INSURANCE AUSTRALIA GROUP LIMITED
PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 30 JUNE 2019

APPENDIX 4E (ASX Listing rule 4.3A)

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	UP / DOWN	% CHANGE	2019 $m	2018 $m
Revenue from ordinary activities	Up	7.6 %	**17,658**	16,411
Net profit after tax from ordinary activities attributable to shareholders of the Parent from continuing operations	Down	8.0 %	**871**	947
Net profit/(loss) after tax from ordinary activities attributable to shareholders of the Parent from discontinued operations	Up	954.2 %	**205**	(24)
Net profit attributable to shareholders of the Parent	Up	16.6 %	**1,076**	923

DIVIDENDS – ORDINARY SHARES	AMOUNT PER SECURITY	FRANKED AMOUNT PER SECURITY
Final dividend	20.0 cents	14.0 cents
Interim dividend	12.0 cents	12.0 cents
Special dividend	5.5 cents	5.5 cents

FINAL DIVIDEND DATE	
Record date	20 August 2019
Payment date	30 September 2019

The Company's Dividend Reinvestment Plan (DRP) will operate 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 21 August 2019. The DRP Issue Price will be based on a volume-weighted average price for a 10-day trading window from 23 August 2019 to 5 September 2019 inclusive.

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

Additional Appendix 4E disclosure requirements can be found in the Annual Report of Insurance Australia Group Limited for the year ended 30 June 2019 (Attachment A). This report is also to be read in conjunction with any public announcements made by Insurance Australia Group Limited during the reporting year in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the ASX Listing Rules.

The report is based on the consolidated financial statements which have been audited by KPMG.

ATTACHMENT A

INSURANCE AUSTRALIA GROUP LIMITED AND SUBSIDIARIES

ANNUAL REPORT 30 JUNE 2019

The numbers

Annual Report 2019

Insurance Australia Group Limited

ABN 60 090 739 923

Contents

About this report

The 2019 annual report of Insurance Australia Group Limited (IAG, or the Group) includes IAG's full statutory accounts, along with the Directors' and remuneration reports for the financial year ended 30 June 2019. This year's corporate governance report is available in the About Us area of our website (www.iag.com.au).

The financial statements are structured to provide prominence to the disclosures that are considered most relevant to the user's understanding of the operations, results and financial position of the Group.

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.

All figures are in Australian dollars unless otherwise stated.

2019 annual review and safer communities report

This report should be read with the 2019 annual review and safer communities report, which provides a summary of IAG's operating performance, including the Chairman's, CEO's and CFO's reviews.

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

If you would like to have a copy of the annual report or annual review mailed to you, contact IAG's Share Registry using the contact details on page 107.

2019 annual general meeting

IAG's 2019 annual general meeting will be held on Friday, 25 October 2019, at the Wesley Conference Centre, 220 Pitt Street, Sydney, commencing at 9.30am. Details of the meeting, including information about how to vote, will be contained in our notice of meeting, which will be mailed to shareholders, and available online at www.iag.com.au, from Tuesday, 10 September 2019.

DIRECTORS' REPORT

The Directors present their report together with the consolidated financial report of Insurance Australia Group Limited and its subsidiaries for the financial year ended 30 June 2019 and the Auditor's Report.

The following terminology is used throughout the financial report:

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

DIRECTORS OF INSURANCE AUSTRALIA GROUP LIMITED

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

CHAIRMAN

ELIZABETH B BRYAN AM

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

INSURANCE INDUSTRY EXPERIENCE

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

OTHER BUSINESS AND MARKET EXPERIENCE

Elizabeth brings extensive leadership, strategic and financial expertise to the position of Chairman.

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

In addition to her role as Chairman of IAG, Elizabeth is also currently Chairman of Virgin Australia Group.

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

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

- IAG Finance (New Zealand) Limited (a part of the Group), since 2016;
- Virgin Australia Group, since 2015; and
- Westpac Banking Corporation (2006-2016).

MANAGING DIRECTOR

PETER G HARMER

Managing Director and Chief Executive Officer, Executive Director

INSURANCE INDUSTRY EXPERIENCE

Peter Harmer was appointed Managing Director and Chief Executive Officer of IAG on 16 November 2015. He is a member of the Nomination Committee.

Peter joined IAG in 2010 as Chief Executive Officer, CGU Insurance and has held a number of senior roles. Prior to his current role, he was Chief Executive of the IAG Labs division, responsible for driving digital and innovation across IAG and its brands, and creating incubator areas to explore innovative opportunities across the fintech landscape.

Before this, Peter was Chief Executive of the Australian Commercial Insurance division.

Peter was previously Chief Executive Officer of Aon Limited UK and a member of Aon’s Global Executive Board, and spent seven years as Chief Executive Officer of Aon’s Australian operations.

He has 40 years of experience in the insurance industry, including senior roles in underwriting, reinsurance broking and commercial insurance broking as Managing Director of John C. Lloyd Reinsurance Brokers, Chairman and Chief Executive of Aon Re and Chairman of the London Market Reform Group.

Peter has completed the Harvard Advanced Management Program.

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

- IAG Finance (New Zealand) Limited (a part of the Group), since 2015.

OTHER DIRECTORS

DUNCAN M BOYLE

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

INSURANCE INDUSTRY EXPERIENCE

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

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

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

OTHER BUSINESS AND MARKET EXPERIENCE

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

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

- None.

HUGH A FLETCHER

BSc/BCom, MCom (Hons), MBA – Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Hugh Fletcher was appointed a Director of IAG on 1 September 2007 and Chairman of IAG New Zealand Limited on 1 September 2003. He is a member of the Risk Committee, People and Remuneration Committee and Nomination Committee.

Hugh was formerly Chairman (and Independent Director since December 1998) of New Zealand Insurance Limited and CGNU Australia.

OTHER BUSINESS AND MARKET EXPERIENCE

Hugh was formerly Chief Executive Officer of Fletcher Challenge Limited, a New Zealand-headquartered corporation with assets in the global building, energy, forestry and paper industries. He retired from an executive position in December 1997 after 28 years as an executive, 11 of which he served as Chief Executive Officer.

Hugh is a former Deputy Chairman of the Reserve Bank of New Zealand, former member of the Asia Pacific Advisory Committee of the New York Stock Exchange, and current or former non-executive director of several Australian Securities Exchange (ASX) and New Zealand's Exchange (NZX) listed companies, with involvement as an executive and non-executive director across most major continents.

Hugh is currently a Trustee of The University of Auckland Foundation (having earlier been Chancellor of the University) and a former Trustee of the New Zealand Portrait Gallery and the Dilworth Trust.

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

- IAG Finance (New Zealand) Limited (a part of the Group), since 2008;
- Rubicon Limited, since 2001; and
- Vector Limited (2001-2017).

SHEILA C MCGREGOR

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

INSURANCE INDUSTRY EXPERIENCE

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

Sheila served on the boards of the Commonwealth Bank of Australia's life and general insurance subsidiaries (The Colonial Mutual Life Assurance Society Limited and Commonwealth Insurance Limited) between 2005 and 2009.

OTHER BUSINESS AND MARKET EXPERIENCE

Sheila is a Partner at Gilbert + Tobin and until recently, a member of its Board and Partner Remuneration Committee and head of the firm's national Technology + Digital Group. Previously, she was a Senior Partner at Herbert Smith Freehills (then Freehills).

Most recently, Sheila has become a Non-Executive Director of the Sydney Writers' Festival. Sheila is also a Non-Executive Director of Crestone Holdings Limited, which provides wealth advice and portfolio management services and is Chairman of an independent girls' school in Sydney. Between 2009 and 2014, she was Chairman of the Royal Women's Hospital Foundation, established principally to raise public funds for the Royal Hospital for Women in Sydney and was previously a Director on the Board of the Australian Indigenous Chamber of Commerce.

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

- Seven West Media Limited (2015–2017).

JONATHAN (JON) B NICHOLSON

BA – Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Jon Nicholson was appointed a Director of IAG on 1 September 2015. He is Chairman of the People and Remuneration Committee and a member of the Risk Committee and Nomination Committee.

OTHER BUSINESS AND MARKET EXPERIENCE

Jon is Non-Executive Chairman of Westpac Foundation, a trustee of Westpac Bicentennial Foundation and a Non-Executive Director of Cape York Partnerships and QuintessenceLabs.

He previously spent eight years with Westpac Banking Corporation, first as Chief Strategy Officer and later as Enterprise Executive. He retired from Westpac in 2014.

Jon's executive career included senior roles with a variety of financial and corporate institutions, including the Boston Consulting Group. He also held various roles with the Australian Government, including Senior Private Secretary to the Prime Minister of Australia (Bob Hawke) and senior positions in the Department of the Prime Minister and Cabinet.

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

- None.

HELEN M NUGENT AO

BA (Hons), PhD, MBA, HonDBus, HonDUniv – Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Helen Nugent was appointed a Director of IAG on 23 December 2016. She is a member of the Audit Committee, Nomination Committee and Risk Committee.

Previously, Helen was Chairman of Swiss Re (Australia) and Swiss Re (Life and Health) Australia, and a Non-Executive Director of Mercantile Mutual.

OTHER BUSINESS AND MARKET EXPERIENCE

In the financial services sector, Helen was the Chairman of Veda Group and Funds SA (along with Swiss Re), as well as a Director of Macquarie Group for fifteen years and the State Bank of New South Wales. She also served on Westpac Banking Corporation's executive team as Director of Strategy, and prior to that specialised in the financial services sector as a partner at McKinsey & Company.

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

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

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

Helen is also currently Chairman of the National Disability Insurance Agency and a member of the Board of the Garvan Institute for Medical Research.

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

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

- Origin Energy Limited (2003-2017).

THOMAS (TOM) W POCKETT

CA, BCom – Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Tom Pockett was appointed a Director of IAG on 1 January 2015. He is Chairman of the Audit Committee and a member of the Risk Committee and Nomination Committee.

OTHER BUSINESS AND MARKET EXPERIENCE

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

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

- Autosports Group Limited, since 2016; and
- Stockland Group, since 2014.

GEORGE SAVVIDES

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

INSURANCE INDUSTRY EXPERIENCE

George Savvides was appointed a Director of IAG on 12 June 2019 and is a member of the People and Remuneration Committee, Risk Committee and Nomination Committee.

George has extensive executive experience, serving as Chief Executive Officer of Medibank (2002-2016), and Sigma Company (now Sigma Healthcare) (1996-2001).

OTHER BUSINESS AND MARKET EXPERIENCE

George is a Non-executive Director of New Zealand-listed entity, Ryman Healthcare. He is also a Non-Executive Chairman of Next Science and Deputy Chairman of the Special Broadcasting Service Corporation (SBS).

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

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

- Ryman Healthcare Limited, since 2013; and
- Next Science Limited, since 2018.

MICHELLE TREDENICK

BSc, FAICD, F Fin – Independent Non-Executive Director

INSURANCE INDUSTRY EXPERIENCE

Michelle Tredenick was appointed a Director of IAG on 13 March 2018 and is a member of the People and Remuneration Committee and Nomination Committee.

Michelle has held a number of senior executive roles, in major Australian companies with insurance interests, including National Australia Bank, MLC and Suncorp. She was Chief Information Officer (CIO) for Suncorp, MLC and National Australia Bank, as well as Head of Strategy for MLC and Head of Strategy and Marketing for Suncorp. She was also CEO of MLC's Corporate Superannuation business and Head of their New Zealand Insurance and Wealth Management businesses.

OTHER BUSINESS AND MARKET EXPERIENCE

Michelle is a Non-Executive Director of the Bank of Queensland (since 2011), where she chairs the Information Technology Committee. She is a Director of Cricket Australia (since 2015) and Urbis Pty Ltd (since 2016). Michelle is also a member of The Ethics Centre Board and a member of the Senate of The University of Queensland. She is a former Chairman of the IAG & NRMA Superannuation Plan (2012-2018).

She was awarded Banking and Finance CIO of the Year in 1998 and again in 2006 and is a Fellow of the Australian Institute of Company Directors.

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

- Bank of Queensland Limited (since 2011).

DIRECTORS WHO CEASED DURING THE FINANCIAL YEAR

Philip Twyman was a Director from 9 July 2008 to 26 October 2018.

SECRETARY OF INSURANCE AUSTRALIA GROUP LIMITED

REBECCA FARRELL

LLB (Hons), BA

Rebecca is currently the Acting Group General Counsel and Company Secretary. Rebecca joined IAG in July 2017 when she was appointed Deputy Group General Counsel and Company Secretary, being formally appointed as Company Secretary on 22 August 2017.

Rebecca is a senior legal and governance professional with over 20 years of experience advising boards and senior management, including in roles for Amcor (Zurich, Switzerland), Westpac Banking Corporation and the Future Fund. Rebecca started her career as a corporate and M&A lawyer at King & Wood Mallesons in Melbourne, before moving to New York where she worked with Fried Frank. On returning from New York, Rebecca joined the Head Office Advisory Team at Herbert Smith Freehills in Melbourne before moving to Sydney to assist in the set-up of that team in the Sydney market.

SEJIL MISTRY

BProc, LLM, FGIA, FCIS

Sejil joined IAG in September 2002 and has held various roles within the organisation. Prior to joining IAG, Sejil was a Senior Solicitor at Sparke Helmore Lawyers. Sejil was appointed Deputy Company Secretary and Legal Counsel on 18 September 2015 and is currently Deputy Group Company Secretary. Sejil has over 20 years' experience in the insurance industry and has deep risk and governance experience. She is a Fellow of the Governance Institute of Australia.

MEETINGS OF DIRECTORS

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

DIRECTOR	BOARD OF DIRECTORS		PEOPLE AND REMUNERATION COMMITTEE		AUDIT COMMITTEE		RISK COMMITTEE		BOARD SUB COMMITTEE		NOMINATION COMMITTEE	
Total number of meetings held[1]	9		5		5		5		2		2	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Elizabeth Bryan[4]	9	9	-	5	-	5	-	5	2	2	2	2
Peter Harmer[4]	9	9	-	4	-	5	-	5	2	2	2	2
Duncan Boyle	9	9	5	5	5	5	5	5	-	-	2	2
Hugh Fletcher[4]	9	8	5	5	-	5	5	5	2	2	2	2
Sheila McGregor[4]	9	9	-	3	5	5	-	5	-	-	2	2
Jon Nicholson[4]	9	9	5	5	-	3	5	5	-	-	2	2
Helen Nugent[4]	9	9	-	2	5	5	5	5	-	-	2	2
Tom Pockett[4]	9	9	-	1	5	5	5	5	-	-	2	2
George Savvides[2],[4]	1	1	-	-	-	1	-	1	-	-	-	-
Michelle Tredenick[4]	9	8	5	5	-	5	-	5	-	-	2	2
Philip Twyman[3],[4]	3	3	-	1	1	1	1	1	-	-	1	1

(1) There were no unscheduled meetings held during the financial year.

(2) George Savvides was appointed to the Board on 12 June 2019. He was appointed to the People and Remuneration Committee, Nomination Committee and Risk Committee on 20 June 2019.

(3) Philip Twyman was a member of the Board, Audit Committee, Risk Committee and Nomination Committee until 26 October 2018.

(4) Where not eligible to attend as a Committee member, the Director attended the meeting/s in an ex-officio capacity.

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 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. The Australian division provides consumer insurance products through branches, call centres, the internet and representatives, under the following brands: ■ NRMA Insurance in New South Wales, Australian Capital Territory, Queensland and Tasmania; ■ SGIO in Western Australia; ■ SGIC in South Australia; ■ RACV in Victoria, via a distribution agreement with RACV; ■ Coles Insurance nationally, via a distribution agreement with Coles; and ■ CGU Insurance nationally through affinity and financial institution partnerships and broker and agent channels. The division also includes travel insurance, life insurance and income protection products which are underwritten by third parties. 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: ■ CGU Insurance; ■ WFI; ■ NRMA Insurance; ■ RACV; ■ SGIO; and ■ SGIC.	Short-tail insurance ■ Motor vehicle ■ Home and contents ■ Lifestyle and leisure, such as boat, veteran and classic car and caravan ■ Business packages ■ Farm and crop ■ Commercial property ■ Construction and engineering ■ Commercial motor and fleet motor ■ Marine (through NTI) Long-tail insurance ■ Compulsory Third Party (motor injury liability) ■ Workers' compensation ■ Professional indemnity ■ Directors' and officers' ■ Public and products liability

DIVISION	OVERVIEW	PRODUCTS
New Zealand 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 ■ Motor vehicle ■ Home and contents ■ Commercial property, motor and fleet motor ■ Construction and engineering ■ Niche, such as pleasure craft, boat, caravan and travel ■ Rural and horticultural ■ Marine Long-tail insurance ■ Personal liability ■ Commercial liability
Corporate and other	Corporate and other comprises other activities, including corporate services, capital management activity, shareholders' funds investment activities, inward reinsurance from associates, and investment in associates in Malaysia and India.	

OPERATING AND FINANCIAL REVIEW

OPERATING RESULT FOR THE FINANCIAL YEAR

IAG's reported insurance margin was 16.9%, close to the mid-point of the guidance range of 16-18% provided at the outset of the financial year. The reported insurance margin was lower than the prior year (2018: 18.3%), primarily reflecting an adverse net natural peril claims cost outcome, lower prior year reserve releases and an adverse credit spread movement. IAG's underlying insurance margin improved to 16.6% compared to 14.1% in the prior year. This reflected favourable quota share effects of approximately 125 basis points (bps) and the realisation of net expense savings from IAG's optimisation program, partly offset by increasing regulatory and compliance costs.

Overall GWP growth of 3.1% compared to the prior year was largely rate-driven and included a favourable foreign exchange translation effect in New Zealand. After allowance for the foreign exchange effect, lower post-reform NSW Compulsory Third Party (CTP) pricing and ceased business activities, overall like-for-like GWP growth was close to 4%. The rate-driven increase reflected the response to short-tail claims inflation pressures, which were generally low-to-mid-single-digit in scale, and the ongoing effort to raise rates in commercial classes to restore returns to acceptable levels. Within personal lines, volume growth was achieved in short-tail motor and CTP, while home volumes were modestly lower. Lower commercial volumes reflected continued pricing remediation activity and certain business withdrawals, partially countered by growth in areas such as workers' compensation and the NTI heavy haulage and marine joint venture.

On 19 June 2018, IAG announced it had entered into sale agreements covering its consolidated operations in Thailand, Indonesia and Vietnam. The post-tax contribution from these operations has been aggregated in a single line item within the Statement of Comprehensive Income ('Profit/loss after income tax from discontinued operations'). The combined profit from discontinued operations (excluding non-controlling interests) was $205 million (2018: $24 million loss). The profit in the current year includes a gain of $208 million on the sale of Thailand, which was completed at the end of August 2018. It is IAG's revised expectation that the agreed sales of the operations in Indonesia and Vietnam will complete in the first half of the 2020 financial year.

IAG continues to explore options for its remaining investments in Asia. In June 2019, the Group confirmed discussions had been held with external parties regarding a potential sale of all or part of its 26% interest in SBI General Insurance Company (SBI General) in India. IAG is in advanced discussions with a number of bidders, which may result in one or more transactions being completed.

In August 2018, IAG announced a $592 million capital management initiative of 25 cents per ordinary share which was completed on 26 November 2018 following shareholder approval. It comprised a capital return of 19.5 cents, a fully franked special dividend of 5.5 cents, and a share consolidation, equal and proportionate to the capital return, which reduced IAG's ordinary shares on issue by approximately 2.4%. The capital management initiative acknowledged IAG's surplus capital position to regulatory benchmarks, including cumulative quota share effects, as well as the sale of the Thailand business.

Net profit after tax

The Group's profit after tax for the year was $1,173 million (2018: $1,001 million). After adjusting for non-controlling interests in the Group result, net profit attributable to the shareholders of the Company was $1,076 million (2018: $923 million) and was 16.6% higher than the prior year. This outcome included:

- a 13% decrease in pre-tax insurance profit to $1,224 million, with adverse natural peril, reserve release and credit spread movements collectively exceeding the improvement in underlying performance;
- a $70 million increase in investment income on shareholders' funds, following a strong rally in equity markets in the second half of the year;
- a significant contribution from discontinued operations, owing to the inclusion of a profit of $208 million on the sale of the Thailand operations; and
- a $36 million reduction in amortisation and impairment expense.

Gross written premium

Total GWP of $12,005 million (2018: $11,647 million) represented a 3.1% increase compared to the prior year. This encompassed:

- $9,331 million in Australia, representing growth of 2.0%; and
- $2,660 million in New Zealand, translating to reported growth of 7.0% and embracing a favourable foreign exchange translation effect of approximately 180bps.

Insurance margin

IAG's current year reported insurance profit of $1,224 million (2018: $1,407 million) was 13.0% lower than the prior year. The reported insurance margin decreased to 16.9% (2018: 18.3%). Contributing to this outcome were:

- $627 million of net claim costs arising from natural peril events (which exceeded the year's allowance by $19 million), after full use of the $101 million of stop loss reinsurance protection in the second half of the year. This exceeded the prior year's net natural peril claim costs by $86 million, with the differing outcomes accounting for a reduction in the current year's reported margin of approximately 160bps;
- lower net prior period reserve releases of $126 million (2018: $305 million) which represented 1.7% of net earned premium (NEP), and broadly accorded with IAG's guidance assumption of around 2%. Reserve releases in the prior year amounted to 4.0% of NEP; and
- a $20 million unfavourable movement in credit spread impact, with an adverse effect of $6 million in the current year contrasting with a favourable impact of $14 million in the prior year, partly offset by;
- an improvement in the Group's underlying insurance margin to 16.6% from 14.1% in the prior year.

Underlying margin

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

- net natural peril claim costs less related allowance for the period;
- reserve releases in excess of 1% of NEP; and
- credit spread movements.

	2019		2018	
INSURANCE MARGIN	**$m**	**%**	$m	%
Reported insurance margin*	**1,224**	**16.9**	1,407	18.3
Net natural peril claim costs (below)/in excess of allowance	**19**	**0.3**	(84)	(1.1)
Reserve releases in excess of 1% of NEP	**(54)**	**(0.7)**	(228)	(3.0)
Credit spread movements	**6**	**0.1**	(14)	(0.1)
Underlying insurance margin	**1,195**	**16.6**	1,081	14.1

* Reported insurance margin is the insurance profit/(loss) as a percentage of NEP as disclosed in the Statement of Comprehensive Income.

IAG's underlying insurance margin for the current year included approximately 125bps of improvement, relative to the prior year, arising from the fact the 12.5% quota share agreements (that commenced on 1 January 2018) were in place for the full year.

Short-tail personal lines' profitability remained strong. Earned rate increases broadly matched higher average claim costs in both motor and home classes. Commercial lines' profitability has continued to improve, on the back of rate and remediation activity. Commercial profitability in Australia has also been aided by a return to more normal large loss experience in property classes.

Long-tail CTP profitability was lower than the prior year, reflecting a full year of capped profitability under the new scheme in NSW, which commenced towards the end of the first half of the prior year. This effect was most notable in the opening half of the year, when the comparative period's profitability also reflected favourable effects from initial reform measures under the old scheme.

All aspects of IAG's insurance operations benefited from the outcomes of the Group-wide optimisation program, as related implementation costs have dissipated. A net reduction in gross operating costs of around $90 million was realised in the year, compared to the position at the end of the 2016 financial year which formed the basis of the program's targets. This was broadly in line with target. Some offset has been incurred from increased regulatory and compliance costs. In the current year these costs had increased by approximately $30 million (pre-quota share) compared to the 2016 financial year baseline position, and by $20 million against the prior year. Contributory factors were expenditure associated with the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry and the risk governance self-assessment requested by the Australian Prudential Regulation Authority (APRA).

Tax expense
IAG reported a tax expense of $363 million (2018: $384 million), representing an effective tax rate of 27.3% (2018: 27.2%).

Contributory elements reconciling the effective tax rate to the prevailing 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 $227 million (2018: $165 million), following a strong rebound in performance in the second half of the year. The full year's outcome embraced:
- a strong performance from equity markets, with the negative performance seen during the first half of the year being more than offset by a very strong level of performance during the second half;
- a strong return from alternative investments;
- slightly higher average assets than the prior year; and
- an average asset mix similar to the prior year.

DIVISIONAL HIGHLIGHTS
A. AUSTRALIA
Australia accounted for 78% of Group GWP and recorded a lower reported insurance margin of 14.9% (2018: 19.6%). This incorporated an adverse net natural peril claim cost outcome and significantly reduced reserve releases. Australia's underlying performance improved, however, with an underlying margin of 15.5% being delivered (2018: 12.9%).

