bearing investments | **3,139** | **6,982** | **351** | **10,472** |
| Growth investments* | **447** | **284** | **423** | **1,154** |
| Other investments | **-** | **88** | **-** | **88** |
| | **3,586** | **7,354** | **774** | **11,714** |
| 30 June 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 |

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

## NOTE 3.2 EARNINGS PER SHARE

| | **31 December 2020**<br>**cents** | 31 December 2019<br>cents |
|---|---|---|
| **A. REPORTING PERIOD VALUES** | | |
| **Continuing and discontinued operations** | | |
| Basic earnings per ordinary share(1) | **(19.73)** | 12.28 |
| Diluted earnings per ordinary share(2) | **(19.73)** | 12.16 |
| **Continuing operations** | | |
| Basic earnings per ordinary share(1) | **(19.56)** | 12.45 |
| Diluted earnings per ordinary share(2) | **(19.56)** | 12.32 |

(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 period. 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.

| | **31 December 2020**<br>**$m** | 31 December 2019<br>$m |
|---|---|---|
| **B. RECONCILIATION OF EARNINGS USED IN CALCULATING EARNINGS PER SHARE** | | |
| (Loss)/profit attributable to shareholders of the Parent which is used in calculating basic and diluted earnings per share | **(460)** | 283 |
| Finance costs of convertible securities, net of tax | **-** | 22 |
| (Loss)/profit attributable to shareholders of the Parent which is used in calculating diluted earnings per share | **(460)** | 305 |
| (Loss)/profit from continuing operations attributable to shareholders of the Parent | **(456)** | 287 |
| Loss from discontinued operations attributable to shareholders of the Parent | **(4)** | (4) |

| | **31 December 2020**<br>**Number of shares in millions** | 31 December 2019<br>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 | **2,331** | 2,305 |
| **Weighted average number of dilutive potential ordinary shares relating to:** | | |
| Convertible securities | **-** | 198 |
| Unvested share-based remuneration rights supported by treasury shares held in trust | **-** | 6 |
| | **2,331** | 2,509 |

## NOTE 3.3 DIVIDENDS

| | 31 December 2020 Cents per share | 31 December 2020 $m | 31 December 2019 Cents per share | 31 December 2019 $m |
|---|---|---|---|---|
| **A. ORDINARY SHARES** | | | | |
| 2019 final dividend paid on 30 September 2019, 70% franked based on a tax rate of 30% | - | - | 20.0 | 462 |
| **B. DIVIDEND NOT RECOGNISED AT REPORTING DATE** | | | | |
| 2021 unfranked interim dividend (31 December 2019: 2020 interim dividend, 70% franked based on a tax rate of 30%) to be paid on 30 March 2021 | **7.0** | **173** | 10.0 | 231 |

**C. DIVIDEND REINVESTMENT**

A Dividend Reinvestment Plan (DRP) operates which allows eligible 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 volume-weighted average share price (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.

## NOTE 3.4 DERIVATIVES

| | 31 December 2020 Notional contract amount $m | 31 December 2020 Fair value asset $m | 31 December 2020 Fair value liability $m | 30 June 2020 Notional contract amount $m | 30 June 2020 Fair value asset $m | 30 June 2020 Fair value liability $m |
|---|---|---|---|---|---|---|
| **A. REPORTING DATE POSITIONS** | | | | | | |
| **I. Net investment hedges (hedge accounting applied)** | | | | | | |
| Forward foreign exchange contracts | **785** | **38** | **(19)** | 793 | 23 | (4) |
| **II. Investment-related derivatives (derivatives without hedge accounting applied)** | | | | | | |
| Bond futures | **3,786** | **-** | **-** | 3,523 | - | - |
| Share price index futures | **12** | **-** | **-** | (16) | - | - |
| Forward foreign exchange contracts | **2,176** | **88** | **-** | 2,789 | 88 | - |
| **III. Treasury-related derivatives (derivatives without hedge accounting applied)** | | | | | | |
| Forward foreign exchange contracts | **813** | **1** | **(7)** | 744 | - | (6) |

**B. RECOGNITION AND MEASUREMENT**

**I. Hedge accounting**

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).

**II. Derivatives without hedge accounting applied**

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

## NOTE 3.5 INVESTMENT IN JOINT VENTURE AND ASSOCIATES

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

| | COUNTRY OF INCORPORATION/ FORMATION | PRINCIPAL ACTIVITY | CARRYING VALUE 31 December 2020 $m | CARRYING VALUE 30 June 2020 $m | OWNERSHIP INTEREST 31 December 2020 % | OWNERSHIP INTEREST 30 June 2020 % |
|---|---|---|---|---|---|---|
| AmGeneral Holdings Berhad (AmGeneral) | Malaysia | Insurance underwriting | **311** | 341 | **49.00** | 49.00 |
| Other | | | **30** | 10 | | |
| | | | **341** | 351 | | |

## NOTE 3.6 CONTINGENCIES

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

As at 31 December 2020, the Group had a contingent liability in respect of the matters outlined below:

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

## NOTE 3.7 EVENTS SUBSEQUENT TO REPORTING DATE

The following matter occurred after the reporting date and did not relate to conditions existing at reporting date, therefore no account has been taken of it in the financial statements for the current half year ended 31 December 2020.

- The Board determined to pay an unfranked interim dividend of 7.0 cents per share. The dividend will be paid on 30 March 2021. The dividend reinvestment plan will operate likely by acquiring shares on-market for participants with no discount applied.

## NOTE 3.8 NET TANGIBLE ASSETS

| | **31 December 2020** | 30 June 2020 |
|---|---|---|
| | **$** | $ |
| Net tangible assets per ordinary share | **1.30** | 1.27 |

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.

# DIRECTORS' DECLARATION

In the opinion of the Directors of Insurance Australia Group Limited:

- the financial statements and Notes 1 to 3.8 are in accordance with the *Corporations Act 2001* including:
  - giving a true and fair view of the financial position of the Group as at 31 December 2020 and of its performance, as represented by the results of its operations and its cash flows, for the half year ended on that date; and
  - complying with Australian Accounting Standard *AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed at Sydney this 10th day of February 2021 in accordance with a resolution of the Directors.

**Nick Hawkins**
Director

# INDEPENDENT AUDITOR'S REVIEW REPORT

## TO THE SHAREHOLDERS OF INSURANCE AUSTRALIA GROUP LIMITED

**Conclusion**

We have reviewed the accompanying half year financial report of Insurance Australia Group Limited.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half year financial report of Insurance Australia Group Limited does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the half year ended on that date; and
- complying with Australian Accounting Standard *AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The half year financial report comprises:

- Consolidated balance sheet as at 31 December 2020;
- Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated cash flow statement for the half year ended on that date;
- Notes 1 to 3.8 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' declaration.

The Group comprises Insurance Australia Group Limited (the Company) and the entities it controlled at the half year's end or from time to time during the half year.

**Basis for conclusion**

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our review of the half year financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

**Responsibilities of the Directors for the half year financial report**

The Directors of the Company are responsible for:

- the preparation of the half year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*; and
- such internal control as the Directors determine is necessary to enable the preparation of the half year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

**Auditor's responsibility for the review of the half year financial report**

Our responsibility is to express a conclusion on the half year financial report based on our review. *ASRE 2410* requires us to conclude whether we have become aware of any matter that makes us believe that the half year financial report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2020 and its performance for the half year ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

KPMG

**KPMG**

**Andrew Yates**

Partner

Sydney

10 February 2021

**Andrew Reeves**

Partner