I. Premiums
Australia reported GWP of $9,331 million (2018: $9,144 million) in the current year, an increase of 2.0%. The overall Australian GWP outcome included:
- largely rate-driven growth of 4.5% in short-tail motor, broadly in line with associated claims inflation;
- home GWP growth of 2.2%, driven by rate with some offset from volume erosion;
- average rate growth of approximately 6% across commercial lines, partially offset by lower volumes as the remediation focus continued;
- an approximately $70 million reduction in GWP from exiting smaller business areas, such as consumer credit, retail warranty and fleet leasing; and
- slightly lower CTP GWP, where reduced pricing post NSW scheme reform was countered by volume gains.

II. Insurance profit
Australia reported an insurance profit of $842 million, compared to $1,190 million in the prior year. This equates to a lower reported insurance margin of 14.9% (2018: 19.6%). The reduction includes the net effect of:
- lower prior period reserve releases. These amounted to $115 million in the current year (or 2.0% of NEP), down from $344 million in the prior year (or 5.7% of NEP). This primarily reflected lower CTP-related reserve releases;
- higher net natural peril claim costs. This year's net natural peril costs of $612 million represented 10.8% of NEP. This compares to the prior year where total perils-related costs of $439 million represented 7.2% of NEP;
- an unfavourable movement in credit spread impact of $20 million; and
- an improvement in Australia's underlying margin to 15.5% from 12.9% in the prior year. This included an approximately 125bps uplift from a full year's effect of the combined 12.5% quota shares which commenced on 1 January 2018.

III. Underlying margin
Australia's underlying performance improved, with an underlying margin of 15.5% including a stronger second half outcome of 16.2%. Aside from the increased quota share effect in the first half of the year, contributory factors to the full year improvement were:
- an easing of pressure on motor profitability, as higher earned premium rates offset increased claim costs;
- further flow-through of average rate increases across commercial portfolios;
- lower large loss levels in the commercial property portfolio;
- cost savings realised from the optimisation program; and
- some offset from lower current year profitability in NSW CTP, notably in the first half of the year, owing to the capped profitability of the new scheme.

IV. Fee-based business
Fee-based income in Australia comprises contributions from two main sources:
- IAG's role as agent under the Victorian workers' compensation scheme, which is underwritten by the state government; and
- investment in new businesses focusing on advanced technologies, data asset capabilities, innovation and mobility initiatives.

IAG withdrew from the NSW workers' compensation scheme as at 31 December 2017 after assessment of associated risks and returns. Some run-off expenses were incurred in the current year.

Fee and other income was $111 million (2018: $164 million) with the reduction driven by loss of fee income associated with withdrawal from the NSW workers' compensation scheme. Total net income from fee-based operations in the current year was a loss of $1 million, compared to a loss of $5 million in the prior year. This outcome reflected the combined effect of an improved performance from the Victorian workers' compensation business, benefit of the absence of the unprofitable NSW workers' compensation business and initial costs associated with adjacency initiatives. The latter includes costs related to IAG's partnership with the Carbar digital car-trading platform and the Safer Journeys crash detection and response service.

B. NEW ZEALAND

New Zealand accounted for 22% of Group GWP and recorded a significantly higher reported insurance margin of 24.7% (2018: 13.8%). The reported margin benefited from a particularly benign natural perils environment and the non-recurrence of loss reserve strengthening that had been a feature of the prior year. The underlying insurance margin also improved to 19.5% (2018: 17.6%).

I. Premiums

New Zealand's current year GWP grew by 7.0% to $2,660 million, compared to prior year GWP of $2,486 million. This increase included a favourable foreign exchange translation effect, with local currency GWP increasing by 5.2%, to NZ$2,836 million (2018: NZ$2,696 million). This result was driven by the combination of:

- sound GWP growth in Consumer, led by private motor, through increased rates and volume, and including higher rates in home; and
- solid GWP growth in Business, driven by rate increases across commercial and personal lines, partially offset by some volume loss as the business adhered to its robust underwriting disciplines.

II. Insurance profit

The New Zealand business produced a 78.9% increase in insurance profit to $390 million (2018: $218 million). This equates to a reported insurance margin of 24.7% (2018: 13.8%), with the improvement reflecting the combination of:

- a benign natural perils experience. Net natural peril costs were $15 million in the current year (or 0.9% of NEP) down from $100 million (or 6.3% of NEP) in the prior year;
- an absence of prior period reserve strengthening. The current year saw favourable prior year reserve development of $14 million (or +0.9% of NEP) in contrast to the prior year that recorded prior year reserve strengthening of $39 million (or -2.5% of NEP); and
- further improvement in the underlying insurance margin to 19.5% (2018: 17.6%). This reflects the combined impact of the earn through of further premium rate increases coupled with an approximately 125bps uplift from a full year's effect of the combined 12.5% quota shares which commenced on 1 January 2018.

Prior period reserve releases of $14 million included the favourable development of peril events that impacted New Zealand in the second half of the prior year. This was dissimilar to the prior year, which saw $39 million of reserve strengthening as a result of adverse development of prior year storm events and an allowance for potential claims under architect/engineer professional indemnity policies relating to residual risk from post-earthquake building damage and rebuild activity.

III. Earthquake settlements

Steady progress continues to be made with the settlement of claims associated with the financial year 2011 Canterbury earthquake events. At 30 June 2019, NZ$6.85 billion of claim settlements had been completed, and less than 1,100 claims remained open out of more than 90,000 received.

During the current year there was no change to IAG's gross reserved position on the three major earthquakes that occurred during financial year 2011. Considerable legacy reinsurance protection remains available for the September 2010 and June 2011 events, and approximately NZ$540 million of adverse development cover is still available to the Group in respect of the February 2011 event.

Outstanding Canterbury earthquake claims include those that are subject to dispute and litigation or involving high customer utilisation of independent expert advice, 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 associated complexity.

The settlement of claims associated with the November 2016 Kaikoura earthquake is well-advanced. As at 30 June 2019, 98.7% of all claims by number had been fully settled.

C. CORPORATE AND OTHER

A pre-tax profit of $99 million was reported in this segment, which compares to a profit of $5 million in the prior year. The movement primarily reflects the increase in net investment income on shareholders' funds of $62 million. Following the classification of IAG's consolidated businesses in Thailand, Vietnam and Indonesia as discontinued operations in the second half of the prior year, the Group no longer has a standalone Asia segment. Consequently, the residual interests in Malaysia and India which continue to be treated as associates have been reclassified to the Corporate and other segment. 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 associates was a profit of $42 million (2018: $31 million) including allocated regional costs. This result includes AmGeneral Holdings Berhad (AmGeneral) in Malaysia and SBI General in India. IAG continues to assess future options for these Asian assets.

IAG's share of AmGeneral's profit for the current year decreased to $38 million (2018: $40 million). The outcome included the combination of:

- increased net earned premium from improved retention and higher rates;
- lower bodily injury-related prior period reserve releases; and
- higher administration expenses from one-off changes to service tax regulations.

IAG's share of SBI General's profit for the current year increased to $27 million (2018: $10 million). This higher outcome reflected the combination of:

- a favourable effect from exchange commission recognition in the long-term home portfolio;
- higher investment income; and
- a lower impact from catastrophe-related claims.

REVIEW OF FINANCIAL CONDITION

A. FINANCIAL POSITION

The total assets of the Group as at 30 June 2019 were $29,286 million compared to $29,766 million as at 30 June 2018. Movements within the overall net decrease in assets of $480 million include:

- a decrease in investments of $323 million associated with the payments of the 2018 final dividend, 2019 interim dividend, $592 million capital management initiative and net settlements of the whole-of-account quota share arrangements. This has been partially offset by $506 million of net consideration received from the sale of IAG's operations in Thailand, operating earnings for the year and net proceeds on the issuance and settlement of subordinated debts;
- a $594 million decrease in assets held for sale, predominantly related to the sale of the Thailand operations, which was completed at the end of August 2018;
- a $357 million increase in reinsurance and other recoveries on outstanding claims, predominantly relating to the continued run-on of the whole-of-account quota share arrangements and increased recoveries relating to natural peril events which occurred during the year; and
- a $85 million increase in trade and other receivables, predominantly relating to increases in premiums receivable reflecting growth in gross written premium across Australia and New Zealand.

The total liabilities of the Group as at 30 June 2019 were $22,576 million compared to $22,825 million as at 30 June 2018. Movements within the overall net decrease in liabilities of $249 million include:

- a $417 million decrease in liabilities held for sale predominantly related to the completion of the sale of IAG's interest in the operations in Thailand;
- a $114 million decrease in outstanding claims liabilities primarily due to settlements for prior year large losses and natural peril claims, including the Canterbury and Kaikoura earthquakes, exceeding reserves for current year natural peril claims; offset by
- a $117 million increase in the unearned premium liability which is predominantly driven by the increase in the gross written premium across Australia and New Zealand; and
- a $120 million increase in interest-bearing liabilities reflecting the net impact of $450 million issuance of AUD subordinated convertible term notes, translation impact of NZD subordinated convertible term notes and redemption of $350 million AUD subordinated convertible term notes.

IAG shareholders' equity (excluding non-controlling interests) decreased from $6,669 million as at 30 June 2018 to $6,404 million as at 30 June 2019, reflecting the combined impact of:

- current year net profit attributable to shareholders of $1,076 million, including a $208 million gain from the divestment of the Thailand operations; and
- payments totalling $1,345 million in respect of 2018 final dividend, capital return including transaction costs, special dividend and 2019 interim dividend.

B. CASH FROM OPERATIONS

The net cash inflows from operating activities for the year ended 30 June 2019 were $589 million compared to net cash outflows of $53 million for the prior year. The movement is mainly attributable to the net effect of:

- a reduction in net cash outflows from other operating items of $418 million, predominantly relating to increased reinsurance commissions received in respect of the combined 12.5% quota share agreements, which were only in place for part of the prior year and decreased expense payments associated with divested entities and the Group optimisation program;
- an increase in reinsurance and other recoveries received of $247 million, again reflecting a full year's impact of recoveries made under the combined 12.5% quota share agreements partially offset by reduced recoveries from catastrophe events from prior years; and
- a decrease in claims costs paid of $336 million, predominantly pertaining to lower payments on Canterbury and Kaikoura earthquakes, lower payments relating to operations in Thailand following the sale of the business, partially offset by higher payments in the current year relating to large losses in Australia; partially offset by
- an increase in outwards reinsurance premium payments of $601 million, predominantly related to a full year of payments made on the combined 12.5% quota share agreements, partially offset by reductions in payments on the catastrophe reinsurance covers due to the timing of payments on the final instalment for the 2018 cover.

C. INVESTMENTS

The Group's investments totalled $10,684 million as at 30 June 2019, excluding investments held in joint ventures and associates, with over 55% represented by the technical reserves portfolio. The decrease in total investments since 30 June 2018 ($11,007 million) reflects the combined effect of:

- a quota share-influenced $406 million reduction in technical reserves, and
- an $83 million increase in shareholders' funds, reflecting the net effect of:
  - receipt of $506 million net sale proceeds from the divestment of the Thailand operations at the end of August 2018;
  - net proceeds of around $100 million from a subordinated convertible term note redemption ($350 million) and the issue of a new Tier 2 instrument ($450 million);
  - payment of $473 million 2018 final dividend and $277 million 2019 interim dividend;
  - the $592 million capital management initiative completed in November 2018; and
  - operating earnings during the period.

IAG's overall investment allocation is conservatively positioned, with over 81% of total investments in fixed interest and cash as at 30 June 2019. Technical reserves were 100% invested in fixed interest and cash, while the equivalent figure for shareholders' funds was 58%. IAG's allocation to growth assets was 42% of shareholders' funds at 30 June 2019, compared to 43% at 30 June 2018.

D. INTEREST-BEARING LIABILITIES

IAG's interest-bearing liabilities stood at $2,080 million at 30 June 2019, compared to $1,960 million at 30 June 2018. The net movement in the period reflects:

- redemption of $350 million of subordinated convertible term notes on their first issuer call date of 19 March 2019; and
- the issue of $450 million of Tier 2 subordinated convertible term notes on 28 March 2019.

E. CAPITAL MIX

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

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

At 30 June 2019, debt and hybrids represented 36.5% of total tangible capitalisation, within IAG's targeted range. This ratio has decreased since the first half of the year (38.4%), with the net movement reflecting:

- redemption of $350 million of subordinated convertible term notes on their first issuer call date of 19 March 2019;
- the issue of $450 million of Tier 2 subordinated convertible term notes on 28 March 2019; and
- increased shareholder equity in the second half of the year, as retained earnings exceeded dividend payments.

The $550 million Reset Exchangeable Securities (RES) instrument has a reset date in December 2019, after which it ceases to be eligible for regulatory capital purposes. IAG's present intention is to redeem RES at the reset date, using the funds from the $450 million subordinated convertible term note issue in March 2019.

F. CAPITAL POSITION

IAG remains strongly capitalised under the APRA Prudential Standards, with regulatory capital of $4,981 million at 30 June 2019 (2018: $5,018 million). IAG has set the following related targeted benchmarks:

- a total capital position equivalent to 1.4 to 1.6 times the Prescribed Capital Amount (PCA), compared to a regulatory requirement of 1.0 times; and
- a Common Equity Tier 1 (CET1) target range of 0.9 to 1.1 times the PCA, compared to a regulatory requirement of 0.6 times.

At 30 June 2019, IAG had a PCA multiple of 2.12 (2018: 2.03) and a CET1 multiple of 1.31 (2018: 1.26).

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

STRATEGY AND RISK MANAGEMENT

A. STRATEGY

MAKING CUSTOMERS FEEL SAFER ON THE ROAD, IN THEIR HOMES AND AT WORK

IAG's purpose means that whether you are a customer, partner, employee, shareholder or part of the communities IAG serves, IAG exists to 'make your world a safer place'. IAG believes its purpose will enable it to become a more sustainable business over the long term, and deliver stronger and more consistent returns for its shareholders.

IAG is focused on building a lean, efficient and modular insurance operation, through its simplification priority, while creating a customer-focused organisation with enhanced capabilities in data, digital, analytics and artificial intelligence, brand and innovation, and driving towards the creation of an agile organisation.

With simplification well-progressed, IAG is now increasing its focus on customer engagement and long-term growth. This includes extending its strategic partnerships to offer products and services that are adjacent to its insurance business, enabling IAG to make its customers and the community feel safer on the road, in their homes and at work. IAG is also leveraging its assets – including its data, customer reach and brands – to launch and scale new businesses in markets that complement these adjacent products and services.

The goals of IAG's strategy are centred around building deeper engagement with its customers and growing the number of customers in the IAG network of brands. IAG seeks to create more value for its customers by making their world a safer place and to increase the lifetime value of its customer relationships.

Strategic targets

IAG is focused on delivering through-the-cycle financial targets of:

- cash return on equity (ROE) 1.5 times weighted average cost of capital (WACC);
- a dividend payout of 60-80% of full year cash earnings; and
- a top quartile total shareholder return (TSR).

These financial targets are complemented by short-term balanced scorecard objectives for the enterprise, including financial performance (including underlying profit, GWP growth, operating costs), customer advocacy and growth, people engagement and leadership effectiveness, and IAG's risk maturity performance.

Strategic priorities

IAG continues with its three key strategic priorities, supported by organisational capabilities, to deliver its strategy:

I. Customer – world-leading customer experiences:

- Create a delivery platform that transforms customer experiences;
- Better connect customers and automate processes, enabling IAG to reach more customers in a timely manner;
- Develop an innovation approach which provides the ability to think differently and deliver quickly;
- Embed cognitive capabilities and artificial intelligence that anticipate customers' needs; and
- Use data to power decision-making, allowing IAG to better understand its customers.

II. Simplification – simplified, modular and lower cost operating model:

- Reduce organisational complexity by consolidating technology platforms, harmonising products, simplifying processes and systems, and executing the technology strategy;
- Leverage operational partners to optimise the operating model and drive scale economies across the value chain; and
- Improve allocation and maximise utilisation of the preferred repairer network to reduce average claim size.

III. Agility – an agile organisation distinguished by innovation, speed and execution skills:

- Create a disciplined approach to IAG's management and leadership, including building stronger role clarity and introducing agile ways of working;
- Build a talent pipeline based on the skills required to deliver IAG's strategy and help IAG people transition to the future of work; and
- Be recognised as a purpose-led organisation that shapes its internal and external environment.

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 customer, stakeholder, industry and regulatory expectations. 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 is a core part of the governance structure, which includes internal policies, key management processes and culture. The Group risk management strategy (RMS) details the IAG principles, risk appetite, policies, key controls, monitoring and governance processes for managing material risks. The RMS is reviewed annually, or 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 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 Audit Committee, the Risk 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 general insurance business. The risks noted below are not meant to represent an exhaustive list, but outline the material risks faced by the Group as identified in the RMS:

- strategic risk – the risk that internal or external factors compromise our ability to execute our strategic objectives or our strategy;
- insurance risk – arises from inadequate or inappropriate underwriting, 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 – the risk of loss as a result of lack of capacity in the reinsurance market, insufficient or inappropriate reinsurance coverage, inadequate or inappropriate reinsurance recovery management, reinsurance arrangements not legally binding, and reinsurance concentration;
- financial risk – the risk of loss as a result of inadequate liquidity to meet liabilities as they fall due, adverse movements in market prices (foreign exchange, equities, derivatives, interest rates, etc) or inappropriate concentration within the investment funds, a counterparty failing to meet its obligations (credit risk), inadequate liquidity or inappropriate capital management;
- operational risk – the risk of loss resulting from the actions or behaviours of people, inadequate or failed internal processes or systems or from external events; and
- regulatory risk and compliance – the risk of legal, regulatory or reputational impacts arising from failure to manage compliance obligations, or failure to anticipate and prepare for changes in the regulatory environment.

A disciplined approach to risk management has been adopted and IAG believes this approach provides the greatest long-term likelihood of being able to meet the objectives of all stakeholders.

Detail of IAG's overall risk management framework, which is outlined in the RMS, is set out in Note 3.1 within the financial statements and in the Corporate Governance Statement, which is available at www.iag.com.au/about-us/corporate-governance.

C. ECONOMIC, ENVIRONMENTAL AND SOCIAL SUSTAINABILITY RISK

Economic, environmental and social sustainability risks are identified and managed as part of IAG's enterprise-wide risk management framework and are overseen by the Board. Through risk profiling and ongoing trend analysis, information on these risks is collected and reported to the Group Leadership Team (GLT) and Board and used to update IAG's strategy at appropriate intervals. This is supported by IAG's annual materiality process and engagement with IAG's Safer Communities Steering Committee to identify and develop mitigation approaches to these risks.

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

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

Each year a materiality assessment is undertaken to help guide IAG's shared value and sustainability approach and ensure its reporting addresses risks and opportunities with the greatest importance to IAG's stakeholders and business. An extensive assessment and stakeholder engagement process supports the Safer Communities Steering Committee to play an active role in the finalisation of the material issues, which are signed off by the Group Executive, People, Performance and Reputation.

IAG has a safer communities framework that guides decision making and ensures value is being created for both the community and IAG. This framework defines focus areas that support IAG's commitment to help make communities Safer, Stronger and More Confident. IAG's sustainability performance is managed within this framework and supported by a number of policies and position statements including IAG's Social and Environmental Policy and Public Policy Position on Climate Change.

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

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

IAG is committed to protecting human rights, and this commitment is clearly outlined in the IAG Code of Ethics & Conduct. IAG respects and supports the United Nations Universal Declaration of Human Rights and is committed it to the ongoing integration of human rights considerations into its systems, processes and operations.

IAG addresses Human Rights and Modern Slavery legislative requirements across its business, including in IAG's procurement, asset management and human resources business units. IAG's Procurement Policy and Supplier Code of Conduct address Human Rights and Modern Slavery, support practical management of these important issues across IAG's business and will be made public in the 2020 financial year.

Details of IAG's material issues, how IAG manages related risks and opportunities and details of other shared value and sustainability activities can be found in the 2019 Annual Review and Safer Communities Report, which is available at www.iag.com.au/safer-communities/esg-commitments-and-performance. IAG's management of economic, environmental and social sustainability risk is outlined in detail in Principle 7.4 of the Corporate Governance Statement, which is available at www.iag.com.au/about-us/corporate-governance.

D. CLIMATE RISK

Climate change is one of the world's most pressing issues. Consistent with the scientific reports of the Intergovernmental Panel on Climate Change, global temperatures have the potential to increase between 1.5 and 3.0 degrees Celsius (°C) by 2050. In 2002 IAG launched "The Impact of Climate Change on Insurance against Catastrophes", an Australian first report, and since then, in line with its purpose to 'make your world a safer place', IAG has led initiatives aimed at addressing the opportunities and risks associated with climate change and taken practical steps to minimise its own environmental impact.

IAG has been making climate-related disclosures for many years and commenced disclosure aligned with the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations in the 2018 financial year. This climate-related disclosure addresses how IAG is managing climate risk, and opportunities, through its governance, strategy and risk management processes.

Through its work with the UNEP FI, and a range of cross-sector stakeholders, IAG is contributing to the development of sustainable finance roadmaps for Australia and New Zealand. This work will lead to the creation of sustainable finance solutions that support progress against the United Nations Sustainable Development Goals and achieving the Paris Agreement to limit climate change to below 2.0°C. IAG has contributed to the UNEP FI Principles for Sustainable Insurance TCFD pilot and will continue to participate with other global insurers in the 2020 financial year. This will enable industry benchmarking and inform IAG's ongoing approach to risk assessments, scenario analysis and climate-related disclosure.

Additional non-financial disclosures can be found in the 2019 IAG Investor Report and in the Safer Communities section of the IAG website (www.iag.com.au).

Governance

The Board Charter of IAG articulates that the Board has responsibilities to:

- review and monitor implementation of IAG's shared value and sustainability strategy, including climate change;
- monitor the performance of shared value initiatives to create safer, stronger and more confident communities, as well as sustainability aspects under the areas of customer, workforce, community and the environment; and
- review external reporting on shared value and sustainability strategies and initiatives, specifically within the IAG Annual Review.

Board Committees of IAG include:

- the Risk Committee, where climate change is considered as part of IAG's enterprise risk profile;
- the Audit Committee, with consideration of climate-related disclosures; and
- the People and Remuneration Committee and the Nomination Committee, with consideration of the safer communities approach and activity, including climate change.

Committee responsibilities are set out in Committee Charters, that are available in the About Us section of IAG's website (www.iag.com.au).

IAG's sustainability performance is managed within a safer communities framework and is supported by a number of policies and position statements including IAG's Social and Environmental Policy, Public Policy Position on Climate Change and Climate Action Plan. Progress against IAG's Climate Action Plan is reported to the IAG Board annually.

IAG's Chief Executive Officer has management accountability for the implementation, performance and external disclosure of IAG's safer communities' activities, which includes climate change and the Climate Action Plan. The Group Executive, People, Performance and Reputation has accountability for oversight of climate change activity and the Climate Action Plan, with accountability for execution against the various elements owned by relevant GLT members. Progress against IAG's Climate Action Plan is reported to the GLT at least every six months.

The IAG Climate Risk & Opportunity Steering Committee comprises five GLT members and senior leaders from across the business. It provides guidance on the strategic direction, risk management, ongoing implementation and development of business opportunities relating to IAG's position on climate change.

IAG's Social and Environmental Policy provides a framework for identifying and managing IAG's direct and indirect social and environmental impacts, outlines IAG's commitments to action, and defines IAG's approach to continuous improvement in its social and environmental performance, including climate change.

IAG's Public Policy Position on Climate Change outlines our commitment to the Paris Agreement and to continuing to work constructively with government, industry, non-profit groups and local communities to limit carbon emissions, increase resilience to, and address the risks posed by, the changing climate and to continue to incorporate climate considerations into IAG's Investment Policy and approach.

IAG's Climate Action Plan is a three-year plan that sets out our commitment and framework to address the effects of climate change. IAG publicly discloses its progress against the Climate Action Plan every six months, ensuring transparency around, and accountability for, its commitments. Visit the Safer Communities section of IAG's website (www.iag.com.au) to read the latest Climate Action Plan Scorecard update.

Strategy

IAG enterprise strategy

As noted above, IAG has identified three key strategic priorities, supported by organisational capabilities, to deliver its strategy: customer (world-leading customer experiences); simplification (simplified, modular and lower cost operating model); and agility (an agile organisation distinguished by innovation, speed and execution skills). Climate change is a key consideration in IAG's strategy-setting process. While resilient to short-term risks through the use of mechanisms such as risk selection, risk-based pricing and reinsurance, IAG recognises longer term considerations such as the potential for a sustained increase in the frequency and severity of natural peril events. IAG continues to investigate product and service opportunities that support adaptation and emission reductions.

IAG's strategic commitments are outlined in its Climate Action Plan, which has five key areas of focus:

- think big – ensuring IAG leads on the right issues and builds the right relationships to achieve its ambitions;
- prepare our people – to apply the depth of experience of people from across IAG's business;
- reduce our emissions – to practice what IAG preaches;
- invest responsibly – to ensure our investment activity aligns to IAG's purpose; and
- rethink risk – to ensure IAG's products, systems and partnerships help customers, business and communities to make a smooth transition to what the future brings.

Contributing to improvements in the broader systems that enable climate change management

IAG demonstrates leadership in disaster risk reduction and climate change through its role as a founding member of the Australian Business Roundtable for Disaster Resilience and Safer Communities, working collaboratively with governments to effect change in public policy, increase investment aimed at building safer and more resilient communities and working to improve the capacity of people and businesses to better withstand future natural disasters. IAG has also been invited by the Federal Governments in Australia and New Zealand to play a role in climate change management, including active engagement and contribution to the National Resilience Taskforce in Australia. In New Zealand, IAG is working through the Climate Leaders Coalition to ensure businesses are actively adapting and building resilience to climate impacts. IAG also works in collaboration with its partners to support communities and help build their resilience. This includes working with the Australian and New Zealand Red Cross and the State Emergency Service in New South Wales and Queensland.

Using research and modelling to support a strategic response

IAG manages climate change risk and the related impact on its strategy and businesses through the development and utilisation of models which map the possible outcomes of natural peril events. The impacts of climate change to IAG's strategy are managed through IAG's established risk management frameworks (see Business Risk and Risk Management section for additional information). The models inform IAG's risk-based pricing and reinsurance requirements, with the ability to make regular adjustments ensuring IAG's business remains resilient in the short term.

In the 2018 financial year, IAG collaborated with the United States National Center for Atmospheric Research (NCAR) in a research project to determine the most up to date science to inform catastrophe modelling for three potential global temperature scenarios (+1.5°C, +2.0°C and +3.0°C). This research was developed to better understand the climate-related risks and opportunities to IAG, particularly over the medium and long term. Although the research project draws on the most up-to-date science and expert opinion, there remains considerable uncertainty in the modelling due to gaps in climate science as well as limitations in the financial tools that are used for climate scenario modelling. Nevertheless, a key finding from this work was that natural peril events are likely to occur in an increasingly non-uniform way across Australia in the future, which may lead to disproportionate impacts for some communities.

IAG's future climate temperature modelling will inform management of these impacts in the medium-to-long term. The application of these scenarios to IAG's natural peril models has enabled an assessment of the potential impacts on premiums over time. The frequency and severity of perils is projected to increase and, exacerbated by urbanisation and population concentration, this may drive increasing claims to property, motor and business policies. The modelling indicates a likely increase to premiums due to rising natural perils costs. There may be some offsetting reduction in the total market premium if climate change impacts start to render existing housing stock uninsurable, for example.

A temperature increase above 2.0°C has the potential to result in significant access and affordability issues. The increasing frequency and/or severity of weather events, coupled with compounding effects of perils (as described above) may push some areas beyond affordability or indeed habitability. There may also be an increase in under-insurance and self-insurance. The severity of any future access and affordability risks will also be impacted by government and industry approaches to land planning and building codes. IAG is committed to continue to partner with other businesses, community and governments to play a meaningful role in addressing the implementation of these broader mitigation measures.

Reducing carbon intensity through our underwriting practices

IAG has a focus on managing climate risk and opportunities through its underwriting approach. To demonstrate this, IAG is committed to ceasing underwriting entities predominantly in the business of extracting fossil fuels, and power generation using fossil fuels, by 2023. In alignment with its purpose, IAG has committed to continue to provide workers' compensation coverage to employees in these sectors because everyone needs to be protected at work.

Carbon considerations in investments

IAG invests responsibly, integrating Environmental, Social and Governance (ESG) criteria across its equity portfolio to help proactively support the transition to a low-carbon economy. IAG utilises a third-party controversy screening module to review its investment exposure and inform any divestment decisions.

Using scenario analysis to inform strategy and business planning

In order to better understand the most significant potential impacts of climate change on IAG's business, a series of cross-functional workshops were recently held involving IAG leaders and external stakeholders. The workshops were designed to determine the most significant political, economic, social, technological, environmental and legal factors impacted by a +2.0°C temperature increase by 2030, while also considering physical, transition and liability risk. Trust in governments and institutions, regulatory intervention and the impacts of inequality were found to be the most impactful factors to the IAG strategy. As a result, four "plausible scenarios" were developed. These scenarios will form an input into product development and pricing strategies in the short-term and be applied to assess the resilience of IAG's strategy over the medium and long term. These scenarios will be used in strategy and business planning across the 2020 financial year.

Risk management

Integration with enterprise-wide risk management processes

The enterprise risk profile (ERP) is IAG's framework to identify risks inherent in IAG's strategy, which may inhibit meeting or achieving its strategic objectives. IAG manages risks through its ERP process, with the potential impacts of climate change being identified as posing a high level of inherent risks.

IAG manages its inherently high risks through cause and effect analysis, known as bow-tie analysis, which seeks to identify key causes and consequences attached to risks, their interdependencies, and related controls and mitigating strategies. The bow-tie analysis is embedded within IAG's Risk Response Plan which is integrated with IAG's Risk Management System, Risk Appetite Statement and Risk Management Strategy. These risk management tools help inform the implementation of IAG's strategy and safer communities activities.

Assessing the physical, transitional and liability risks of climate change

IAG considers climate change across physical, transition and liability risk. Physical risk refers to the tangible impacts of climate change and will typically include the increased frequency and cost of claims. Transition risk is the risk associated with the transition to a low-carbon economy. Liability risk refers to the litigation or legal risk resulting from both physical impacts of climate change and the transition to a low carbon economy.

The risks and opportunities associated with climate change transition could vary depending on the future decarbonisation pathway that Australia, New Zealand and the world follow. IAG will focus on implications for the business to 2030 and 2050 utilising scenarios consistent with limiting long-term global warming levels in alignment with the Paris Agreement. These scenario approaches align with our ongoing physical climate risk analysis, allowing a more comprehensive view of the risks and potential opportunities IAG may face from climate change. IAG is using a +1.5°C "stretch" scenario for Australia, and "balanced/central" and "delayed action/shock" scenarios aligned to a +2.0°C temperature increase for Australia and New Zealand. This is to further understand how economies could change in response to different long-term climate objectives, including behavioural and lifestyle changes. The "balanced/central" scenario is illustrative of the implications of pursuing a managed policy response to climate change versus a "delayed action/shock" scenario, which assumes climate-driven policy changes are implemented abruptly.

Metrics

For an overview of IAG's climate risk related targets and key metrics, please refer to the additional disclosures provided in the Safer Communities section of the IAG website (https://www.iag.com.au).

CORPORATE GOVERNANCE

IAG believes good governance is essential to delivering its purpose and strategy, including delivering world-leading customer experiences. At IAG, good governance is the culmination of a number of elements, including ethics, culture, leadership (including Board and senior management), and policies and procedures (including remuneration and risk management frameworks).

Aiming for the highest standards across all elements of corporate governance enables IAG to focus more effectively on delivering superior customer outcomes and supporting communities.

During the year, IAG strengthened its approach to governance and culture, responding to the changing regulatory environment. For the financial year ended 30 June 2019, IAG complied with the Australian Securities Exchange Corporate Governance Council Principles and Recommendations (3rd edition). Details of this compliance are set out in IAG's 2019 Corporate Governance Statement and in Appendix 4G. This Corporate Governance Statement is current as at 8 August 2019 and has been approved by the Board. While IAG reported against the 3rd edition, many practices align with the recently released 4th Edition of the Principles and Recommendations which come into force for financial years commencing on or after 1 January 2020. IAG expects to fully comply with the 4th edition by then.

IAG's 2019 Corporate Governance Statement is available at www.iag.com.au/about-us/corporate-governance, along with the policies and procedures that guide all employees' behaviour.

OUTLOOK

IAG's GWP growth guidance for the 2020 financial year is 'low single digit'. Feeding into this expectation are:

- anticipated rate increases across short-tail personal lines in Australia and New Zealand;
- a modest expected advance in combined short-tail personal line volumes;
- further average rate increases in Australian and New Zealand commercial classes;
- lower commercial volumes, including a greater than $100 million reduction in GWP from recent business exits; and
- lower overall CTP rates stemming from scheme change in each of NSW, the ACT and South Australia, partially offset by modest volume growth.

IAG's 2020 financial year reported insurance margin guidance range is 16-18%. Associated ingredients and assumptions comprise:

- further incremental improvement (of approximately $160 million pre-tax) from optimisation program initiatives, cumulatively approximating the $250 million pre-tax target originally set;
- an offset from higher regulatory and compliance costs, which are expected to increase by up to a further $50 million, including increased investment in risk-related resources;
- some drag from a lower investment running yield, reflecting the recent reduction in interest rates;
- net losses from natural perils in line with an increased allowance of $641 million ($950 million, pre-quota share);
- lower prior period reserve releases of around 1% of NEP; and
- no material movement in foreign exchange rates or investment markets.

Investments made through Customer Labs over the last three years, in data, artificial intelligence and innovation, have encouraged IAG to accelerate its spend on these technologies and the associated businesses it is developing. As a result, the amount by which expenditure exceeds revenue is expected to expand in the 2020 financial year and contribute to an increased pre-tax loss in the fee income line, of up to $50 million (2019: pre-tax loss of $9 million).

DIVIDENDS

Details of dividends paid or determined to be paid by the Company and the dividend policy employed by the Group are set out in Note 4.4.

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	**2019 $m**	2018 $m
Net profit after tax	**1,076**	923
Acquired intangible amortisation and impairment (post-tax)	**57**	107
	1,133	1,030
Non-recurring items:		
Corporate expenses	**4**	9
Tax effect on corporate expenses	**(1)**	(5)
Gain on sale of Thailand	**(208)**	-
Loss of diversification benefit on sale of Thailand	**3**	-
Cash earnings*	**931**	1,034
Interim dividend	**277**	331
Final dividend	**462**	474
Dividend payable	**739**	805
Cash payout ratio*	**79.4%**	77.9%

* Cash earnings and cash payout ratio represent non-IFRS financial information.

The Board has determined to pay a final dividend of 20.0 cents per share (cps), franked to 70% (2018 final dividend: 20.0cps, fully franked). The final dividend is payable on 30 September 2019 to shareholders registered as at 5pm Australian Eastern Standard Time (AEST) on 20 August 2019.

This brings the full year dividend to 32.0 cents per share, which equates to a payout ratio of 79.4% of cash earnings, in line with IAG's stated dividend policy to distribute 60-80% of cash earnings in any full financial year.

In addition, during the first half of the year, IAG paid a special dividend of 5.5 cents per share as part of the capital management initiative announced in August 2018 and approved by shareholders at the annual general meeting (AGM) on 26 October 2018. Payment occurred on 26 November 2018.

In August 2018 IAG advised that, from July 2019 it may not be in a position to fully frank future dividend payments. This reflects:

- the move to a higher payout policy in recent years;
- a sequence of capital management activities being conducted, often utilising IAG's franking capacity; and
- a significant portion of the company's earnings being derived from its New Zealand operations, where no franking credit generation attaches.

As at 30 June 2019, and prior to allowance for payment of the final dividend, IAG's franking balance was $93 million, including its 70% entitlement to franking held by IMA.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the financial year the following changes became effective:

- On 31 August 2018, IAG completed the sale of its Thailand operations for a consideration of $515 million, which resulted in the recognition of a gain of $208 million, net of tax.
- On 26 November 2018, IAG completed its capital management initiative amounting to 25.0 cents per ordinary share, or $592 million, which comprised a 19.5 cents capital return and a 5.5 cents fully franked special dividend, with a share consolidation that reduced the Company's ordinary issued shares by 2.4%.
- On 19 March 2019, Insurance Australia Limited (IAL), a wholly-owned subsidiary of the Company, redeemed $350 million of subordinated convertible term notes.
- On 28 March 2019, 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.

EVENTS SUBSEQUENT TO REPORTING DATE

Details of matters subsequent to the end of the financial year are set out below and in Note 7.3 within the financial statements. These include:

- On 8 August 2019, the Board determined to pay a final dividend of 20.0 cents per share, 70% franked. The dividend will be paid on 30 September 2019. The DRP will operate by acquiring shares on-market for participants with no discount applied.

NON-AUDIT SERVICES

During the financial year, KPMG performed certain other services for IAG in addition to its statutory duties.

The Directors have considered the non-audit services provided during the financial year by KPMG and, in accordance with written advice provided by resolution of the Audit Committee, are satisfied that the provision of those non-audit services by IAG's auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit assignments were approved in accordance with the process set out in the IAG framework for engaging auditors for non-audit services; and
- the non-audit services provided did not undermine the general principles relating to auditor independence as set out in *APES 110 Code of Ethics for Professional Accountants* of the Chartered Accountants Australia and New Zealand and CPA Australia, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

The level of fees for total non-audit services amounted to approximately $3,206 thousand (refer to Note 8.3 for further details of costs incurred on individual non-audit assignments).

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

The lead auditor's independence declaration is set out on page 43 and forms part of the Directors' Report for the year ended 30 June 2019.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company's constitution contains an indemnity in favour of every person who is or has been:

- a Director of the Company or a subsidiary of the Company; or
- a Secretary of the Company or of a subsidiary of the Company; or
- a person making or participating in making decisions that affect the whole or a substantial part of the business of the Company or of a subsidiary of the Company; or
- a person having the capacity to affect significantly the financial standing of the Company or of a subsidiary of the Company.

The indemnity applies to liabilities incurred by the person in the relevant capacity (except a liability for legal costs). That indemnity also applies to legal costs incurred in defending or resisting certain legal proceedings. The indemnity does not apply where the Company is forbidden by statute or, if given, would be made void by statute.

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

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

REMUNERATION REPORT

EXECUTIVE SUMMARY

Our purpose: we make your world a safer place

IAG's purpose guides our remuneration approach by aligning Executive pay outcomes with the interests of our customers, community and shareholders. We achieve this alignment by assessing both financial and non-financial performance, including a risk assessment, to ensure results are delivered in a way that is sustainable and benefits all IAG stakeholders.

Remuneration reflects delivery of strategy, business results and risk performance

IAG rewards Executives through a combination of fixed pay, short-term incentives (STI) and long-term incentives (LTI).

In the 2019 financial year, IAG has continued to deliver strong business performance, recording outcomes at the mid-point of guidance measures provided to the market, in relation to GWP growth and reported insurance margin. A key element of the improved underlying margin outcome was the realisation of net benefits under IAG's optimisation program, which includes initiatives designed to simplify IAG's business, reduce controllable expenses and improve the experience of IAG's customers. In addition, a strong capital position has been maintained, following distribution of surplus capital to shareholders. The table below outlines key performance measures and remuneration outcomes reflecting IAG's business results.

- A review of fixed pay determined that current Executive fixed pay levels are appropriate, and will remain unchanged for the 2020 financial year. The August 2018 review resulted in Peter Harmer, Mark Milliner, Craig Olsen and Julie Batch receiving fixed pay increases during the 2019 financial year. The increases ranged from 5.0% to 11.8% and were applied to meet market pay levels.
- STI outcomes reflect Group and individual Executive performance during the 2019 financial year. Further improvement in underlying business performance was achieved, in line with the market guidance measures provided at the outset of the year.
- The LTI rewards Executives for achieving long-term performance. Based on strong returns, the cash return on equity (ROE) element of the 2015/2016 LTI award vested in full. On 30 September 2018, the relative total shareholder return (TSR) portion of the 2014/2015 LTI award was tested. IAG's TSR was ranked at the 61st percentile of its peer group resulting in a 72% vesting outcome.

SUMMARY OF EXECUTIVE PERFORMANCE OUTCOMES

	Performance measure	Performance outcome	Remuneration outcome as % of maximum
STI	Group Balanced Scorecard	60%	47% to 72% (average of 60%)
LTI	Cash ROE	1.71 times WACC*	100%
	Relative TSR	61st percentile of peer group	72%

* Weighted Average Cost of Capital (WACC).

As foreshadowed at the 2018 annual general meeting (AGM), the Board has reviewed the LTI plan ROE hurdle. The review considered factors including the impact of monetary policies on the global cost of capital, the changing capital base of the Company and the need to ensure the hurdle is sufficiently stretching. As a result, the Board has increased the cash ROE hurdle vesting range from 1.2 to 1.6 times WACC, to 1.4 to 1.9 times WACC for future awards, with the expectation of typically lower vesting outcomes for Executives.

Risk performance and accountability is a key input to variable pay

IAG takes a balanced approach to assessing Executive performance across financial and non-financial measures, while also considering risk management effectiveness. When assessing risk performance, the full range of risks faced by IAG are considered, including reputational and operational risk. The way IAG assesses Executive risk management performance continues to evolve, building on the improvements outlined in IAG's 2018 Annual Report.

For the 2019 financial year, IAG's risk performance assessment approach was further enhanced to ensure that remuneration outcomes support effective risk management and IAG's long-term soundness. Under this approach:

- the risk performance assessment has been extended beyond Executives to cover approximately 80 senior leaders across IAG;
- the Board Risk Committee, with input from the Chief Risk Officer and Executive General Manager, Group Internal Audit, provides an independent assessment to the People and Remuneration Committee (PARC) and Board when they make remuneration decisions; and
- the Chief Risk Officer and Chief Financial Officer review remuneration for their Risk and Financial Control roles to confirm that the arrangements do not compromise the independence of those employees (and provide an annual attestation to that effect).

The Board has an ongoing program of work to assess remuneration and performance frameworks to ensure they promote effective risk management practices. During the year, IAG further strengthened those frameworks by:

- including a risk maturity objective in the Group Balanced Scorecard (BSC) to further develop IAG's risk practices and culture;
- introducing a formal assessment of risk maturity and risk culture which is approved by the Board Risk Committee;
- increasing the deferred portion of Group Leadership Team STI awards from 33% to 50%;
- extending the LTI cash ROE vesting period from three to four years; and
- increasing the difficulty of LTI cash ROE hurdles for the 2020 financial year and future LTI awards.

The regulatory environment in which IAG operates continues to evolve post the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. The recent release by APRA of Draft Prudential Standard *CPS 511 Remuneration* has significant implications for both the design and governance of remuneration arrangements. The Board recognises that the new draft Standard, which is currently subject to a consultation process, will potentially have a significant impact on remuneration and governance approaches, and could lead to a substantial review of IAG's framework in 2020.

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A. KEY MANAGEMENT PERSONNEL COVERED IN THIS REPORT

This report sets out the remuneration details for IAG's key management personnel (KMP). Although the Non-Executive Directors are disclosed in the report, they do not have management responsibility. Therefore, their remuneration is dealt with separately. The accounting standards define KMP to include Non-Executive Directors and executives who have ultimate accountability for planning, directing and controlling the activities of the organisation, either directly or indirectly.

In the previous financial year, a comprehensive review of the composition of KMP was performed where the Board determined that executive KMP (referred to in the report as Executives) will comprise the Group CEO and those of his or her direct reports who:

- manage a business unit; or
- have accountability for the risk or financial control of the organisation; or
- have accountability to deliver a strategic priority.

The Board believes this definition of KMP continues to accurately identify those in the Group who have ultimate accountability for planning, directing and controlling IAG's activities. Applying this definition, not all members of the Group Leadership Team are KMP. The full list of KMP for the year ended 30 June 2019 is presented below.

NAME	POSITION	TERM AS KMP(1)
EXECUTIVES		
Peter Harmer	Managing Director and Chief Executive Officer	Full year
Julie Batch	Chief Customer Officer	Full year
Nicholas Hawkins	Chief Financial Officer	Full year
Jacki Johnson(2)	Group Executive, People, Performance and Reputation	Full year
Mark Milliner	Chief Executive Officer, Australia	Full year
Craig Olsen	Chief Executive, New Zealand	Full year
David Watts	Chief Risk Officer	From 11 September 2018
EXECUTIVE WHO CEASED AS KMP		
Tim Clark(3)	Acting Chief Risk Officer	Ceased 10 September 2018
NON-EXECUTIVE DIRECTORS		
Elizabeth Bryan	Chairman, Independent Non-Executive Director	Full year
Duncan Boyle	Independent Non-Executive Director	Full year
Hugh Fletcher	Independent Non-Executive Director	Full year
Sheila McGregor	Independent Non-Executive Director	Full year
Jon Nicholson	Independent Non-Executive Director	Full year
Helen Nugent	Independent Non-Executive Director	Full year
Tom Pockett	Independent Non-Executive Director	Full year
George Savvides	Independent Non-Executive Director	From 12 June 2019
Michelle Tredenick	Independent Non-Executive Director	Full year
NON-EXECUTIVE DIRECTOR WHO CEASED AS KMP		
Philip Twyman	Independent Non-Executive Director	Ceased 26 October 2018

(1) If an individual did not serve as a KMP for the full financial year, all remuneration is disclosed from the date the individual was appointed as a KMP to the date they ceased as a KMP.
(2) Jacki Johnson retired from IAG effective 30 June 2019, and was considered a KMP for the full financial year.
(3) Following the appointment of David Watts as Chief Risk Officer on 11 September 2018, Tim Clark ceased as KMP and remained within IAG.

Key terms that are used throughout the report are defined in detail in Appendix 5.

B. EXECUTIVE REMUNERATION STRUCTURE

I. Remuneration guiding principles

There are six guiding principles that underpin IAG's approach to remuneration. Remuneration at IAG should:

- support IAG's purpose by focusing employees' behaviour and performance on:
  - delivering positive outcomes for customers and the community;
  - building the desired culture within IAG; and
  - generating value for our shareholders;
- support the attraction and retention of talent with the capabilities and skills needed to drive business performance and deliver IAG's strategy;
- promote accountability and encourage behaviours that support effective risk management and IAG's long-term financial soundness;
- reduce the risks of misconduct, regulatory and compliance breaches and other non-financial risks;
- be simple to understand, delivering pay parity and outcomes that are fair and equitable; and
- provide flexibility for different business requirements now and in the future.

II. Summary of remuneration components

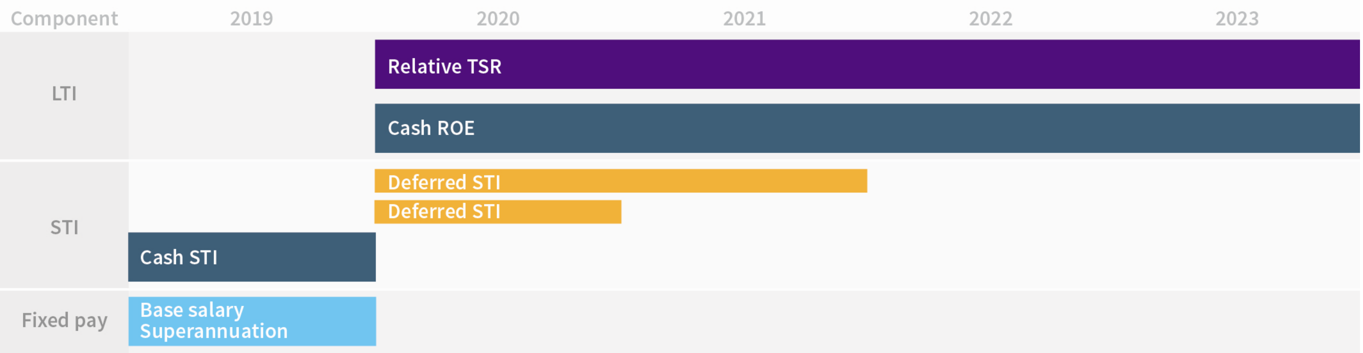
The Executive remuneration approach consists of the following components: fixed pay, cash STI, deferred STI and LTI. The table below describes the structure and purpose of each component in place for Executives during the year ended 30 June 2019.

TABLE 1 – REMUNERATION COMPONENTS

COMPONENT	STRUCTURE	PURPOSE
Fixed pay	Fixed pay comprises base salary and superannuation. Fixed pay for an Executive is determined by reference to the experience and skills an individual brings to the role, the internal relativities between Executives and market pay levels for similar external roles. Further details relating to fixed pay are presented in Table 2.	Fixed pay is provided to remunerate IAG employees for performing their ongoing work.
STI	STI is provided on an annual basis subject to the achievement of short-term goals agreed by the Board, and an assessment of risk management effectiveness. Half of the total STI awarded is delivered in cash in September following the financial year end; and the remaining half is deferred for a period of up to two years based on continued service. The deferred component is typically paid in the form of Deferred Award Rights (DARs). The deferred portion is subject to downward adjustment (also referred to as malus) if determined appropriate by the Board. Further details relating to the STI plan are presented in Table 3.	STI provides a reward for annual performance across a range of financial and non-financial measures chosen to support the delivery of the IAG strategy. Deferral of incentives encourages ongoing employment of senior management and allows the Board to apply downward adjustment (malus) when appropriate. Share-based remuneration also reinforces the link between shareholder value creation and Executive reward.
LTI	LTI rewards Executives for achieving long-term financial performance based on two hurdles: cash ROE and relative TSR over a four-year period. Further details relating to the LTI plan, including changes being introduced for the 2020 financial year, are presented in Table 4.	LTI creates a direct link between Executive reward and the return experienced by shareholders. LTI awards are subject to the two hurdles below: ■ cash ROE provides evidence of IAG's return on total shareholders' equity. The ROE hurdle utilises cash earnings, which is also the measure used to determine the dividend paid to shareholders; and ■ relative TSR reflects the value created for shareholders through both dividends and the movement in the share price measured against the top 50 industrial companies within the S&P/ASX 100 Index.

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

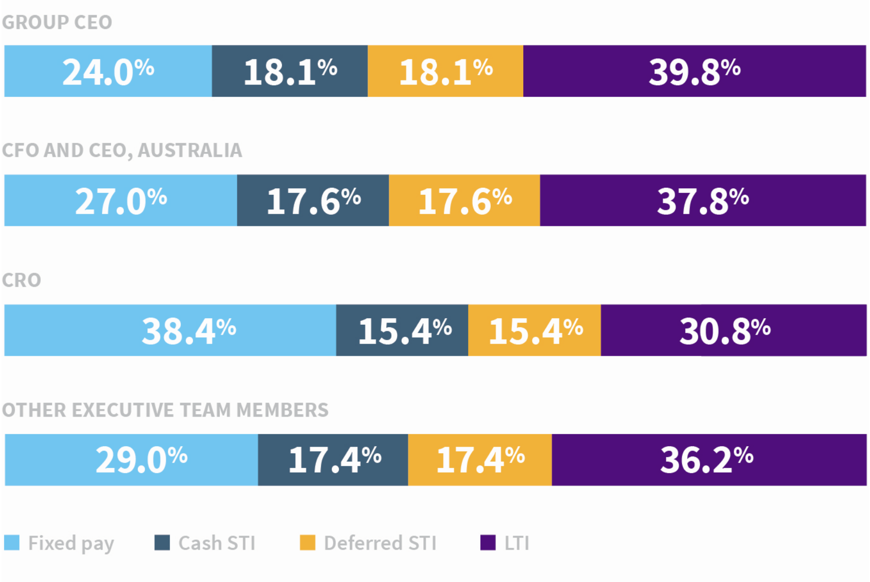
REMUNERATION COMPONENT TIMEFRAMES



III. Remuneration mix

The mix of components in IAG's remuneration framework is outlined in the following graph. This represents the structure based on the maximum potential earnings for the Group CEO, the Chief Financial Officer (CFO), the Chief Executive Officer (CEO), Australia, the Chief Risk Officer (CRO) and the other members of the current Executive Team. The remuneration mix was current as at 30 June 2019.

REMUNERATION MIX BASED ON MAXIMUM INCENTIVE OPPORTUNITY



Each remuneration component is described in more detail below.

IV. Fixed pay

TABLE 2 – FIXED PAY

Overview	Fixed pay at IAG is set with reference to the median of the external market for comparable roles, with the flexibility to adjust based on the size and complexity of the role, and the skills and experience of the Executive. Fixed pay for Australian-based Executives is compared to the market using peer groups, including financial services companies in the S&P/ASX 50 Index and companies that are of similar size to IAG. Relevant local market peer groups are referenced for overseas-based Executives. Increases to an Executive's fixed pay are generally only provided in situations where either their pay is below market levels, or where there has been a material change in the responsibilities of their role. During the 2019 financial year, Peter Harmer, Mark Milliner, Craig Olsen and Julie Batch received a fixed pay increase. The increases ranged from 5.0% to 11.8% and were applied to meet market pay levels.

V. Short-term incentive

TABLE 3 – STI AND DEFERRED STI

Behavioural gateway	All employees are required to demonstrate appropriate behaviours in the achievement of performance outcomes. The behavioural gateway determines STI eligibility. Those who have not behaved in line with expected standards will not receive any STI in that year, regardless of their performance. If the behavioural gateway requirements are met, the size of the STI award is subsequently determined based on individual and company performance. For the Group CEO, an assessment of his behaviour is made by the Board. For Executives, their behaviours during the year are assessed by the Group CEO who subsequently recommends to the Board whether they are eligible for an STI.
STI opportunity	For the 2019 performance year, the maximum value of STI that could be granted to the Group CEO was 150% of fixed pay. The maximum value of STI for the Chief Financial Officer and Chief Executive Officer, Australia was increased from 120% to 130% of fixed pay. The maximum value of STI for the Chief Risk Officer and Acting Chief Risk Officer was 80% of fixed pay. For all other Executive Team members (Chief Executive, New Zealand; Chief Customer Officer; and Group Executive, People, Performance and Reputation) the maximum was 120% of fixed pay.
Performance measures and evaluation	STI is the at-risk remuneration component designed to motivate and reward Executives for superior performance in the financial year. Performance is measured against the Group Balanced Scorecard and individual goals using both financial and non-financial measures (the Group Balanced Scorecard is discussed in more detail in Table 5a). In determining STI awards, consideration is also given to the effectiveness of risk management during the year. The PARC reviews the Group CEO's performance based on the Group Balanced Scorecard outcomes, and the effectiveness of risk management during the year, and recommends an STI award for approval by the Board. The STI awards for members of the Executive Team are recommended by the Group CEO to PARC based on an assessment of the achievement of the Group Balanced Scorecard outcomes, achievement against individual goals and the effectiveness of risk management during the year. These remuneration outcomes are subsequently recommended by PARC for approval by the Board. For all individuals, the Board may apply discretion in determining the STI outcomes to ensure they appropriately reflect performance.
Instrument	An Executive's STI award comprises a cash component and a deferred component. Half of the total STI awarded is delivered in cash in September following the financial year end; and the remaining half is deferred for a period of up to two years based on continued service. The deferred component is typically paid in the form of Deferred Award Rights (DARs), unless it is not possible to do so, in which case cash equivalent payments are made according to the same vesting schedule.

Key terms of the deferred STI	DARs are rights over the Company's ordinary shares. DARs are granted at no cost to the Executive and IAG's policy is that no dividend will be paid for any unvested, or vested and unexercised DARs. In 2018, the Board made an exception to this approach for holders of DARs that were due to vest after the record date for final dividends during 2018 and 2019. This exception was made following IAG's decision to bring forward the date that annual results are announced to the market. Due to this change, the record date for final dividends was also brought forward to avoid a delay in distributing profits to shareholders. Consequently, holders of DARs that vested in September 2018 and some DARs due to vest in September 2019 were no longer entitled to receive the final dividend, as the vesting dates fall shortly after the new, earlier dividend record dates. In recognition of this adverse consequence, the Board determined to make a cash payment to employees holding DARs at the September 2018 and September 2019 vesting dates, equivalent in value to the dividends they would otherwise have received if the record date had not moved. The payments relating to 2018 DARs are disclosed in this Remuneration Report. The payments relating to 2019 DARs will be disclosed in the 2020 Remuneration Report. The number of DARs issued is calculated based on the volume-weighted average share price (VWAP) of the Company's ordinary shares over the 30 days up to and including 30 June before the grant date. Executives who participate in the STI plan become eligible to receive one ordinary share of the Company per DAR by paying an exercise price of $1 per tranche of DARs exercised. Vesting of DARs is subject to an Executive's continuing employment with IAG at the vesting date or meeting the conditions to retain unvested DARs upon cessation, as outlined in the 'forfeiture conditions' section below. Executives may not enter into transactions or arrangements which operate to limit the economic risk of unvested entitlements to IAG securities.
Forfeiture conditions	The Board retains the discretion to adjust downwards the unvested portion of any deferred STI awards, including to zero. Deferred STI awards will be forfeited if the Executive resigns before the vesting date, except in special circumstances as outlined below. When an Executive ceases employment in special circumstances, any unvested rights may be retained on cessation of employment up to the point they vest, subject to Board discretion. Special circumstances include: redundancy, retirement, death or total and permanent disability. Any rights retained under these circumstances will remain subject to the original vesting period unless the Board determines an alternative vesting date, which would only be done in exceptional circumstances.

VI. Long-term incentive

TABLE 4 – LTI

Overview	LTI grants are determined annually by the Board. The grants are in the form of Executive Performance Rights (EPRs) that have performance hurdles which align to IAG's strategic financial targets.
LTI opportunity	For the 2019 performance year, the maximum value of LTI that could be granted to the Group CEO was increased from 150% to 165% of fixed pay. The maximum value of LTI that could be granted to the Chief Financial Officer and to the Chief Executive Officer, Australia was increased from 125% to 140% of fixed pay. The maximum value of LTI that could be granted to the Chief Risk Officer was 80% of fixed pay, and for the Acting Chief Risk Officer 40% of fixed pay. The maximum for all other Executive Team members was 125% of fixed pay.
Instrument	If performance hurdles are achieved, rights can be settled with either the Company's ordinary shares or an equivalent cash payment. The Board may choose to exercise discretion to settle rights on vesting in cash in circumstances where it is restrictive to settle rights with shares, including in jurisdictions where legislative requirements prohibit share ownership in a foreign entity. Where rights are settled in cash, the value of the cash payment is determined based on the VWAP for the five trading days up to and including the vesting date.
Key terms of the LTI	The number of rights issued is calculated based on the VWAP over the 30 days up to and including 30 June before the grant date. Rights granted during the year will not vest and have no value to the Executive unless the performance hurdles are achieved. The cash ROE performance hurdle and the relative TSR hurdle are measured over four years. No dividend is paid or payable for any unvested, or vested and unexercised, rights. There are no opportunities to retest these performance hurdles. Executives may not enter into transactions or arrangements which operate to limit the economic risk of unvested entitlements to IAG securities.

Forfeiture conditions	The Board retains the discretion to adjust downwards the unvested portion of any LTI awards, including to zero. Under the terms of the LTI, if an Executive resigns before the performance hurdles are tested, the unvested rights will generally lapse. In cases where the Executive acts fraudulently or dishonestly or is in breach of his or her obligations to IAG, the unvested rights will lapse. When an Executive ceases employment in special circumstances, any unvested rights may be retained on cessation of employment up to the point they vest, subject to Board discretion. Special circumstances include: redundancy, retirement, death or total and permanent disability. Any rights retained under these circumstances will remain subject to the original performance conditions.	

PERFORMANCE HURDLES	CASH ROE	RELATIVE TSR
Description	50% weighting Cash ROE is measured relative to IAG's weighted average cost of capital (WACC). As foreshadowed at the 2018 AGM, a review of the ROE hurdle was completed considering factors such as IAG's evolving business strategy, market practice, changes to IAG's capital base and historic and projected ROE performance. As a result of this review, the current vesting range of 1.2-1.6 times WACC has been increased to 1.4-1.9 times WACC for the November 2019 LTI grant and any future awards. It is expected that this change will result in typically lower vesting outcomes for Executives.	50% weighting Relative TSR is measured against that of the top 50 industrial companies within the S&P/ASX 100 Index. Industrial companies are defined by Standard & Poor's as being all companies excluding those in the Energy sector (GICS Tier 1) and the Metals & Mining industry (GICS Tier 3). Companies which are no longer part of the index at the end of the performance period (e.g. due to acquisition or delisting), may be removed from the peer group.
Testing	The cash ROE portion of the LTI is tested from 1 July of the grant year to 30 June three years later for rights granted prior to November 2018. For rights granted from November 2018 onwards, LTI is tested from 1 July of the grant year to 30 June four years later. The cash ROE/WACC ratio is calculated for each half year. The average of the six or eight half years in the performance period is used to determine the final vesting outcome.	The relative TSR portion of the LTI is tested after a four-year performance period, with no opportunity for retesting. TSR performance for allocations made prior to November 2018 is measured between 30 September of the base year, and 30 September of the test year. TSR performance for rights grants made from November 2018 onwards is measured between 30 June of the base year, and 30 June of the test year. The opening and closing share prices used for the TSR calculation are both based on the three-month VWAP to 30 June.
Vesting (for LTI grants from November 2019 onwards)	0% vesting <1.4 times WACC 20% vesting at 1.4 times WACC 100% vesting at 1.9 times WACC with straight-line vesting in between.	0% vesting if <50th percentile of peer group 50% vesting if aligned to 50th percentile of peer group 100% vesting if aligned to 75th percentile of peer group with straight-line vesting in between.

C. LINKING IAG'S PERFORMANCE AND REWARD

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

IAG’s strategy focuses Executives to achieve a successful, sustainable company that can deliver on IAG’s purpose to 'make your world a safer place'. IAG has three broad strategic priorities: ‘customer’, ‘simplification’ and ‘agility’. The focus of each strategic priority is summarised on page 12 of the annual report.

The tables below summarise IAG’s Group Balanced Scorecard objectives and outcomes for the year ended 30 June 2019. The objectives were agreed with the Board at the beginning of the financial year and were designed to focus Executives on delivering superior performance outcomes against the strategic priorities. Each Executive’s performance is assessed based on their contribution to the objectives outlined below, as well as their individual performance.

IAG recognises that APRA has recently recommended changes to the mix of financial and non-financial measures in corporate balanced scorecards, including what should be defined as financial measures. IAG is currently reviewing these recommendations and will be exploring changes in our approach to Group and Divisional balanced scorecards over the coming 12 months to respond to the expectations of different stakeholders and to align our measures to changes in our strategy.

TABLE 5a – GROUP BALANCED SCORECARD OBJECTIVES

CATEGORY	OBJECTIVE	RATIONALE
Financial measures (60% of scorecard)	Profitability	IAG uses underlying profit as the key profitability measure, as it presents a holistic view of the absolute earnings power of IAG’s core insurance related business. It provides a view of the underlying profitability of the underwriting, fee-based and associate businesses and is an important measure of how IAG generates value for shareholders.
	Controllable operating expense	IAG’s continued focus on optimisation of its operating model and related cost-out initiatives improves the efficiency with which IAG deploys its resources.
	Growth	IAG continues to expand its product and service offerings to its markets, measured through gross written premium growth, creating value for its shareholders, customers and partners.
Non-financial measures (40% of scorecard)	Customer advocacy	IAG’s strategy is designed to 'put the customer at the centre of everything we do'. IAG considers this essential to driving the ability to grow profitably over the longer term. IAG is focused on designing compelling product and service offerings by developing a deeper understanding of customers’ needs and the changing environment, allowing delivery of world-leading customer experiences, including through digital channels. IAG uses Customer Net Promoter Scores to measure the impact of these initiatives for its customers.
	Employee advocacy	IAG seeks to motivate and engage its employees around its purpose to 'make your world a safer place'. Creating a strong organisational culture helps IAG deliver strong business results. IAG uses the Employee Net Promoter Score to measure its effectiveness in fostering a strong organisational culture.
	Agility	A constructive and agile culture enables IAG to provide great experiences for its people and customers. IAG tracks three agility indicators to measure progress towards creating an agile organisation, being leadership effectiveness, connectedness and decision making effectiveness.
	Risk maturity	Management of risk is integral to delivering IAG’s strategy to meet short term objectives and achieve long-term sustainability. IAG conducts a formal assessment of risk management maturity and risk culture which is reviewed and approved by the Board and Risk Committee on a quarterly basis. Due to the importance of risk management to IAG, it is included as an explicit measure on the scorecard.

TABLE 5b – GROUP BALANCED SCORECARD RESULTS FOR THE YEAR ENDED 30 JUNE 2019

OBJECTIVE AND WEIGHTING	MEASURE AND OUTCOME	COMMENT
Profitability 30%	Partially exceeded The Group's underlying result was slightly ahead of target.	The underlying performance of the core general insurance business improved over the prior year reflecting earned rate increases countering claims inflation, net benefits realised from the optimisation program and some offset from increased regulatory and compliance costs.
Controllable operating expenses 15%	Did not meet The Group achieved a reduction in controllable operating expenses in the 2019 financial year, however did not meet the targeted outcome.	The reduction in controllable operating expenses in the 2019 financial year was slightly below the projected benefits under IAG's optimisation program. The benefits achieved were spread across the underwriting expense, claims expense and fee-based business.
Growth 15%	Partially met IAG achieved gross written premium growth from continuing operations of 3.1% (or close to 4% on a like-for-like basis).	IAG's reported gross written premium growth was largely rate driven, with relatively flat short-tail personal line volumes and lower overall commercial volumes. IAG's like-for-like growth was higher after adjusting for foreign exchange translation effects, reduced Compulsory Third Party (CTP) pricing following NSW scheme reform and the absence of premiums from recently divested or exited activities.
Customer advocacy 15%	Met IAG sets a Customer Net Promoter Score (NPS) target relative to its peers. IAG's NPS for the 2019 financial year was +8 NPS points above the competitive market average.	IAG continued to deliver customer advocacy above the level of competitors during the 2019 financial year, with a one-point improvement from IAG's performance in the 2018 financial year. This strong performance was driven from our brands' strong NPS performance. IAG continues to invest in its customer advocacy programs to drive improvements across the customer journey.
Employee advocacy 7.5%	Partially exceeded IAG measures employee advocacy using an Employee Net Promoter Score (eNPS). The target was to increase eNPS by between 16 and 24 points compared to the year ended 30 June 2018. IAG's eNPS result for June 2019 saw a 29 point improvement, exceeding the target.	IAG's employees recommend IAG as a place to work because of supportive leadership, approach to workplace flexibility, employee benefits, work life balance and a positive work environment.
Agility 7.5%	Met IAG's performance improved from the 2018 financial year for all three agility indicators of leadership effectiveness, decision making and connectedness.	IAG's agility indicator scores have seen improvement from the 2018 financial year. These indicators help us understand how our people experience leadership, decision making and the degree of connection people feel in the organisation. This improvement from 2018 indicates an ongoing leadership focus on culture and growing confidence at translating insights into action.
Risk maturity 10%	Met IAG's risk maturity has been assessed as 'established'.	IAG has managed its material risks in accordance with risk appetite. During the 2019 financial year, IAG took a fresh look at its culture, governance and accountability through APRA's industry-wide self-assessment program. Our reviews have shown IAG to be 'established' in risk maturity, with development demonstrated over the 2019 financial year. In the current financial year, IAG instituted further programs of work to continue to enhance and embed its risk management framework.

II. STI outcomes for the year ended 30 June 2019
The following table sets out the STI outcomes for Executives for the year ended 30 June 2019. The Group CEO has his STI assessed with reference to the overall Group Balanced Scorecard, as described in Table 5a. The Executive Team's STI outcomes are determined based on the overall Group Balanced Scorecard objectives and individual goals.

Prior to determining the final incentive outcome, the Board assesses the risk management performance of IAG, including earlier events that may have come to light during the year, to ensure that incentives provided to Executives are appropriate. The Board considered whether any risk issue required the adjustment of an STI outcome for the year ended 30 June 2019, or to deferred STI awards from prior years. The average STI for all Executives was 60% of the maximum achievable, with payments ranging from 47% to 72% of the maximum achievable.

TABLE 6 – ACTUAL STI OUTCOMES FOR THE YEAR ENDED 30 JUNE 2019

	MAXIMUM STI OPPORTUNITY	ACTUAL STI OUTCOME		CASH STI OUTCOME (50% OF OUTCOME)	DEFERRED STI OUTCOME (50% OF OUTCOME)
	(% of fixed pay)	(% of maximum)(1)	(% of fixed pay)	(% of fixed pay)	(% of fixed pay)
Peter Harmer	150 %	51 %	76 %	38 %	38 %
Julie Batch	120 %	62 %	74 %	37 %	37 %
Tim Clark	80 %	60 %	48 %	24 %	24 %
Nicholas Hawkins	130 %	62 %	80 %	40 %	40 %
Jacki Johnson	120 %	47 %	56 %	28 %	28 %
Mark Milliner	130 %	62 %	80 %	40 %	40 %
Craig Olsen	120 %	72 %	86 %	43 %	43 %
David Watts	80 %	63 %	50 %	25 %	25 %

(1) The proportion of STI foregone is derived by subtracting the actual percentage of maximum received from 100% and was 40% on average for the year ended 30 June 2019 (compared to 29% in 2018).

III. Linking IAG's long-term performance and long-term reward
Details of LTI vested during the year are set out below:

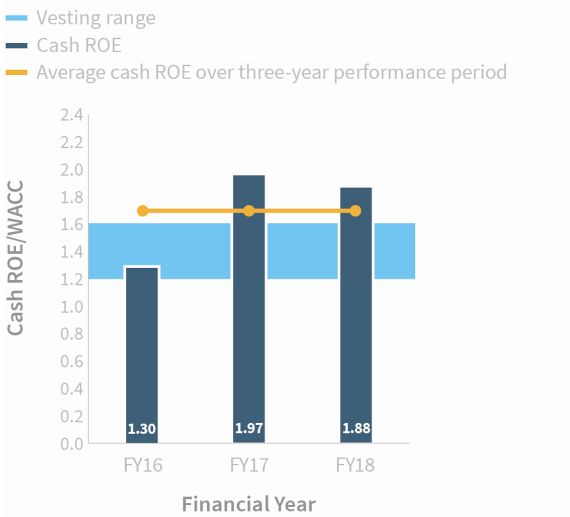
Cash ROE – 100% vesting

Cash ROE is calculated after each half year by dividing the cash earnings of IAG by the average total shareholders' equity for that period. This cash ROE figure is then expressed as a multiple of IAG's WACC over the same timeframe. The cash ROE vesting outcome is based on the average cash ROE to WACC multiple over each half year during the performance period. For LTI awards granted prior to November 2018, there were six half-year periods. For LTI awards granted from November 2018 onwards, there are eight half-year periods.

Cash earnings is defined as net profit after tax attributable to owners of the Company plus amortisation and impairment of acquired identifiable intangible assets and adjusted for unusual items after tax (non-recurring in nature). The Board considers the difference between the statutory profit and cash earnings. Any adjustments to statutory profit are assessed to determine whether they should be considered in determining the cash ROE outcome. The Board can reduce the cash ROE vesting outcomes in order to ensure that reward outcomes appropriately reflect performance.

For the performance period from 1 July 2015 to 30 June 2018, the average reported cash ROE was 1.83 times WACC. In considering the differences between statutory profit and cash ROE over this period, the Board reduced the reported cash ROE outcome by the value of both the software impairments announced to the market on 19 August 2016 and a write-down of Asian asset carrying values reported in the first half of the 2018 financial year. After making these adjustments, the cash ROE outcome for LTI vesting purposes was 1.71 times WACC. The award vested in full as this was above the maximum of the vesting range. The strong cash ROE performance has similarly been reflected in the dividend provided to shareholders.

IAG HISTORICAL CASH ROE OVER WACC FOR THE LTI PLAN*



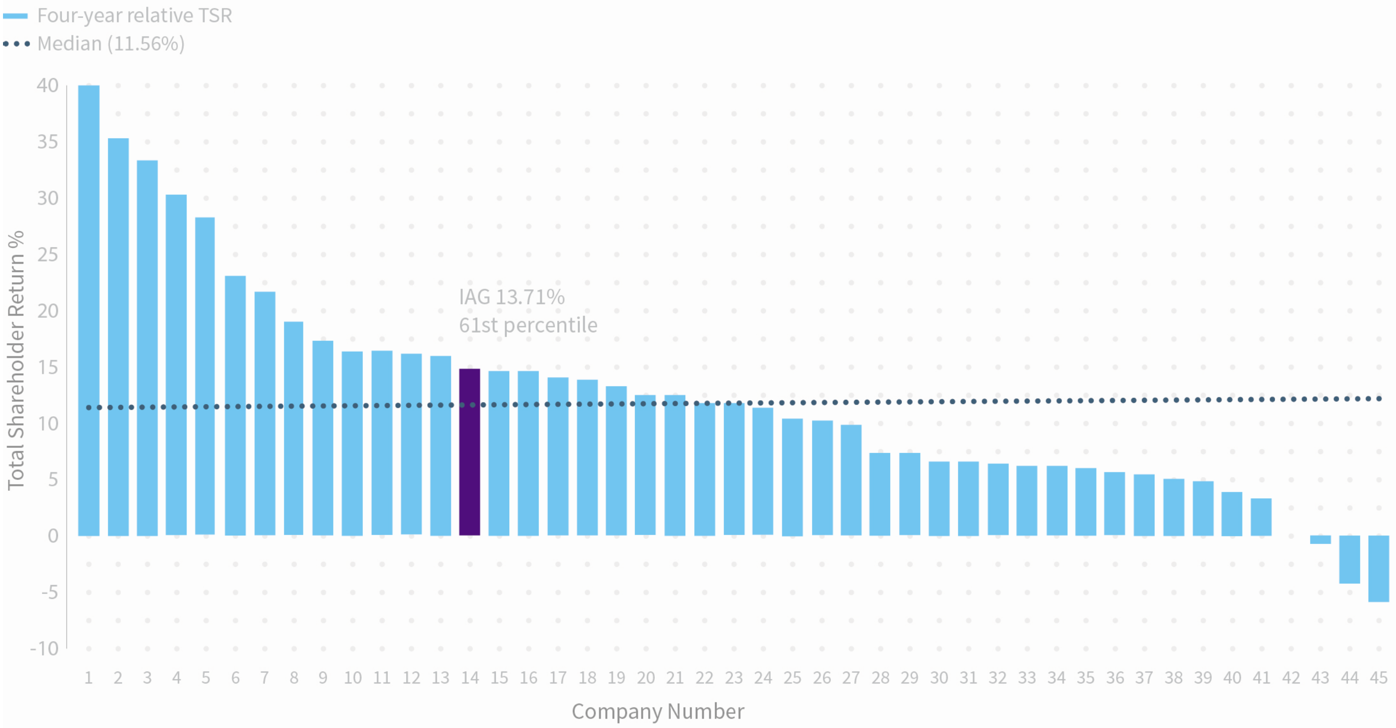
*Reflects adjusted cash ROE

Relative TSR – 72% vesting

On 30 September 2018, the relative TSR portion of the 2014/2015 LTI award was tested. IAG's TSR was ranked at the 61st percentile of its peer group, resulting in a 72% vesting outcome. There are no retests for this award.

The following graph illustrates IAG's relative TSR, on an annualised basis, against the top 50 industrial companies in the S&P/ASX 100 Index for the 2014/2015 LTI award:

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



The following table shows the returns IAG delivered to shareholders for the last five financial years for a range of measures.

TABLE 7 – HISTORICAL ANALYSIS OF SHAREHOLDER RETURN

	YEAR ENDED 30 JUNE 2015	YEAR ENDED 30 JUNE 2016	YEAR ENDED 30 JUNE 2017	YEAR ENDED 30 JUNE 2018	**YEAR ENDED 30 JUNE 2019**
Closing share price ($)	5.58	5.45	6.78	8.53	**8.26**
Dividends per ordinary share (cents)	29.00	36.00(1)	33.00	34.00	**37.50**(3)
Basic earnings per share (cents)	31.22	25.79	39.03	39.06	**46.26**
Reported cash ROE (%)	15.3	13.0	15.2	15.6	**14.4**
Three-year average reported cash ROE to WACC	2.47	2.00(2)	1.76(2)	1.83(2),(4)	**1.91**(4)

(1) This includes the 10.00 cents (per ordinary share) 2016 special dividend.

(2) Outcomes reflect IAG's average cash ROE to WACC prior to the Board considering the impact of the software impairments announced to the market on 19 August 2016. The impact of the software impairments was to reduce average cash ROE to WACC by 0.09 times in the three years to 30 June 2016, 0.08 times in the three years to 30 June 2017 and 0.09 times in the three years to 30 June 2018.

(3) This includes the 5.50 cents (per ordinary share) 2019 special dividend paid as part of the capital management initiative announced in August 2018.

(4) Outcomes reflect IAG's average cash ROE to WACC prior to the Board considering the impact of the write-down of Asian asset carrying values in the 2018 financial year, and the net gain on sale of Thailand in the 2019 financial year. The impact of the write-down of Asian asset carrying values was to reduce average cash ROE to WACC by 0.03 times in the three years to 30 June 2018, and by the same amount in the three years to 30 June 2019. The impact of the net gain on sale of Thailand was to increase average cash ROE to WACC by 0.13 times in the three years to 30 June 2019.

IV. Actual remuneration received by Executives

Table 8 below provides details of the remuneration received by Executives during the financial year. The table displays fixed pay and other benefits paid during the financial year, the value of cash STI awards earned in the financial year, and the value of prior years' deferred STI and LTI awards that vested during the financial year. The proportion of STI paid as cash was reduced from 67% to 50% for awards made for the 2019 financial year. For remuneration details provided in accordance with the Accounting Standards, refer to Appendix 1.

TABLE 8 – ACTUAL REMUNERATION RECEIVED IN 2019 AND 2018

	FINANCIAL YEAR	FIXED PAY	OTHER BENEFITS AND LEAVE ACCRUALS	TERMINATION BENEFITS	CASH STI	DEFERRED STI VESTED	LTI VESTED	TOTAL ACTUAL REMUNERATION RECEIVED
		$000	$000	$000	$000	$000	$000	$000
		(1)	(2)	(3)	(4)	(5)	(6)	
EXECUTIVES								
Peter Harmer	**2019**	**1,858**	**136**	**-**	**709**	**655**	**2,049**	**5,407**
	2018	1,700	88	-	1,258	398	1,058	4,502
Julie Batch	**2019**	**728**	**3**	**-**	**269**	**200**	**462**	**1,662**
	2018	700	(7)	-	403	141	169	1,406
Nicholas Hawkins	**2019**	**1,200**	**33**	**-**	**480**	**399**	**1,480**	**3,592**
	2018	1,200	37	-	768	344	1,058	3,407
Jacki Johnson	**2019**	**1,091**	**41**	**-**	**303**	**360**	**1,574**	**3,369**
	2018	1,091	12	-	663	289	1,054	3,109
Mark Milliner	**2019**	**1,079**	**117**	**-**	**432**	**1,306**	**-**	**2,934**
	2018	1,000	76	-	576	-	-	1,652
Craig Olsen(7)	**2019**	**785**	**62**	**-**	**339**	**202**	**448**	**1,836**
	2018	728	58	-	496	119	122	1,523
David Watts(8)	**2019**	**704**	**32**	**-**	**176**	**-**	**-**	**912**
EXECUTIVE WHO CEASED AS KMP								
Tim Clark(8)	**2019**	**118**	**(3)**	**-**	**28**	**-**	**-**	**143**
	2018	206	12	-	76	-	-	294

(1) Fixed pay includes amounts paid in cash, superannuation contributions plus the portion of IAG's superannuation contribution that is paid as cash instead of being paid into superannuation. Fixed pay also includes salary sacrifice items such as cars and parking as determined in accordance with *AASB 119 Employee Benefits*. The August 2018 review resulted in Peter Harmer, Mark Milliner, Craig Olsen and Julie Batch receiving fixed pay increases during the 2019 financial year.

(2) Further details are provided in Table 12 in Appendix 1.

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

(4) Cash STI earned within the year ended 30 June 2019 and to be paid in September 2019. The proportion of STI paid as cash was reduced from 67% to 50% for awards made for the 2019 financial year.

(5) The deferred STI vesting on 1 September 2018 was valued using the five-day VWAP of $7.65 (1 September 2017: $6.34).

(6) The LTI vested was valued using the five-day VWAP at vesting date which was $7.98 for awards vested on 16 August 2018 and $7.32 for awards vested on 30 September 2018 (24 August 2017: $6.43 and 30 September 2017: $6.39).

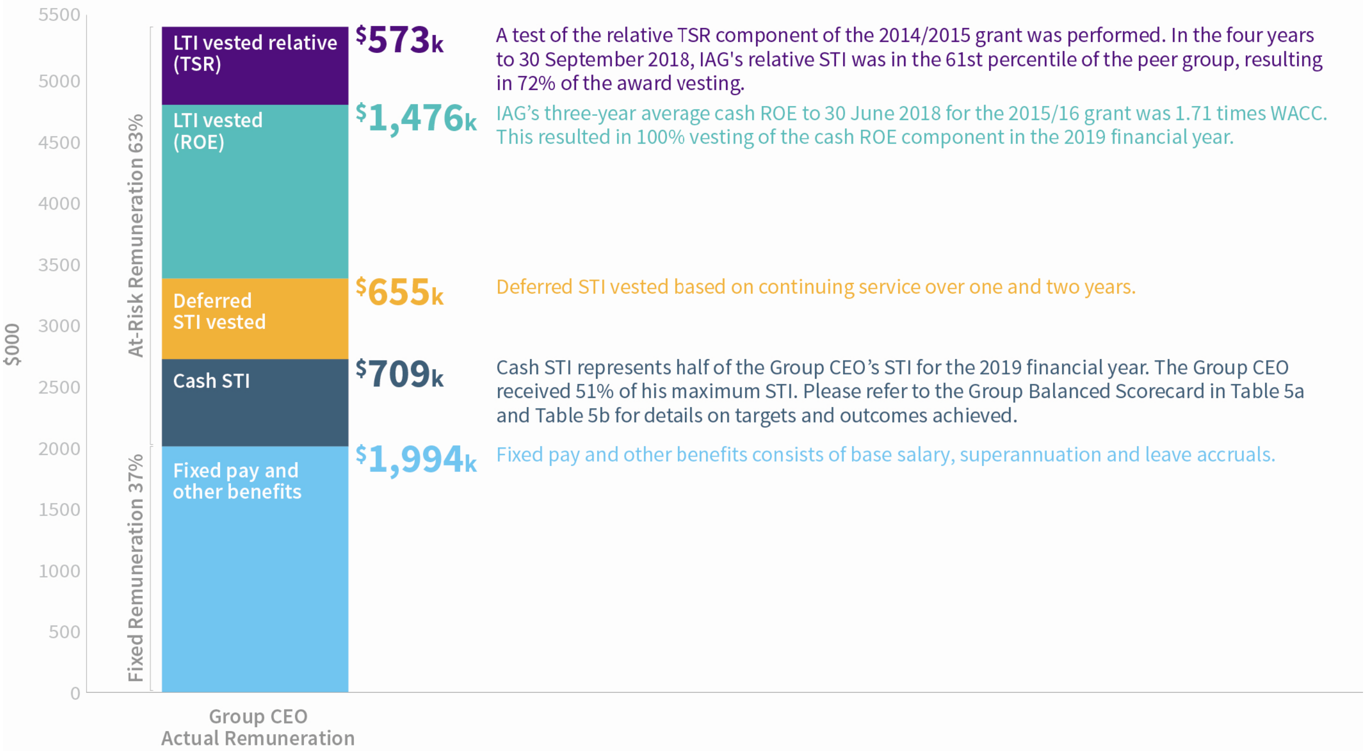
(7) Remuneration for Craig Olsen was determined in New Zealand dollars and reported in Australian dollars using the average exchange rate for the year ended 30 June 2019 which was 1 NZD = 0.938 AUD.

(8) Remuneration for Tim Clark and David Watts is presented for the period for which they served as a KMP.

V. Group CEO remuneration

Below are further details on drivers of the actual remuneration received by the Group CEO that are outlined in Table 8. His remuneration has been broken down into the components of the remuneration mix, with commentary on how performance has translated into remuneration outcomes.

GROUP CEO FY19 PERFORMANCE AND ACTUAL REMUNERATION OUTCOMES



D. EXECUTIVE REMUNERATION GOVERNANCE

I. IAG's approach to remuneration governance

IAG governs its remuneration through the Board and PARC. These governance arrangements are illustrated in the following graphic.

BOARD

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

Considers recommendations made by PARC before making Executive remuneration decisions.

PARC

Ensures the remuneration policies and practices support the delivery of IAG's strategic goals.

ADVISES THE BOARD ON:

- Group remuneration policy and its effectiveness;
- Executive remuneration and contract terms; and
- IAG Non-Executive Director remuneration.

APPROVES:

- equity-based plans;
- target market positioning; and
- compliance with statutory remuneration disclosures.

RISK COMMITTEE, CHIEF RISK OFFICER & EGM GROUP INTERNAL AUDIT

Provide input into remuneration recommendations

EXTERNAL REMUNERATION CONSULTANTS

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

MANAGEMENT

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

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

Potential conflicts of interest are avoided at all times

II. Use of remuneration consultants
During the year EY was engaged to provide Non-Executive Director and Executive remuneration benchmarking. The remuneration data provided was used as an input to the remuneration decisions by the Board only. The Board considered the data provided, together with other factors, in setting Executive's remuneration. No remuneration recommendations, as defined by the Corporations Act 2001, were provided by remuneration consultants.

III. Adjustment framework
Variable pay reinforces behaviours aligned to IAG's purpose, encouraging both prudent risk-taking and risk mitigation that protects the long-term financial soundness and reputation of the Group. The Board retains overriding discretion to adjust variable pay (upwards, downwards and to zero) including:
- where a person or group of persons has been found to have engaged in misconduct or exposed IAG to risk beyond its risk appetite or controls;
- where it is necessary to protect the Group's long-term financial soundness;
- to take into account the outcomes of business activities;
- where it is required by law or APRA Prudential Standards; or
- any other circumstances the Board determines are relevant.

Each year, PARC makes a recommendation to the Board on whether to adjust variable pay for Executives based on risk management performance. Adjustments may be applied to variable pay awards for current and/or prior years using one or both of the following mechanisms:
- in-year STI adjustment; and
- adjustment of awarded but unvested variable pay.

PARC's recommendations are informed by the identification and assessment of material financial and non-financial risks across the Group by the Risk Committee. The Risk Committee uses a range of inputs to support its assessment of risk management performance, including:
- an independent report by the Chief Risk Officer;
- an independent report by the Executive General Manager, Group Internal Audit; and
- the Group CEO's insights and recommendations.

Following a review of risk management performance during the 2019 financial year, and consideration of issues that emerged from prior years, the Board approved adjustments to the variable pay of certain current and former Executives.

IV. Mandatory shareholding requirement for Executives
The Group CEO is required to accumulate and hold ordinary shares of the Company with a value of two times his base salary, and the Executive Team one times their respective base salaries. Executives have four years from their date of appointment as an Executive to meet their requirement. Holdings are assessed annually at the end of each financial year, using the closing share price at 30 June and the Executive's base salary from four years prior. The shareholding includes Executives' directly held shares and rights vested and unexercised as at 30 June, for entities controlled, jointly controlled or significantly influenced by the Executive. Shares held by the Executives' domestic partner and dependants are not included in the mandatory shareholding requirement calculation.

All Executives appointed prior to 30 June 2015 met the mandatory shareholding requirement at 30 June 2019.

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

II. Mandatory shareholding requirement for Non-Executive Directors
Non-Executive Directors are required to hold ordinary shares of the Company with a value equal to their annual Board fee. The mandatory shareholding requirement for Non-Executive Directors is based on either the value of shares at acquisition or the market value at the testing date, whichever is higher. This allows Non-Executive Directors to build a long-term shareholding in IAG without being impacted by short-term share price volatility. The Non-Executive Directors have three years from the date of their appointment to the Board to meet their required holding. Compliance with this requirement is assessed at the end of each financial year.

For the test conducted at 30 June 2019, compliance with the mandatory shareholding requirement was assessed using the closing share price as at that date and the Non-Executive Directors' Board fee from three years prior. All Non-Executive Directors appointed prior to 30 June 2016 met the mandatory shareholding requirement at 30 June 2019.

III. Board performance

The Board conducts a review of its performance, composition, size and succession annually and it conducts an independent review of these matters at least every two years with the assistance of external experts (Formal Review). A Formal Review of the Board and each Non-Executive Director (including the Chairman), with assistance and input from an independent board performance expert, was last conducted in April 2018. The Formal Review led by the Chairman involves the completion of questionnaires by Non-Executive Directors and Executives; interviews with the independent expert; the collation of results; and discussion with individual Non-Executive Directors and the Board as well as the Group CEO and Executive Team. PARC is responsible for coordinating the Board's review of the Chairman's performance in those years where a Formal Review is not conducted.

Measures of a Non-Executive Director's performance include:

- contribution to Board teamwork;
- contribution to debates on significant issues and proposals;
- advice and assistance given to management;
- input regarding regulatory, industry and social developments surrounding the business; and
- in the case of the Chairman's performance, the fulfilment of the additional role as Chairman.

IV. Remuneration structure

Non-Executive Director remuneration comprises:

- Board fees (paid as cash, superannuation and Non-Executive Director Award Rights (NARs));
- committee fees; and
- subsidiary board fees.

a. CHANGES TO NON-EXECUTIVE DIRECTOR REMUNERATION DURING THE YEAR ENDED 30 JUNE 2019

In the year ended 30 June 2019, there were no changes to the fees for service as Chairman or a Director on the Insurance Australia Group Limited Board. All Committee fees also remain unchanged. Similarly, in August 2019 the Board reviewed fees for the 2020 financial year and determined that no increase to fees would be made. The aggregate limit of Board fees approved by shareholders at the Annual General Meeting in October 2013 remains unchanged at $3,500,000 per annum.

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

TABLE 9 – BOARD AND COMMITTEE FEES

		ROLE	
BOARD/COMMITTEE	YEAR	CHAIRMAN	MEMBER
Board	**2019**	**$577,116**	**$192,372**
	2018	$577,116	$192,372
Audit Committee	**2019**	**$50,000**	**$25,000**
	2018	$50,000	$25,000
Risk Committee	**2019**	**$50,000**	**$25,000**
	2018	$50,000	$25,000
People and Remuneration Committee	**2019**	**$50,000**	**$25,000**
	2018	$50,000	$25,000
Nomination Committee	**2019**	**N/A**	**N/A**
	2018	N/A	N/A

b. SUBSIDIARY BOARD FEES

A summary of Non-Executive Directors' service on subsidiary boards and the fees paid is set out below:

TABLE 10 – FEES FOR NON-EXECUTIVE DIRECTORS' SERVICE ON SUBSIDIARY BOARDS

DIRECTOR	SUBSIDIARY	CAPACITY	ANNUAL FEE
Elizabeth Bryan	Insurance Manufacturers of Australia Pty Limited	Chairman	$184,800
Hugh Fletcher*	IAG New Zealand Limited	Chairman	$140,700

* This amount was paid to Hugh Fletcher in New Zealand dollars and reported in Australian dollars using the average exchange rate for the year ended 30 June 2019 which was 1 NZD = 0.938 AUD.

TABLE 11 – NON-EXECUTIVE DIRECTOR AWARD RIGHTS PLAN (NARS PLAN)

Overview	PARC has determined that the annual remuneration paid by IAG to Non-Executive Directors for their services may be delivered partially in cash and partially in rights over IAG shares. Participation in the NARs Plan is voluntary. Structuring Non-Executive Director remuneration in this way supports Non-Executive Directors in building their shareholdings in IAG, which enhances the alignment of interests between Non-Executive Directors and shareholders.
Performance measures	There are no performance conditions attached to the NARs Plan, which reflects good governance practices by ensuring that the structure of Non-Executive Director remuneration does not act to bias decision-making or compromise objectivity. A service condition is attached to the vesting of the NARs. The full annual allocation of unvested NARs is issued at the grant date, with tranches vesting each month to align the vesting of NARs with the payment of Non-Executive Director fees. As the grant date for NARs is part way through a financial year, a proportion of the NARs granted is immediately vested.
Instrument	Grants under the NARs Plan are in the form of rights over IAG shares. Each NAR entitles the Non-Executive Director to acquire one ordinary share in IAG subject to satisfaction of a service condition.
Key terms of the NARs Plan	Each Non-Executive Director and IAG may agree to have a proportion of their base Board fee provided as NARs. The number of NARs offered is determined by dividing this value by the five-day VWAP up to and including the grant date, rounded to the nearest NAR. Non-Executive Directors have no voting rights until the NARs are exercised and the Non-Executive Director holds shares in IAG. Non-Executive Directors do not have to pay any amount to exercise NARs. NARs expire on the date that is 15 years from the grant date, or any other date determined by the Board (Expiry Date). NARs that are not exercised before the Expiry Date will lapse. Non-Executive Directors may not enter into transactions or arrangements which operate to limit the economic risk of unvested entitlements to IAG securities.
Forfeiture conditions	In the event a Non-Executive Director ceases service with the Board, any vested NARs may be exercised for shares in IAG in the subsequent trading window. Any unvested NARs will lapse. Under certain circumstances (e.g. change of control), the Board also has sole and absolute discretion to deal with the NARs, including waiving any applicable vesting conditions and/or exercise conditions by giving notice or allowing a Non-Executive Director affected by the relevant event to transfer their NARs.

APPENDIX 1. STATUTORY REMUNERATION DISCLOSURE REQUIREMENTS

I. Total remuneration for Executives

Statutory remuneration details for Executives as required by Australian Accounting Standards are set out below:

TABLE 12 – STATUTORY REMUNERATION DETAILS (EXECUTIVES)

	SHORT-TERM EMPLOYMENT BENEFITS			POST EMPLOY-MENT BENEFITS	OTHER LONG-TERM EMPLOY-MENT BENEFITS	TERM-INATION BENEFITS	SUB-TOTAL	SHARE-BASED PAYMENT		TOTAL	AT-RISK REMUN-ERATION
	Base salary	Cash STI	Leave accruals and other benefits	Superan-nuation	Long service leave accruals			Value of deferred STI	Value of rights granted		As a % of total reward
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	%
	(1)	(2)	(3)	(4)	(5)	(6)		(7)	(8)		
EXECUTIVES											
Peter Harmer											
2019	**1,833**	**709**	**109**	**25**	**27**	**-**	**2,703**	**512**	**1,562**	**4,777**	**58**
2018	1,675	1,258	63	25	25	-	3,046	424	1,419	4,889	63
Julie Batch											
2019	**703**	**269**	**(8)**	**25**	**11**	**-**	**1,000**	**160**	**493**	**1,653**	**56**
2018	671	403	(17)	29	10	-	1,096	135	410	1,641	58
Nicholas Hawkins											
2019	**1,175**	**480**	**97**	**25**	**(64)**	**-**	**1,713**	**303**	**896**	**2,912**	**58**
2018	1,171	768	19	29	18	-	2,005	285	922	3,212	61
Jacki Johnson(9)											
2019	**1,066**	**303**	**25**	**25**	**16**	**-**	**1,435**	**483**	**2,053**	**3,971**	**71**
2018	1,066	663	(4)	25	16	-	1,766	249	901	2,916	62
Mark Milliner											
2019	**1,054**	**432**	**101**	**25**	**16**	**-**	**1,628**	**329**	**910**	**2,867**	**58**
2018	980	576	61	20	15	-	1,652	443	693	2,788	61
Craig Olsen(10)											
2019	**785**	**339**	**62**	**-**	**-**	**-**	**1,186**	**177**	**519**	**1,882**	**55**
2018	728	496	58	-	-	-	1,282	131	418	1,831	57
David Watts(11)											
2019	**679**	**176**	**24**	**25**	**8**	**-**	**912**	**102**	**27**	**1,041**	**29**
EXECUTIVE WHO CEASED AS KMP											
Tim Clark(11)											
2019	**113**	**28**	**(3)**	**5**	**-**	**-**	**143**	**16**	**24**	**183**	**37**
2018	197	76	11	9	1	-	294	28	44	366	40

(1) Base salary includes amounts paid in cash plus the portion of IAG's superannuation contribution that is paid as cash instead of being paid into superannuation, and salary sacrifice items such as cars and parking, as determined in accordance with *AASB 119 Employee Benefits*. The August 2018 review resulted in Peter Harmer, Mark Milliner, Craig Olsen and Julie Batch receiving fixed pay increases during the 2019 financial year.

(2) Cash STI represents the amount to be settled in cash in relation to the financial year from 1 July 2018 to 30 June 2019. The proportion of STI paid as cash was reduced from 67% to 50% for awards made for the 2019 financial year.

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

(4) Superannuation represents the employer's contributions.

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

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

(7) The deferred STI is granted as DARs and is valued using the Black-Scholes valuation model. An allocated portion of unvested DARs is included in the total remuneration disclosure above. The deferred STI for the year ended 30 June 2019 will be granted in the next financial year, so no value was included in the current financial year's total remuneration.

(8) This value represents the allocated portion of unvested rights. To determine the value of rights, a Monte Carlo simulation (for the relative TSR performance hurdle) and Black-Scholes valuation (for the cash ROE performance hurdle) have been applied. The valuation takes into account the exercise price of the rights, life of the rights, price of ordinary shares of the Company as at the grant date, expected volatility of the Company's share price, expected dividends, risk free interest rate, performance of shares in the peer group of companies, early exercise and non-transferability and turnover which is assumed to be zero for an individual's remuneration calculation.

(9) The full value of Jacki Johnson's unvested LTI share rights and deferred STI was expensed due to her retirement on 30 June 2019. Those share rights and any deferred STI will continue to vest per the standard Board approved schedule i.e. there is no accelerated vesting resulting from her retirement.

(10) Remuneration for Craig Olsen was determined in New Zealand dollars and reported in Australian dollars using the average exchange rate for the year ended 30 June 2019 which was 1 NZD = 0.938 AUD.

(11) Tim Clark was in the role of Acting Chief Risk Officer from 27 February 2018 to 10 September 2018. Remuneration has been disclosed for the period he acted in a KMP role. David Watts commenced as Chief Risk Officer from 11 September 2018. Remuneration has been disclosed for the period he served as KMP.

II. Total remuneration details for Non-Executive Directors

Details of total remuneration for Non-Executive Directors are set out below:

TABLE 13 – STATUTORY REMUNERATION DETAILS (NON-EXECUTIVE DIRECTORS)

	SHORT-TERM EMPLOYMENT BENEFITS		POST-EMPLOYMENT BENEFITS		OTHER LONG-TERM EMPLOYMENT BENEFITS	TERMINATION BENEFITS	SHARE-BASED PAYMENT	TOTAL
	IAG Board fees received as cash	Other board and committee fees	Superannuation	Retirement benefits				
	$000	$000	$000	$000	$000	$000	$000	$000
NON-EXECUTIVE DIRECTORS								
Elizabeth Bryan								
2019	**485**	**169**	**21**	**-**	**-**	**-**	**113**	**788**
2018	481	197	20	-	-	-	90	788
Duncan Boyle								
2019	**176**	**91**	**25**	**-**	**-**	**-**	**-**	**292**
2018	176	63	23	-	-	-	-	262
Hugh Fletcher								
2019	**176**	**186**	**21**	**-**	**-**	**-**	**-**	**383**
2018	176	184	21	-	-	-	-	381
Sheila McGregor(1)								
2019	**44**	**23**	**19**	**-**	**-**	**-**	**124**	**210**
2018	53	7	6	-	-	-	-	66
Jon Nicholson								
2019	**176**	**68**	**23**	**-**	**-**	**-**	**-**	**267**
2018	176	55	22	-	-	-	-	253
Helen Nugent								
2019	**176**	**46**	**21**	**-**	**-**	**-**	**-**	**243**
2018	176	59	22	-	-	-	-	257
Tom Pockett								
2019	**178**	**68**	**21**	**-**	**-**	**-**	**-**	**267**
2018	179	68	20	-	-	-	-	267
George Savvides(2)								
2019	**10**	**1**	**1**	**-**	**-**	**-**	**-**	**12**
Michelle Tredenick(1)								
2019	**135**	**23**	**19**	**-**	**-**	**-**	**53**	**230**
2018	53	7	6	-	-	-	-	66
NON-EXECUTIVE DIRECTOR WHO CEASED AS KMP								
Philip Twyman(3)								
2019	**57**	**15**	**7**	**-**	**-**	**-**	**-**	**79**
2018	178	60	20	-	-	-	-	258

(1) Non-Executive Directors appointed part way through the year ended 30 June 2018.
(2) Non-Executive Director appointed part way through the year ended 30 June 2019.
(3) Non-Executive Director ceased as KMP part way through the year ended 30 June 2019.

APPENDIX 2. EXECUTIVE EMPLOYMENT AGREEMENTS

Details are provided below of contractual elements for the Group CEO and Executive Team. All employment agreements for Executives are for unlimited terms but may be terminated by written notice from either party or by IAG making a payment in lieu of notice. The employment agreements outline the components of remuneration paid to each Executive and require annual review of Executives' remuneration, although the agreements do not require IAG to increase base salary, pay STI or offer an LTI in any given year.

All Executive contracts have a 12-month notice period from the relevant company for termination and the Executives must provide six months' notice. Executives are employed by Insurance Australia Group Services Pty Limited, except for Craig Olsen who is employed by IAG New Zealand Limited.

I. Retrenchment

In the event of retrenchment, Executives (except for Craig Olsen) are entitled to the greater of:

- the 12-month notice period, or payment in lieu of notice, as provided in their employment agreement; and
- the retrenchment benefits due under the company retrenchment policy.

For Executives based in Australia, the maximum benefit under the retrenchment policy is 87 weeks of base salary, payable to employees with service of 25 years or more.

For Craig Olsen, the retrenchment payment is 12 months of fixed pay.

II. Termination of employment without notice and without payment in lieu of notice

The employment of an Executive may be terminated without notice and without payment in lieu of notice in some circumstances.

Generally, this would occur where the Executive:

- is charged with a criminal offence that could bring the organisation into disrepute;
- is declared bankrupt;
- breaches a provision of their employment agreement;
- is guilty of serious and wilful misconduct; or
- unreasonably fails to comply with any material and lawful direction given by the relevant company.

III. Termination of employment with notice or payment in lieu of notice

The employment of an Executive may be terminated at any time with 12 months' notice or payment in lieu of notice. Payment in lieu of notice will be calculated based on fixed pay. If an Executive terminates voluntarily, they are required to provide six months' notice.

Subject to the relevant legislation in the various jurisdictions, termination provisions may include the payment of annual leave and/or long service leave for the Executives.

IV. Executives who ceased employment in the financial year

Jacki Johnson did not receive any termination benefits upon ceasing as a KMP.

Tim Clark did not receive any termination benefits upon ceasing as a KMP, and he has continued employment with IAG.

APPENDIX 3. MOVEMENT IN EQUITY PLANS WITHIN THE FINANCIAL YEAR

Changes in each Executive's holding of DARs and EPRs and each Non-Executive Director's holdings of NARs during the financial year are set out below. The DARs granted during the year ended 30 June 2019 reflect the deferred portion of the STI outcome for the year ended 30 June 2018. The EPRs granted during the year ended 30 June 2019 were in relation to the LTI plan. The NARs granted during the year ended 30 June 2019 represent the total number of rights a Non-Executive Director has agreed to receive as part of the payment of their base Board fees.

TABLE 14 – MOVEMENT IN POTENTIAL VALUE OF DARS, EPRS AND NARS FOR THE YEAR ENDED 30 JUNE 2019

		RIGHTS ON ISSUE AT 1 JULY	RIGHTS GRANTED		RIGHTS EXERCISED		RIGHTS LAPSED		OTHER CHANGES	RIGHTS ON ISSUE AT 30 JUNE	RIGHTS VESTED DURING THE YEAR	RIGHTS VESTED AND EXERCIS-ABLE AT 30 JUNE
		Number	Number	Value $000	Number	Value $000	Number	Value $000	Number	Number	Number	Number
		(1)		(2)		(3)			(4)			
EXECUTIVES												
Peter	DAR	129,650	75,700	503	(85,600)	630	-	-	(1,057)	118,693	85,600	-
Harmer	EPR	1,340,950	377,000	1,603	(263,328)	1,939	(30,422)	224	(25,129)	1,399,071	263,328	-
Julie	DAR	39,750	24,300	161	(26,100)	192	-	-	(327)	37,623	26,100	-
Batch	EPR	396,600	110,500	470	(59,010)	434	(5,040)	37	(7,978)	435,072	59,010	-
Nicholas	DAR	77,000	46,200	307	(52,100)	384	-	-	(597)	70,503	52,100	-
Hawkins	EPR	843,250	202,100	859	(191,928)	1,413	(30,422)	224	(14,898)	808,102	191,928	-
Jacki	DAR	67,350	39,900	265	(47,100)	347	-	-	(486)	59,664	47,100	-
Johnson	EPR	819,150	164,000	697	(204,006)	1,502	(31,794)	234	(13,998)	733,352	204,006	-
Mark	DAR	191,500	34,700	231	(170,750)	1,257	-	-	(498)	54,952	170,750	-
Milliner	EPR	646,700	185,200	787	-	-	-	-	(15,518)	816,382	-	-
Craig	DAR	41,100	29,900	199	(26,350)	194	-	-	(354)	44,296	26,350	-
Olsen	EPR	412,500	117,800	501	(56,996)	420	(4,004)	29	(8,434)	460,866	56,996	-
David	DAR	-	108,300	803	-	-	-	-	-	108,300	-	-
Watts(5)	EPR	-	84,200	423	-	-	-	-	-	84,200	-	-
EXECUTIVE WHO CEASED AS KMP												
Tim	DAR	21,300	-	-	(14,300)	105	-	-	-	7,000	14,300	-
Clark(6)	EPR	117,100	-	-	(17,250)	127	-	-	-	99,850	17,250	-
NON-EXECUTIVE DIRECTORS												
Elizabeth Bryan	NAR	4,867	16,037	113	(14,226)	105	-	-	-	6,678	16,037	6,678
Sheila McGregor	NAR	-	16,625	124	(7,870)	58	-	-	(171)	8,584	16,454	8,584
Michelle Tredenick	NAR	-	7,484	53	(4,368)	32	-	-	-	3,116	7,484	3,116

(1) Opening number of rights on issue represents the balance as at the date of appointment as KMP or 1 July 2018.

(2) The value of the DARs granted during the year is the fair value at grant date calculated using the Black-Scholes valuation model. The value of the DARs granted on 5 November 2018 and 29 March 2019 was $6.64 and $7.41 respectively. This amount is allocated to remuneration over years ending 30 June 2019 to 30 June 2021. The value of the cash ROE portion of the EPRs granted on 5 November 2018 and 29 March 2019 is the fair value at grant date, calculated using the Black-Scholes valuation model, which was $5.94 and $6.72 respectively. The cash ROE portion of the EPR grants is first exercisable after the performance period concludes on 30 June 2022. The value of the relative TSR portion of the EPRs granted on 5 November 2018 and 29 March 2019 is the fair value at grant date, calculated using the Monte Carlo simulation, which was $2.57 and $3.32 respectively. The relative TSR portion of the EPRs is first exercisable on 30 June 2022. The amount is allocated to remuneration over the years ending 30 June 2019 to 30 June 2022. The value of the NARs granted during the year is the fair value at grant date calculated using the Black-Scholes valuation model. The value of the annual NARs granted on 10 September 2018, 15 November 2018, and 15 December 2018 was $7.74, $7.03 and $6.95 respectively. This amount was allocated to remuneration over the year ended 30 June 2019.

(3) Rights vested and exercised during the financial year. The value of the rights exercised is based on the VWAP for the year ended 30 June 2019, which was $7.36.

(4) IAG undertook a 0.976 share consolidation which was approved by shareholders on 26 October 2018 and completed on 5 November 2018.

(5) David Watts received 108,300 DARs in March 2019 as compensation for incentives forgone on leaving his previous employer.

(6) The rights on issue at 30 June for former KMP represent the rights held at the date they ceased to be a KMP.

I. LTI awards outstanding during the year ended 30 June 2019
Details of outstanding LTI awards made to Executives in the year ended 30 June 2019 are shown in the table below.

TABLE 15 – LTI AWARDS OUTSTANDING DURING THE YEAR ENDED 30 JUNE 2019

AWARD	GRANT DATE	BASE DATE	TEST DATE	PERFORMANCE HURDLE ACHIEVEMENT	LAST EXERCISE DATE
2018/2019 Series 6 – TSR(1)	29/03/2019	01/07/2018	30/06/2022	N/A	29/03/2026
2018/2019 Series 6 – ROE(1)	29/03/2019	01/07/2018	30/06/2022	N/A	29/03/2026
2018/2019 Series 6 – TSR(1)	05/11/2018	01/07/2018	30/06/2022	N/A	05/11/2025
2018/2019 Series 6 – ROE(1)	05/11/2018	01/07/2018	30/06/2022	N/A	05/11/2025
2017/2018 Series 6 – TSR(1)	30/04/2018	30/09/2017	30/09/2021	N/A	30/04/2025
2017/2018 Series 6 – ROE(1)	30/04/2018	01/07/2017	30/06/2020	N/A	30/04/2025
2017/2018 Series 6 – TSR(1)	03/11/2017	30/09/2017	30/09/2021	N/A	03/11/2024
2017/2018 Series 6 – ROE(1)	03/11/2017	01/07/2017	30/06/2020	N/A	03/11/2024
2016/2017 Series 6 – TSR(1)	24/03/2017	30/09/2016	30/09/2020	N/A	24/03/2024
2016/2017 Series 6 – ROE(1),(2)	24/03/2017	01/07/2016	30/06/2019	N/A	24/03/2024
2016/2017 Series 6 – TSR(1)	02/11/2016	30/09/2016	30/09/2020	N/A	02/11/2023
2016/2017 Series 6 – ROE(1),(2)	02/11/2016	01/07/2016	30/06/2019	N/A	02/11/2023
2015/2016 Series 6 – TSR(1)	31/03/2016	30/09/2015	30/09/2019	N/A	31/03/2023
2015/2016 Series 6 – ROE(1)	31/03/2016	01/07/2015	30/06/2018	100%	31/03/2023
2015/2016 Series 6 – TSR(1)	02/11/2015	30/09/2015	30/09/2019	N/A	02/11/2022
2015/2016 Series 6 – ROE(1)	02/11/2015	01/07/2015	30/06/2018	100%	02/11/2022
2014/2015 Series 6 – TSR(1)	03/11/2014	30/09/2014	30/09/2018	72%	03/11/2021

(1) Terms and conditions for LTI Plans from 2014/2015 to 2018/2019 relating to relative TSR and cash ROE are the same; therefore, they are all referred to as Series 6.
(2) The cash ROE portion of LTI Plan 2016/2017 has been tested and is expected to vest in full. Vesting details will be included in the Remuneration Report for the year ending 30 June 2020.

APPENDIX 4. RELATED PARTY INTERESTS
In accordance with the *Corporations Act Regulation 2M.3.03*, the Remuneration Report includes disclosure of related parties' interests.

I. Movements in total number of ordinary shares held
The relevant interests of each KMP and their related parties in ordinary shares of the Company are disclosed in the table below.

TABLE 16 – MOVEMENT IN TOTAL NUMBER OF ORDINARY SHARES HELD

	SHARES HELD AT 1 JULY	SHARES RECEIVED ON EXERCISE OF DARS	SHARES RECEIVED ON EXERCISE OF EPRS	SHARES RECEIVED ON EXERCISE OF NARS	NET MOVEMENT OF SHARES DUE TO OTHER CHANGES(1),(2)	TOTAL SHARES HELD AT 30 JUNE	SHARES HELD NOMINALLY AT 30 JUNE(3)
	Number	Number	Number	Number	Number	Number	Number
2019							
NON-EXECUTIVE DIRECTORS AND EXECUTIVES							
Elizabeth Bryan	62,855	-	-	14,226	(1,623)	75,458	75,458
Duncan Boyle	32,679	-	-	-	(785)	31,894	31,894
Hugh Fletcher	85,256	-	-	-	(233)	85,023	37,129
Sheila McGregor	-	-	-	7,870	(84)	7,786	7,786
Jon Nicholson	34,589	-	-	-	(828)	33,761	23,584
Helen Nugent	20,112	-	-	-	6,518	26,630	26,630
Tom Pockett	32,627	-	-	-	(570)	32,057	-
George Savvides(4)	-	-	-	-	-	-	-
Michelle Tredenick	-	-	-	4,368	-	4,368	-
Peter Harmer	933,574	85,600	263,328	-	(150,780)	1,131,722	-
Julie Batch	76,953	26,100	59,010	-	(68,889)	93,174	-
Nicholas Hawkins	170,000	52,100	191,928	-	(239,028)	175,000	-
Jacki Johnson	805,817	47,100	204,006	-	(25,363)	1,031,560	873,134
Mark Milliner	-	170,750	-	-	(62,678)	108,072	-
Craig Olsen	187,751	26,350	56,996	-	(6,506)	264,591	14,445
David Watts(4)	-	-	-	-	28	28	-

	SHARES HELD AT 1 JULY	SHARES RECEIVED ON EXERCISE OF DARS	SHARES RECEIVED ON EXERCISE OF EPRS	SHARES RECEIVED ON EXERCISE OF NARS	NET MOVEMENT OF SHARES DUE TO OTHER CHANGES(1),(2)	TOTAL SHARES HELD AT 30 JUNE	SHARES HELD NOMINALLY AT 30 JUNE(3)
	Number	Number	Number	Number	Number	Number	Number
NON-EXECUTIVE DIRECTOR AND EXECUTIVE WHO CEASED AS KMP(5)							
Philip Twyman	15,522	-	-	-	-	15,522	5,742
Tim Clark	521	14,300	17,250	-	-	32,071	521

(1) Net movement of shares relates to acquisition and disposal transactions by the KMP and their related parties during the year.

(2) IAG undertook a 0.976 share consolidation which was approved by shareholders on 26 October 2018 and completed on 5 November 2018.

(3) Shares nominally held are included in the column headed total shares held at 30 June and include those held by the KMP's related parties, inclusive of domestic partner, dependants and entities controlled, jointly controlled or significantly influenced by the KMP.

(4) Opening number of shares held represents the balance as at the date of appointment.

(5) Information on shares held is disclosed up to the date of cessation.

II. Movements in total number of capital notes held

During the year ended 30 June 2019, Philip Twyman indirectly held 5,109 capital notes (2018: 5,109 capital notes) up to 26 October 2018 when he ceased to be a KMP. No other KMP had any interest directly or nominally in capital notes during the financial year (2018: nil).

III. Movements in total number of reset exchangeable securities held

No KMP had any interest directly or nominally in reset exchangeable securities of IAG Finance (New Zealand) Limited at any time during the financial year (2018: nil).

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

TABLE 17 – HOLDINGS OF SHARES, CAPITAL NOTES AND RESET EXCHANGEABLE SECURITIES AS AT 30 JUNE 2019

	ORDINARY SHARES		CAPITAL NOTES		RESET EXCHANGEABLE SECURITIES	
	Held directly(1)	Held indirectly(2)	Held directly	Held indirectly	Held directly	Held indirectly
Elizabeth Bryan	-	75,458	-	-	-	-
Duncan Boyle	-	31,894	-	-	-	-
Hugh Fletcher	47,894	37,129	-	-	-	-
Sheila McGregor	-	7,786	-	-	-	-
Jon Nicholson	10,177	23,584	-	-	-	-
Helen Nugent	-	26,630	-	-	-	-
Tom Pockett	32,057	-	-	-	-	-
George Savvides	-	-	-	-	-	-
Michelle Tredenick	4,368	-	-	-	-	-
Peter Harmer	1,131,722	-	-	-	-	-

(1) This represents the relevant interest of each Director in ordinary shares issued by the Company, as notified by the Directors to the ASX in accordance with section 205G of the *Corporations Act 2001* until the date the financial report was signed. Trading in ordinary shares of the Company is covered by the restrictions which limit the ability of an IAG Director to trade in the securities of the Group where they are in a position to be aware, or are aware, of price sensitive information.

(2) These ordinary shares of the Company are held by the Director's related parties, inclusive of entities controlled, jointly controlled or significantly influenced by the Directors, as notified by the Directors to the ASX in accordance with section 205G of the *Corporations Act 2001*.

APPENDIX 5. KEY TERMS AND DEFINITIONS

The key terms and definitions used throughout this report are explained below.

TERM	DEFINITION
Actual remuneration	The dollar value of remuneration actually received by the Executives in the financial year. This is the sum of fixed pay, other benefits and the value of the cash STI earned in the financial year plus the value of deferred STI vested during the financial year plus the value of LTI Plan rights vested during the year.
At-risk remuneration	Remuneration that is dependent on a combination of the financial performance of IAG, the Executives' performance against individual measures (financial and non-financial) and continuing employment. At-risk remuneration typically includes STI (cash and deferred remuneration) and LTI.
Base salary	The cash component of fixed pay.

TERM	DEFINITION
Cash return on equity (ROE)	Calculated as cash earnings divided by average total shareholders' equity during the financial year. Cash earnings is defined as net profit after tax attributable to owners of the Company plus amortisation and impairment of acquired identifiable intangible assets and adjusted for unusual items after tax (non-recurring in nature). Cash ROE is used to calculate one half of the outcome in the LTI plan.
Cash STI	The portion of an Executive's STI outcome that is paid in the form of cash, following the end-of-year assessment and approval by the Board.
Deferred STI / Deferred Award Rights (DARs)	For Executives in the 2019 financial year, half of the Total STI is deferred for a period of two years based on continued service. The deferred component is typically paid in the form of Deferred Award Rights (DARs). The deferred portion is subject to downward adjustment (also referred to as malus) if determined appropriate by the Board.
Executive Team	The Executives who report directly to the Group CEO and: ▪ manage a business unit; or ▪ have accountability for the risk or financial control of the organisation; or ▪ have accountability to deliver a strategic priority. The Executive Team comprises the following members of IAG's Group Leadership Team: Chief Executive Officer, Australia; Chief Executive, New Zealand; Chief Financial Officer; Chief Risk Officer; Chief Customer Officer; and Group Executive, People, Performance and Reputation.
Executives	The Group CEO and the Executive Team.
Fixed pay	Base salary plus superannuation. Individuals can determine the mix of base salary and superannuation they receive in line with legislative requirements.
Group Balanced Scorecard	The Group Balanced Scorecard sets out the objectives that have to be achieved to meet key strategic priorities of the organisation. The Group Balanced Scorecard uses goals set against financial and non-financial objectives. Achievement against these objectives is measured and this informs the Board's determination of STI outcomes.
Group CEO	IAG's Managing Director and Chief Executive Officer.
Key management personnel (KMP)	Persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity.
Long-term incentive (LTI)/Executive Performance Rights (EPRs)	A grant of rights in the form of EPRs that are exercisable for ordinary shares of the Company or cash as determined by the Board. Vesting occurs between three and four years after the grant date if performance hurdles are achieved.
Malus	The Board has the ability to reduce the value of deferred remuneration before it has vested, including down to zero.
Non-Executive Director Award Rights Plan (NARs Plan)	The NARs Plan provides Directors with the opportunity to build their shareholding in IAG. Under the NARs Plan, Directors agree to receive a portion of their base Board fee in the form of rights over ordinary IAG shares. Participation in the NARs Plan is voluntary.
People and Remuneration Committee (PARC)	The Board committee which oversees IAG's remuneration practices.
Short-term incentive (STI)	The part of annual at-risk remuneration that is designed to motivate and reward for annual performance. STI results are determined by performance against the Group Balanced Scorecard and individual goals using both financial and non-financial measures. For Executives in the 2019 financial year, half of the total STI will be delivered in cash in September following the financial year end; and the remaining half will be deferred for a period of two years based on continued service.
Total shareholder return (TSR)	TSR combines share price movements and dividends paid to reflect total return to shareholders. IAG uses relative TSR performance against other companies in the peer group to calculate one half of the LTI outcome.
Weighted average cost of capital (WACC)	This is the rate that a company is expected to pay on average to all its securityholders to finance its assets.

ROUNDING OF AMOUNTS

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

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

Signed at Sydney this 8th day of August 2019 in accordance with a resolution of the Directors.

Peter Harmer
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 audit of Insurance Australia Group Limited for the financial year ended 30 June 2019 there have been:

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

KPMG

Andrew Yates
Partner

Sydney
8 August 2019

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2019

	NOTE	2019 $m	2018 $m
Gross earned premium	2.1	**11,942**	11,522
Outwards reinsurance premium expense		**(4,704)**	(3,851)
Net earned premium (i)		**7,238**	7,671
Claims expense		**(8,468)**	(8,005)
Reinsurance and other recoveries revenue	2.1	**3,849**	3,388
Net claims expense (ii)	2.2	**(4,619)**	(4,617)
Commission expense		**(1,011)**	(970)
Underwriting expense		**(1,833)**	(1,787)
Reinsurance commission revenue	2.1	**1,128**	880
Net underwriting expense (iii)		**(1,716)**	(1,877)
Underwriting profit (i) + (ii) + (iii)		**903**	1,177
Investment income on assets backing insurance liabilities	2.3	**339**	249
Investment expenses on assets backing insurance liabilities		**(18)**	(19)
Insurance profit		**1,224**	1,407
Investment income on shareholders' funds	2.3	**247**	177
Fee and other income		**111**	164
Share of net profit of associates		**42**	31
Finance costs		**(94)**	(82)
Fee-based, corporate and other expenses		**(193)**	(284)
Net loss attributable to non-controlling interests in unitholders' funds		**(5)**	(3)
Profit before income tax from continuing operations		**1,332**	1,410
Income tax expense	5.2	**(363)**	(384)
Profit after income tax from continuing operations		**969**	1,026
Profit/(loss) after income tax from discontinued operations	6.2	**204**	(25)
Profit for the year		**1,173**	1,001
OTHER COMPREHENSIVE INCOME/(EXPENSE)			
Items that may be reclassified subsequently to profit or loss:			
Net movement in foreign currency translation reserve, net of tax		**33**	(15)
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit plans, net of tax		**(17)**	2
Other comprehensive income/(expense) from continuing operations, net of tax		**16**	(13)
Other comprehensive income from discontinued operations, net of tax	6.2	**20**	1
Total comprehensive income for the year, net of tax		**1,209**	989
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO			
Shareholders of the Parent – continuing operations		**871**	947
Shareholders of the Parent – discontinued operations	6.2	**205**	(24)
Non-controlling interests – continuing operations		**98**	79
Non-controlling interests – discontinued operations	6.2	**(1)**	(1)
Profit for the year		**1,173**	1,001
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR ATTRIBUTABLE TO			
Shareholders of the Parent – continuing operations		**887**	934
Shareholders of the Parent – discontinued operations	6.2	**225**	(23)
Non-controlling interests – continuing operations		**98**	79
Non-controlling interests – discontinued operations	6.2	**(1)**	(1)
Total comprehensive income for the year, net of tax		**1,209**	989

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

	NOTE	**2019 cents**	2018 cents
EARNINGS PER SHARE – CONTINUING AND DISCONTINUED OPERATIONS			
Basic earnings per ordinary share	4.3	**46.26**	39.06
Diluted earnings per ordinary share	4.3	**44.58**	38.30
EARNINGS PER SHARE – CONTINUING OPERATIONS			
Basic earnings per ordinary share	4.3	**37.45**	40.08
Diluted earnings per ordinary share	4.3	**36.44**	39.26

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

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2019

	NOTE	2019 $m	2018 $m
ASSETS			
Cash held for operational purposes	8.1	**538**	448
Investments	2.3	**10,684**	11,007
Trade and other receivables	2.6	**4,170**	4,085
Current tax assets		**107**	17
Assets held for sale	6.2	**61**	655
Reinsurance and other recoveries on outstanding claims	2.2	**5,779**	5,422
Deferred insurance expenses	2.5	**3,451**	3,443
Deferred levies and charges		**105**	136
Deferred tax assets	5.2	**453**	544
Property and equipment		**181**	180
Other assets		**115**	89
Investment in joint venture and associates	6.5	**544**	557
Goodwill and intangible assets	5.1	**3,098**	3,183
Total assets		**29,286**	29,766
LIABILITIES			
Trade and other payables	2.7	**2,680**	2,592
Current tax liabilities		**29**	120
Liabilities held for sale	6.2	**27**	444
Unearned premium liability	2.4	**6,334**	6,217
Outstanding claims liability	2.2	**10,296**	10,410
Non-controlling interests in unitholders' funds		**245**	239
Provisions	5.3	**389**	327
Other liabilities		**496**	516
Interest-bearing liabilities	4.1	**2,080**	1,960
Total liabilities		**22,576**	22,825
Net assets		**6,710**	6,941
EQUITY			
Share capital	4.2	**6,617**	7,082
Treasury shares held in trust		**(48)**	(27)
Reserves		**46**	(4)
Retained earnings		**(211)**	(382)
Parent interest		**6,404**	6,669
Non-controlling interests		**306**	272
Total equity		**6,710**	6,941

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 YEAR ENDED 30 JUNE 2019

	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
2019							
Balance at the beginning of the financial year	**7,082**	**(27)**	**(33)**	**29**	**(382)**	**272**	**6,941**
Profit for the year	**-**	**-**	**-**	**-**	**1,076**	**97**	**1,173**
Other comprehensive income/(expense)	**-**	**-**	**53**	**-**	**(17)**	**-**	**36**
Total comprehensive income for the year	**-**	**-**	**53**	**-**	**1,059**	**97**	**1,209**
Transactions with owners in their capacity as owners							
Capital return, including transaction costs	**(465)**	**-**	**-**	**-**	**-**	**-**	**(465)**
Share-based remuneration	**-**	**(21)**	**-**	**(3)**	**(7)**	**-**	**(31)**
Dividends determined and paid	**-**	**-**	**-**	**-**	**(880)**	**(72)**	**(952)**
Investment in subsidiaries	**-**	**-**	**-**	**-**	**(1)**	**11**	**10**
Disposal of subsidiaries	**-**	**-**	**-**	**-**	**-**	**(2)**	**(2)**
Balance at the end of the financial year	**6,617**	**(48)**	**20**	**26**	**(211)**	**306**	**6,710**
2018							
Balance at the beginning of the financial year	7,082	(38)	(19)	36	(499)	230	6,792
Profit for the year	-	-	-	-	923	78	1,001
Other comprehensive (expense)/income	-	-	(14)	-	2	-	(12)
Total comprehensive (loss)/income for the year	-	-	(14)	-	925	78	989
Transactions with owners in their capacity as owners							
Share-based remuneration	-	11	-	(7)	(5)	-	(1)
Dividends determined and paid	-	-	-	-	(803)	(36)	(839)
Balance at the end of the financial year	7,082	(27)	(33)	29	(382)	272	6,941

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 YEAR ENDED 30 JUNE 2019

	NOTE	2019 $m	2018 $m
CASH FLOWS FROM OPERATING ACTIVITIES			
Premium received		**11,973**	11,779
Reinsurance and other recoveries received		**3,442**	3,195
Claims costs paid		**(8,670)**	(9,006)
Outwards reinsurance premium expense paid		**(4,617)**	(4,016)
Dividends, interest and trust distributions received		**492**	416
Finance costs paid		**(88)**	(87)
Income taxes paid		**(406)**	(379)
Other operating receipts		**1,974**	1,802
Other operating payments		**(3,511)**	(3,757)
Net cash flows from operating activities	8.1	**589**	(53)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net cash flows on disposal/(acquisition) of subsidiaries and associates		**407**	4
Net cash flows from sale/(purchase) of investments and plant and equipment		**668**	387
Net cash flows from investing activities		**1,075**	391
CASH FLOWS FROM FINANCING ACTIVITIES			
Outlays for capital, including transaction costs		**(465)**	-
Proceeds from borrowings, net of transaction costs		**447**	348
Repayment of borrowings		**(350)**	(2)
Net cash flow from issue and redemption of trust units		**1**	18
Dividends paid to shareholders of the Parent		**(880)**	(803)
Dividends paid to non-controlling interests		**(72)**	(36)
Net cash flows from financing activities		**(1,319)**	(475)
Net movement in cash held		**345**	(137)
Effects of exchange rate changes on balances of cash held in foreign currencies		**8**	2
Cash and cash equivalents at the beginning of the financial year		**1,345**	1,480
Cash and cash equivalents at the end of the financial year	8.1	**1,698**	1,345

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

NOTES TO THE FINANCIAL STATEMENTS

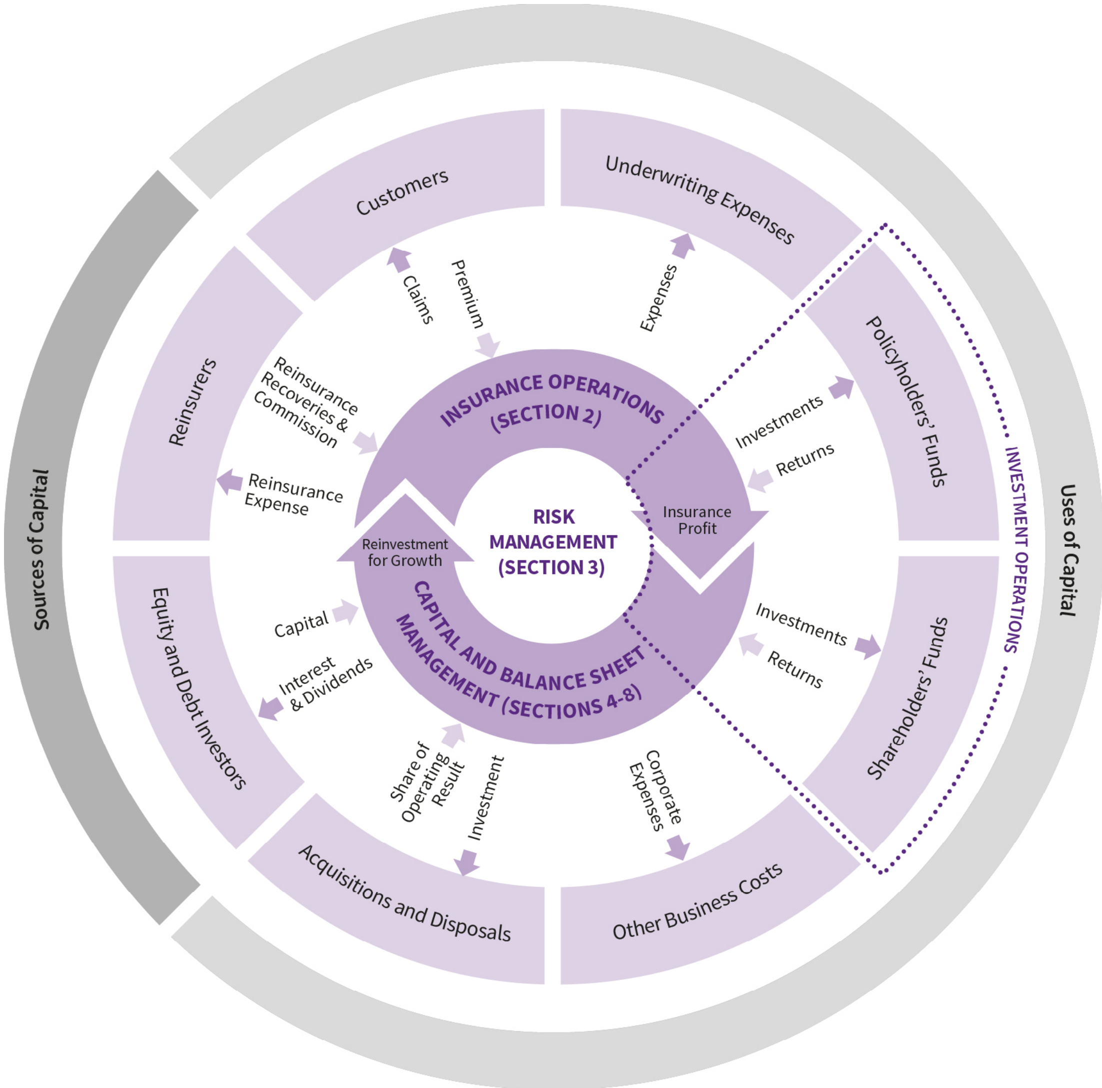
1. OVERVIEW

NOTE 1.1 INTRODUCTION

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

The financial report has been organised into the following sections:

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



NOTE 1.2 ABOUT THIS REPORT

A. CORPORATE INFORMATION

Insurance Australia Group Limited (Company or Parent), the ultimate parent entity in the Group, is a for-profit company, incorporated and domiciled in Australia and limited by shares publicly traded on the Australian Securities Exchange (ASX). Its registered office and principal place of business is Level 13, Tower Two, Darling Park, 201 Sussex Street, Sydney, NSW 2000, Australia. This financial report covers the consolidated financial statements for the Company and its subsidiaries (IAG or Group) for the year ended 30 June 2019.

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

B. STATEMENT OF COMPLIANCE

This general purpose financial report was authorised by the Board of Directors for issue on 8 August 2019 and complies with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), the *Corporations Act 2001*, Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB), other authoritative pronouncements of the AASB and the ASX Listing Rules.

The current IFRS standard for insurance contracts does not include a comprehensive set of recognition and measurement criteria. The IASB has issued a new standard (*IFRS 17 Insurance Contracts* – adopted as *AASB 17 Insurance Contracts* in an Australian context) that does include such criteria, with the current effective date of 1 January 2021. However since issuing the standard, the IASB has agreed to propose a one year delay to the effective date to 1 January 2022. This proposed amendment, along with a number of others, have been included in the exposure draft issued on 26 June 2019. This exposure draft is subject to a 90-day comment period. Until this standard takes effect, the financial reports of insurers in different countries that comply with IFRS may not be comparable in terms of the recognition and measurement of insurance contracts.

C. BASIS OF PREPARATION

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

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

I. Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the Company as at 30 June 2019. A list of significant controlled entities is set out in Note 6.3. IAG controls an investee if it has (i) power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of those returns. Where an entity either began or ceased to be controlled during a financial year, the results are included from the date control commenced or up to the date control ceased. The financial information of all subsidiaries is prepared for consolidation for the same reporting year as the Parent. In preparing the consolidated financial statements, all inter-company balances and transactions, including income, expenses, and profits and losses resulting from intra-group transactions, have been eliminated.

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

II. Presentation and foreign currency

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

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

III. Reclassification of comparatives

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

- re-presentation of prior year segment information (refer to Note 1.3 and 2.2 for further details).

D. SIGNIFICANT ACCOUNTING POLICIES ADOPTED

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

I. Changes in accounting policies

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

II. Critical accounting estimates and judgements

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

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

NOTE 1.3 SEGMENT REPORTING

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

A. REPORTABLE SEGMENTS

IAG has general insurance operations in Australia and New Zealand. Each division has end-to-end responsibility for delivering the customer experience, with responsibility for the customer, product, distribution and operations functions. IAG's operating model was refined in the 2018 financial year to create a single Australian division. During the intervening period, the model has continued to evolve. As a result of further operational changes implemented during the current reporting period, including changes in the internal reports reviewed by the Group Chief Executive Officer, IAG has revised its reportable segments to reflect this combined Australian division, which previously comprised the Consumer and Business divisions, with the prior period segment information re-presented accordingly.

The reportable segments for the period ended 30 June 2019 comprise the following business divisions:

I. Australia

This segment provides general insurance products to individuals, families and businesses throughout Australia, primarily through the NRMA Insurance, SGIO, SGIC and CGU 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 WFI brand 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, and investment in associates in Malaysia and India. 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
2019				
I. Financial performance				
Total external revenue[1]	**13,919**	**3,421**	**318**	**17,658**
Underwriting profit/(loss)	**560**	**354**	**(11)**	**903**
Net investment income on assets backing insurance liabilities	**282**	**36**	**3**	**321**
Insurance profit/(loss)	**842**	**390**	**(8)**	**1,224**
Net investment income on shareholders' funds	**-**	**-**	**227**	**227**
Share of net profit of associates	**2**	**-**	**40**	**42**
Finance costs	**-**	**-**	**(94)**	**(94)**
Other net operating result	**(1)**	**-**	**(66)**	**(67)**
Total segment result from continuing operations	**843**	**390**	**99**	**1,332**
Income tax expense				**(363)**
Profit for the year from continuing operations				**969**
II. Other segment information				
Capital expenditure[2]	**-**	**-**	**123**	**123**
Depreciation and amortisation expense	**116**	**54**	**-**	**170**
2018[3]				
I. Financial performance				
Total external revenue[1]	12,907	3,267	237	16,411
Underwriting profit/(loss)	975	209	(7)	1,177
Net investment income on assets backing insurance liabilities	215	9	6	230
Insurance profit/(loss)	1,190	218	(1)	1,407
Net investment income on shareholders' funds	-	-	165	165
Share of net profit of associates	2	-	29	31
Finance costs	-	-	(82)	(82)
Other net operating result	(5)	-	(106)	(111)
Total segment result from continuing operations	1,187	218	5	1,410
Income tax expense				(384)
Profit for the year from continuing operations				1,026
II. Other segment information				
Capital expenditure[2]	-	-	155	155
Depreciation and amortisation expense	114	51	-	165

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

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

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

2. INSURANCE DISCLOSURES

SECTION INTRODUCTION

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

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

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

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

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

NOTE 2.1 GENERAL INSURANCE REVENUE

	2019	2018
	$m	$m
A. COMPOSITION		
Gross written premium	**12,005**	11,647
Movement in unearned premium liability	**(63)**	(125)
Gross earned premium	**11,942**	11,522
Reinsurance and other recoveries revenue	**3,849**	3,388
Reinsurance commission revenue	**1,128**	880
Total general insurance revenue	**16,919**	15,790

B. RECOGNITION AND MEASUREMENT

I. Premium revenue

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

II. Reinsurance and other recoveries

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

III. Reinsurance commission revenue

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

NOTE 2.2 CLAIMS AND REINSURANCE AND OTHER RECOVERIES ON OUTSTANDING CLAIMS

A. NET CLAIMS EXPENSE

	2019			2018		
	Current year	**Prior years**	**Total**	Current year	Prior years	Total
	$m	**$m**	**$m**	$m	$m	$m
Gross claims – undiscounted	**8,826**	**(779)**	**8,047**	8,585	(675)	7,910
Discount	**(52)**	**473**	**421**	(114)	209	95
Gross claims – discounted	**8,774**	**(306)**	**8,468**	8,471	(466)	8,005
Reinsurance and other recoveries – undiscounted	**(3,864)**	**325**	**(3,539)**	(3,304)	(18)	(3,322)
Discount	**28**	**(338)**	**(310)**	57	(123)	(66)
Reinsurance and other recoveries – discounted	**(3,836)**	**(13)**	**(3,849)**	(3,247)	(141)	(3,388)
Net claims expense	**4,938**	**(319)**	**4,619**	5,224	(607)	4,617

B. NET OUTSTANDING CLAIMS LIABILITY

I. Composition of net outstanding claims liability

	2019	2018
	$m	$m
Gross central estimate – discounted	**7,870**	8,267
Reinsurance and other recoveries – discounted	**(4,426)**	(4,377)
Net central estimate – discounted	**3,444**	3,890
Claims handling costs – discounted	**355**	364
Risk margin	**718**	734
Net outstanding claims liability – discounted	**4,517**	4,988

The gross outstanding claims liability includes $5,532 million (2018: $5,756 million) which is expected to be settled more than 12 months from the reporting date.

The carrying value of reinsurance and other recoveries includes $3,227 million (2018: $3,214 million) which is expected to be settled more than 12 months from the reporting date.

II. Reconciliation of movements in net discounted outstanding claims liability

	2019	2018
	$m	$m
Net outstanding claims liability at the beginning of the financial year	**4,988**	6,113
Movement in the prior year central estimate	**(116)**	(244)
Current year claims incurred, net of reinsurance and other recoveries	**4,611**	4,979
Claims paid, net of reinsurance and other recoveries received	**(5,111)**	(5,644)
Movement in discounting	**143**	67
Movement in risk margin	**(20)**	(143)
Transfers to liabilities held for sale	**-**	(105)
Net movement of discontinued operations	**-**	(8)
Net foreign currency movements	**22**	(27)
Net outstanding claims liability at the end of the financial year	**4,517**	4,988
Reinsurance and other recoveries on outstanding claims liability	**5,779**	5,422
Gross outstanding claims liability at the end of the financial year	**10,296**	10,410

III. Maturity analysis

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

IV. Development table

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

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

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

	ACCIDENT YEAR											
	2009 and prior	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
NET ULTIMATE CLAIM PAYMENTS												
Development												
At end of accident year		4,709	5,064	5,276	5,226	5,677	6,367	5,027	5,339	4,554	3,985	
One year later		4,683	5,179	5,349	5,151	5,682	6,290	4,979	5,285	4,467		
Two years later		4,581	5,222	5,289	5,069	5,595	6,225	4,920	5,249			
Three years later		4,531	5,253	5,199	4,989	5,455	6,108	4,859				
Four years later		4,479	5,465	5,147	4,909	5,385	6,105					
Five years later		4,426	5,537	5,087	4,890	5,367						
Six years later		4,390	5,551	5,077	4,892							
Seven years later		4,360	5,648	5,090								
Eight years later		4,353	5,649									
Nine years later		4,355										
Current estimate of net ultimate claim payments		4,355	5,649	5,090	4,892	5,367	6,105	4,859	5,249	4,467	3,985	
Cumulative payments made to date(1)		4,311	5,538	5,012	4,769	5,200	5,852	4,551	4,845	3,904	2,669	
Net undiscounted outstanding claims liability	152	44	111	78	123	167	253	308	404	563	1,316	3,519
Discount to present value	(4)	(1)	(3)	(2)	(4)	(5)	(8)	(7)	(10)	(13)	(18)	(75)
Net discounted outstanding claims liability	148	43	108	76	119	162	245	301	394	550	1,298	3,444
Reconciliation												
Claims handling costs												355
Risk margin												718
Net outstanding claims liability												4,517

C. RECOGNITION AND MEASUREMENT

I. Outstanding claims liability and claims expense

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

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

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

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

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

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

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

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

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

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

	2019	2018
	%	%
The percentage risk margin applied to the net outstanding claims liability	**19**	17
The probability of adequacy of the risk margin	**90**	90

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

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

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

ASSUMPTION	AUSTRALIA	NEW ZEALAND
2019		
Discounted average term to settlement	**2.06 years**	**1.03 years**
Inflation rate	**0.0%-4.3%**	**2.2%**
Superimposed inflation rate	**0.0%-5.0%**	**0.0%**
Discount rate	**0.9%-3.5%**	**1.5%-2.2%**
Claims handling costs ratio	**4.4%**	**4.9%**
2018*		
Discounted average term to settlement	1.9 years	1.0 year
Inflation rate	0.0%-4.3%	1.9%
Superimposed inflation rate	0.0%-5.0%	0.0%
Discount rate	1.5%-4.2%	1.8%-3.6%
Claims handling costs ratio	4.5%	3.9%

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

a. DISCOUNTED AVERAGE TERM TO SETTLEMENT

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

b. INFLATION RATE AND SUPERIMPOSED INFLATION

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

c. DISCOUNT RATE

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

d. CLAIMS HANDLING COSTS RATIO

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

II. Reinsurance and other recoveries on outstanding claims

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

E. SENSITIVITY ANALYSIS

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

	MOVEMENT IN ASSUMPTION	AUSTRALIA	NEW ZEALAND
		$m	$m
2019			
Discounted average term to settlement	**+10%**	**(9)**	**(1)**
	-10%	**9**	**1**
Inflation rate	**+1%**	**79**	**4**
	-1%	**(76)**	**(4)**
Discount rate	**+1%**	**(79)**	**(4)**
	-1%	**84**	**4**
Claims handling costs ratio	**+1%**	**88**	**6**
	-1%	**(88)**	**(6)**
2018*			
Discounted average term to settlement	+10%	(20)	(1)
	-10%	20	1
Inflation rate	+1%	81	5
	-1%	(79)	(4)
Discount rate	+1%	(80)	(4)
	-1%	85	4
Claims handling costs ratio	+1%	89	9
	-1%	(89)	(9)

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

NOTE 2.3 INVESTMENTS

	2019	2018
	$m	$m
A. INVESTMENT INCOME		
Dividend revenue	**49**	42
Interest revenue	**301**	320
Trust revenue	**50**	37
Realised net losses	**(35)**	(33)
Unrealised net gains	**221**	60
Total investment income	**586**	426
Represented by		
Investment income on assets backing insurance liabilities	**339**	249
Investment income on shareholders' funds	**247**	177
	586	426

	2019 $m	2018 $m
B. INVESTMENT COMPOSITION		
I. Interest-bearing investments		
Cash and short-term money	**1,121**	753
Government and semi-government bonds	**664**	933
Corporate bonds and notes	**5,554**	5,896
Subordinated securities	**1,086**	1,333
Other	**279**	253
	8,704	9,168
II. Equity investments (includes exposure to convertible securities)		
Listed	**1,051**	1,049
Unlisted	**729**	683
	1,780	1,732
III. Other investments		
Other trusts	**190**	107
Derivatives	**10**	-
	200	107
Total investments	**10,684**	11,007

C. RECOGNITION AND MEASUREMENT

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

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

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

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

I. Level 1 quoted prices

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

II. Level 2 other observable inputs

The fair value is determined by reference to quoted prices in active markets for similar assets or liabilities or by reference to other significant inputs that are not quoted prices but are based on observable market data, for example interest rate yield curves observable at commonly quoted intervals. For IAG, this category primarily includes corporate and other fixed interest securities where the market is considered to be lacking sufficient depth to be considered active.

III. Level 3 unobservable inputs

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

- purchases of $369 million (2018: nil) and sales of $133 million (2018: nil) in interest-bearing instruments; and
- purchases of $94 million (2018: $181 million) in unlisted equity with no sales in the current financial year (2018: $9 million).

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

	LEVEL 1 $m	LEVEL 2 $m	LEVEL 3 $m	TOTAL $m
2019				
Interest-bearing investments	**2,256**	**6,169**	**279**	**8,704**
Equity investments	**1,051**	**315**	**414**	**1,780**
Other investments	**-**	**200**	**-**	**200**
	3,307	**6,684**	**693**	**10,684**
2018				
Interest-bearing investments	2,169	6,998	1	9,168
Equity investments	1,049	341	342	1,732
Other investments	-	107	-	107
	3,218	7,446	343	11,007

NOTE 2.4 UNEARNED PREMIUM LIABILITY

	2019 $m	2018 $m
A. RECONCILIATION OF MOVEMENTS		
Unearned premium liability at the beginning of the financial year	**6,217**	6,331
Deferral of premiums written during the financial year	**6,147**	5,915
Earning of premiums written in previous financial years	**(6,084)**	(5,790)
Net premiums earned and written on discontinued operations	**-**	(3)
Transfers to liabilities held for sale	**-**	(206)
Net foreign exchange movements	**54**	(30)
Unearned premium liability at the end of the financial year	**6,334**	6,217

The carrying value of unearned premium liability includes $69 million (2018: $133 million) which is expected to be earned more than 12 months from reporting date.

B. RECOGNITION AND MEASUREMENT

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

C. ADEQUACY OF UNEARNED PREMIUM LIABILITY

I. Liability adequacy test (LAT)

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

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

The LAT at reporting date resulted in a surplus for IAG (2018: surplus for IAG), with the table below providing details of the net premium liabilities (net of reinsurance and adjusted for appropriate risk margin) used in the LAT:

	2019 $m	2018 $m
Net central estimate of present value of expected cash flows on future claims	**2,783**	2,718
Risk margin of the present value of expected future cash flows	**67**	66
	2,850	2,784
Risk margin percentage	**2.4%**	2.4%
Probability of adequacy	**60.0%**	60.0%

II. Significant accounting estimates and judgements

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

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

NOTE 2.5 DEFERRED INSURANCE EXPENSES

	DEFERRED ACQUISITION COSTS[1]		DEFERRED OUTWARDS REINSURANCE EXPENSE[2]		TOTAL DEFERRED INSURANCE EXPENSES	
	2019	2018	**2019**	2018	**2019**	2018
	$m	$m	**$m**	$m	**$m**	$m
A. RECONCILIATION OF MOVEMENTS						
At the beginning of the financial year	**949**	1,020	**2,494**	1,750	**3,443**	2,770
Costs deferred	**1,832**	1,809	**4,704**	4,662	**6,536**	6,471
Amortisation charged to profit	**(1,862)**	(1,835)	**(4,704)**	(3,851)	**(6,566)**	(5,686)
Transfers to assets held for sale	**-**	(37)	**-**	(74)	**-**	(111)
Net costs earned and written on discontinued operations	**-**	(2)	**-**	25	**-**	23
Net foreign exchange movements	**9**	(6)	**29**	(18)	**38**	(24)
Deferred costs at the end of the financial year	**928**	949	**2,523**	2,494	**3,451**	3,443

(1) The carrying value of deferred acquisition costs includes $9 million (2018: $27 million) which is expected to be amortised more than 12 months from reporting date.

(2) The carrying value of deferred outwards reinsurance expense includes $43 million (2018: $101 million) which is expected to be amortised more than 12 months from reporting date.

B. RECOGNITION AND MEASUREMENT

I. Acquisition costs

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

II. Outwards reinsurance expense

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

NOTE 2.6 TRADE AND OTHER RECEIVABLES

	2019	2018
	$m	$m
A. COMPOSITION		
I. Premium receivable		
Gross premium receivable	**3,784**	3,622
Provision for impairment	**(37)**	(33)
Net premium receivable	**3,747**	3,589
II. Trade and other receivables[1]		
Reinsurance recoveries on paid claims	**82**	92
Loan to associates[2]	**102**	99
Investment-related receivables	**135**	124
Trade and other debtors	**104**	181
Trade and other receivables	**423**	496
	4,170	4,085

(1) Other than the loan to associates, receivables are non-interest bearing and are normally settled between 30 days and 12 months. The balance has not been discounted as the time value of money effect is not material. The net carrying amount of receivables is a reasonable approximation of the fair value of the assets due to the short-term nature of the assets. On transition to *AASB 9* an assessment of the lifetime expected credit losses has been performed on the relevant trade and other receivables, and the existing provision is sufficient when considering the lifetime expected credit losses associated with these assets.

(2) This loan is denominated in Malaysian ringgit and has a fixed term of 15 years from 21 September 2012. A cumulative preference dividend of 1% is payable annually. The loan relates to IAG's increased investment in AmGeneral to acquire Kurnia during the financial year ended 30 June 2013.

B. RECOGNITION AND MEASUREMENT

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

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

NOTE 2.7 TRADE AND OTHER PAYABLES

	2019	2018
	$m	$m
A. COMPOSITION		
I. Reinsurance premium payable(1)	**1,213**	1,157
II. Trade creditors(2)		
Commissions payable	**269**	275
Stamp duty payable	**132**	130
GST payable on premium receivable	**182**	175
Corporate treasury derivatives payable	**-**	14
Other(3)	**398**	321
	981	915
III. Other payables(2)		
Other creditors and accruals	**437**	403
Investment creditors	**45**	113
Interest payable on interest-bearing liabilities	**4**	4
	486	520
	2,680	2,592

(1) IAG has a right of offset and settles on a net basis under the 20% quota share agreement with National Indemnity Company, a Berkshire Hathaway (BH) company, and under the combined 12.5% quota share agreements with Munich Re, Swiss Re and Hannover Re. This balance includes reinsurance premium payable to BH of $1,202 million (2018: $1,166 million) and the combined 12.5% quota share agreement counterparties of $756 million (2018: $727 million), which have been offset with receivables due from BH of $694 million (2018: $650 million) and the combined 12.5% quota share agreement counterparties of $375 million (2018: $294 million), respectively. The relevant cash flows pertaining to the contracts have been presented on a gross basis within the cash flow statement.

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

(3) Other trade creditors include $3 million (2018: $4 million) of reinsurance collateral arrangements with various reinsurers to secure the Group reinsurance recoveries. The balance is anticipated to reduce through the settlement of amounts from reinsurers as they fall due. This payable is interest bearing.

B. RECOGNITION AND MEASUREMENT

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

3. RISK

SECTION INTRODUCTION

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

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

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

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

The risk categories, their definition and structured arrangements for their management are included in IAG's risk management strategy (RMS). Risks rarely occur, or should be considered, in isolation. The interconnectivity of IAG's six risk categories and the material risks faced are understood and overseen. Material risks and their impact, likelihood, interconnectedness and velocity are considered in IAG's enterprise risk profile (ERP).

NOTE 3.1 RISK AND CAPITAL MANAGEMENT

A. RISK MANAGEMENT OVERVIEW

The Board has responsibility for setting risk strategy. The Risk Committee assists the Board in fulfilling its risk management and compliance responsibilities, oversight of risk management, development of IAG's risk management framework (RMF) and policies and provides advice to the Executives and Board. The Risk Committee also monitors the effectiveness of the Risk Management function. The Group Chief Risk Officer (CRO) oversees risk management across IAG and is supported by a risk function. IAG's CRO and risk function provide regular reports to the Risk Committee on the operation of the RMF, the status of material risks, risk and compliance incidents and risk framework changes.

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

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

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

Other key documents within IAG's RMF include:

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

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

The RMS is supported by risk culture and conduct that are the foundation for appropriate risk management and business sustainability. IAG is committed to conducting businesses in a manner aligned with IAG's spirit and organisational purpose which is supported by principles developed in conjunction with the Ethics Committee.

B. STRATEGIC RISK

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

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

C. INSURANCE RISK

Insurance risk arises from:

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

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

I. Acceptance and pricing of risk

IAG adopts a disciplined approach to the underwriting of risks, rather than a premium volume or market share oriented approach. IAG believes this approach provides the greatest long-term likelihood of being able to meet the objectives of all stakeholders, including policyholders, regulators and shareholders. Significant underwriting and pricing expertise, coupled with data and analytics capability, allow IAG to effectively underwrite policies to the desired level of risk.

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

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

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

II. Claims management and provisioning

Once an incident has occurred, initial claim estimates are managed by claims officers with the requisite degree of experience and competence with the assistance, where appropriate, of a loss adjustor or other party with specialist knowledge of specific incidents. These case estimates are used to form part of the basis of the claims provisions. It is IAG's intention to respond to and settle all valid claims quickly whenever possible and to pay claims fairly, based on policyholders' full entitlements. Efforts are made, including plain language policy terms, to ensure there is no misalignment between policyholders' perceived benefits when a policy is initially sold and their actual entitlement when a claim is made.

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

III. Concentrations of insurance risk

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

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

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

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

	2019	2018
	%	%
a. REGION		
Australia	**78**	79
New Zealand	**22**	21
	100	100
b. PRODUCT		
Motor	**32**	32
Home	**29**	29
Short-tail commercial	**22**	22
Compulsory Third Party (motor liability)	**7**	7
Liability	**6**	6
Other short-tail	**1**	1
Workers' compensation	**3**	3
	100	100

D. REINSURANCE RISK

Reinsurance risk is defined as the risk of loss as a result of:

- lack of capacity in the reinsurance market;
- insufficient or inappropriate reinsurance coverage;
- inadequate or inappropriate reinsurance recovery management;
- reinsurance arrangements not being legally binding; and
- reinsurance concentration.

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

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

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

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

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

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

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

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

I. Current reinsurance program

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

- 32.5% whole-of-account quota share arrangements;
- a Group catastrophe cover which is placed in line with the strategy of buying to the level of at least a 1-in-250 year earthquake event on a whole-of-portfolio basis. IAG's catastrophe reinsurance protection runs to a calendar year and operates on an excess of loss basis, with IAG retaining the first $250 million ($169 million post-quota share) of each loss. It covers all territories in which IAG operates. The limit of catastrophe cover purchased effective 1 January 2019 was $9 billion placed to 67.5%. In a very extreme loss event scenario, IAG could potentially incur a net loss greater than the retention. IAG holds capital to mitigate the impact of this possibility;
- an aggregate sideways cover which protects against a frequency of attritional event losses in Australia, New Zealand and Asia, and operates below the Group catastrophe cover;
- excess of loss reinsurances which provide 'per risk' protection for retained exposures of the commercial property and engineering businesses in Australia, New Zealand and Asia;
- excess of loss reinsurance for all casualty portfolios including Compulsory Third Party (CTP), public liability, workers' compensation and home owners warranty products;
- quota share protection for agency-distributed financial lines products;
- quota share protection for cyber;
- excess of loss reinsurance for all marine portfolios;
- excess of loss reinsurance cover (stop loss) for retained natural peril losses;
- crop quota share and stop loss;
- adverse development cover (ADC) and quota share protection on the CTP portfolio;
- ADC for the February 2011 Canterbury earthquake event; and
- ADC for policies issued prior to 31 December 2015 covering IAG's exposure to asbestos relating to legacy general liability and/or workers' compensation policies.

E. FINANCIAL RISK

Financial risk is defined as the risk of:

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

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

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

I. Market risk

a. FOREIGN EXCHANGE RISK

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

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

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

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

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

IMPACT OF 10% DEPRECIATION OF AUSTRALIAN DOLLAR	**2019**	2018
	$m	$m
	Impact directly to equity	Impact directly to equity
Net investments in foreign operations and related hedge arrangements		
New Zealand dollar	**56**	63
Malaysian ringgit	**13**	18
Other currencies where considered significant	**8**	5
	77	86

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

b. PRICE RISK

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

IMPACT OF CHANGE IN EQUITY VALUE		**2019**	2018
		$m	$m
		Impact to profit	Impact to profit
Investments – equity, debt/equity hybrids and trust securities and related equity derivatives	+10%	**90**	108
	-10%	**(88)**	(105)

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

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

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

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

IMPACT OF CHANGE IN INTEREST RATES		**2019**	2018
		$m	$m
		Impact to profit	Impact to profit
Investments – interest-bearing securities and related interest rate derivatives	+1%	**(133)**	(159)
	-1%	**141**	167

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

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

The maximum exposure to credit risk loss as at reporting date is the carrying amount of the investments on the balance sheet as they are measured at fair value. For the in-scope receivable balances, maximum exposure to credit risk is considered on initial measurement of the asset, where lifetime expected credit losses are taken into account and provided for where required. Refer to Note 2.6 for further details.

a. INVESTMENTS
IAG is exposed to credit risk from investments in third parties, for example debt or similar securities issued by those companies. At the reporting date, there are material concentrations of credit risk to the banking sector, in particular the four major Australian banks. The credit risk relating to investments is regularly monitored and assessed, with maximum exposures limited by credit rating and counterparty. Sovereign securities denominated in the functional currency are considered risk free and are unconstrained. The assets backing insurance liabilities of $5,950 million (2018: $6,356 million) include predominantly high credit quality investments, such as government securities and other investment grade securities, which reduce the risk of default.

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

CREDIT RATING OF INTEREST-BEARING INVESTMENTS	**2019**	2018
	$m	$m
AAA	**3,288**	3,520
AA	**3,626**	3,514
A	**250**	482
BBB	**886**	1,264
Below BBB and unrated	**654**	388
	8,704	9,168

b. REINSURANCE RECOVERIES ON PAID CLAIMS

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

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

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

CREDIT RATING OF REINSURANCE RECOVERIES ON OUTSTANDING CLAIMS		**2019**		2018
	$m	**% of total**	$m	% of total
AA	**4,081**	**90**	3,667	89
A	**470**	**10**	456	11
BBB and below	**6**	**-**	11	-
Total	**4,557**	**100**	4,134	100

Of these, approximately $1,128 million (2018: $1,025 million) is secured directly as follows, reducing the credit risk:

- deposits held in trust: $82 million (2018: $23 million);
- letters of credit: $1,045 million (2018: $1,000 million); and
- loss deposits: $1 million (2018: $2 million).

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

	NOT OVERDUE		OVERDUE		TOTAL
		<30 days	30-120 days	>120 days	
	$m	$m	$m	$m	$m
2019					
Reinsurance recoveries on paid claims	**76**	**1**	**3**	**2**	**82**
2018					
Reinsurance recoveries on paid claims	70	8	3	11	92

c. PREMIUM RECEIVABLE

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

	NOT OVERDUE		OVERDUE		TOTAL
		<30 days	30-120 days	>120 days	
	$m	$m	$m	$m	$m
2019					
Premium receivable	**3,152**	**276**	**295**	**61**	**3,784**
Provision for impairment	**(3)**	**(3)**	**(8)**	**(23)**	**(37)**
	3,149	**273**	**287**	**38**	**3,747**
2018					
Premium receivable	2,981	315	278	48	3,622
Provision for impairment	(3)	(3)	(7)	(20)	(33)
	2,978	312	271	28	3,589

III. Liquidity risk

IAG's liquidity position is derived from operating cash flows, access to liquidity through related bodies corporate and interest-bearing liabilities (with some denominated in different currencies and with different maturities). IAG complies with its liquidity risk management practices, which include a Group policy, and has the framework and procedures in place to ensure an adequate and appropriate level of monitoring and management of liquidity.

a. OUTSTANDING CLAIMS LIABILITY AND INVESTMENTS

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

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

MATURITY ANALYSIS	NET DISCOUNTED OUTSTANDING CLAIMS LIABILITY		INVESTMENTS	
	2019	2018	**2019**	2018
	$m	$m	**$m**	$m
Floating interest rate (at call)	**-**	-	**1,399**	755
Within 1 year or less	**2,212**	2,446	**1,073**	1,607
Within 1 to 2 years	**726**	920	**165**	773
Within 2 to 5 years	**1,111**	1,200	**2,460**	2,656
Over 5 years	**468**	422	**3,607**	3,377
Total	**4,517**	4,988	**8,704**	9,168

b. INTEREST-BEARING LIABILITIES

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

	CARRYING VALUE	MATURITY DATES OF CONTRACTUAL UNDISCOUNTED CASH FLOWS					
		Within 1 year	1 - 2 years	2 - 5 years	Over 5 years	Perpetual	Total
	$m	$m	$m	$m	$m	$m	$m
2019							
Principal repayments[1]	**2,089**	**-**	**-**	**-**	**1,135**	**954**	**2,089**
Contractual interest payments[1]		**83**	**83**	**249**	**-**	**-**	**415**
Total contractual undiscounted payments		**83**	**83**	**249**	**1,135**	**954**	**2,504**
2018							
Principal repayments[1]	1,974	-	-	-	1,020	954	1,974
Contractual interest payments[1]		91	91	274	-	-	456
Total contractual undiscounted payments		91	91	274	1,020	954	2,430

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

IV. Capital management risk

IAG's capital management strategy plays a central role in managing risk to create shareholder value whilst meeting the objective of maintaining an appropriate level of capital to protect policyholders' and lenders' interests, and meet regulatory requirements.

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

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

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

a. REGULATORY CAPITAL

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

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

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

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

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

REGULATORY CAPITAL POSITION	**2019**	2018
	$m	$m
Common Equity Tier 1 capital (CET1 capital)	**3,082**	3,114
Additional Tier 1 capital	**569**	624
Total Tier 1 capital	**3,651**	3,738
Tier 2 capital	**1,330**	1,280
Total regulatory capital	**4,981**	5,018
Total PCA	**2,354**	2,468
PCA multiple	**2.12**	2.03
CET1 multiple	**1.31**	1.26

At 30 June 2019, IAG's Insurance Concentration Risk Charge from a catastrophe event was $169 million (2018: $169 million).

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

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

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

b. CAPITAL COMPOSITION

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

CAPITAL MIX	**Target**	**2019**	2018
	%	**%**	%
Ordinary equity less goodwill and intangible assets	**60-70**	**63.5**	65.7
Interest-bearing liabilities – hybrid securities and debt	**30-40**	**36.5**	34.3
Total capitalisation		**100.0**	100.0

F. OPERATIONAL RISK

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

When controls fail, an operational risk incident can cause injury, damage to reputation, have legal or regulatory implications or can lead to financial loss. IAG does not aim to eliminate all operational risks, but manages these by initiating an appropriate control framework and by monitoring and managing potential risks. The Board is responsible for oversight of the operational risk framework and approval of the Operational Risk Management Policy, and any changes to it. The Board and Group Leadership Team believe an effective, documented and structured approach to operational risk is a key part of the broader RMF that is outlined in IAG's RMS.

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

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

G. REGULATORY RISK AND COMPLIANCE

Regulatory Risk and Compliance is defined as the risk of legal, regulatory or reputational impacts arising from failure to manage compliance obligations, or failure to anticipate and prepare for changes in the regulatory environment. IAG engages with regulators and regularly monitors developments across its international operations to assess potential impacts on its ongoing ability to meet the various regulatory requirements. In recent times, the Group has observed an increase in the frequency and scale of regulatory reviews, particularly in relation to financial services entities in Australia. The outcomes and any additional costs associated with these reviews and possible exposures for the Group remain uncertain.

The Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission) was released on 4 February 2019. The Final Report included 76 specific recommendations aimed at restoring trust and improving outcomes for consumers. Several of the recommendations relate to the general insurance industry and others apply more broadly to the financial services industry and its regulators. In principle, IAG supports the recommendations but it remains too early to predict the nature and extent of the changes and any consequential impact the implementation of the recommendations may have for IAG's businesses.

4. CAPITAL STRUCTURE

SECTION INTRODUCTION

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

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

NOTE 4.1 INTEREST-BEARING LIABILITIES

Final Maturity Date	Principal Amount	Section	2019 Carrying Value $m	2019 Fair Value $m	2018 Carrying Value $m	2018 Fair Value $m
A. COMPOSITION						
I. Capital nature[1]						
a. ADDITIONAL TIER 1 REGULATORY CAPITAL[2]						
Reset exchangeable securities						
No fixed date	$550 million	B. I	**550**	**558**	550	565
Capital notes						
No fixed date	$404 million	B. II	**404**	**432**	404	423
b. TIER 2 REGULATORY CAPITAL						
AUD subordinated convertible term notes						
19 March 2040	$350 million	B. III	**-**	**-**	350	354
15 June 2044	$350 million	B. IV	**350**	**352**	350	353
15 June 2045	$450 million	B. V	**450**	**457**	-	-
			800		700	
NZD subordinated convertible term notes[3]						
15 June 2043	NZ$350 million	B. VI	**335**	**355**	320	332
II. Operational nature						
Other interest-bearing liabilities			**3**	**3**	-	-
Less: capitalised transaction costs			**(12)**		(14)	
			2,080		1,960	

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

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

(3) At the reporting date, the Company recognised accrued interest of $1 million (2018: $1 million) which is presented within trade and other payables.

B. SIGNIFICANT TERMS AND CONDITIONS

I. Reset exchangeable securities (RES)

- face value of $550 million and issued by IAG Finance (New Zealand) Limited, a wholly-owned subsidiary of the Company, on 11 January 2005;
- all remain outstanding as at the reporting date;
- non-cumulative floating rate distribution payable quarterly;
- distribution rate equals the sum of the three-month bank bill swap rate (BBSW) plus a margin of 4.00% per annum multiplied by (1-tax rate);
- if the distributions are not fully franked, the distribution rate is increased to compensate holders for the unfranked portion of the distribution, subject to no payment conditions existing;
- payments of distributions can only be made subject to meeting certain conditions. If no distribution is made, no dividends can be paid and no returns of capital can be made on ordinary shares unless IAG takes certain actions; and
- on a RES reset date, IAG Finance (New Zealand) Limited may convert RES into IAG ordinary shares, arrange a third party to acquire RES for their face value or redeem RES for their face value. Conversion of RES may be requested by a holder in connection with a reset date, or upon certain events. It is IAG's present intention to redeem RES on the next reset date (16 December 2019), subject to requisite approvals.

II. Capital notes

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

III. AUD subordinated convertible term notes due 2040

The AUD subordinated convertible term notes were issued with a face value of $350 million by Insurance Australia Limited (IAL), a wholly-owned subsidiary of the Company, and were redeemed on 19 March 2019.

IV. AUD subordinated convertible term notes due 2044

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

V. AUD subordinated convertible term notes due 2045

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

VI. NZD subordinated convertible term notes

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

C. RECOGNITION AND MEASUREMENT

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

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

NOTE 4.2 EQUITY

	2019	2018	**2019**	2018
	Number of shares in millions	Number of shares in millions	**$m**	$m
A. SHARE CAPITAL				
Balance at the beginning of the financial year	**2,367**	2,367	**7,082**	7,082
Capital return and share consolidation, including transaction costs	**(56)**	-	**(465)**	-
Balance at the end of the financial year	**2,311**	2,367	**6,617**	7,082

B. CHANGES DURING THE YEAR

On 26 November 2018, IAG completed its capital management initiative amounting to 25.0 cents per ordinary share, or $592 million, which comprised a 19.5 cents capital return and a 5.5 cents fully franked special dividend, with a share consolidation that reduced the Company's ordinary issued shares by 2.4%.

C. STRATEGIC RELATIONSHIP WITH BERKSHIRE HATHAWAY (BH)

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

I. Anti-dilution right

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

D. NATURE AND PURPOSE OF EQUITY

I. Ordinary shares

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

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

II. Treasury shares held in trust

To satisfy obligations under the various share-based remuneration plans, shares are generally bought on-market at or near grant date of the relevant arrangement and are managed using in-house trusts, one for Australia and one for New Zealand, which are controlled by IAG. The shares are measured at cost and are presented as a deduction from equity. No gain or loss is recognised in profit or loss on the sale, cancellation or reissue of the shares. The shares are derecognised as treasury shares held in trust when the shares vest or are released to the participant. The total number of treasury shares acquired on-market during the financial year was 7 million (2018: 3 million) at an average price per share of $7.25 (2018: $6.20).

III. Foreign currency translation reserve

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

IV. Share-based remuneration reserve

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

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

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

NOTE 4.3 EARNINGS PER SHARE

	2019 cents	2018 cents
A. REPORTING PERIOD VALUES		
Continuing and discontinued operations		
Basic earnings per ordinary share(1)	**46.26**	39.06
Diluted earnings per ordinary share(2)	**44.58**	38.30
Continuing operations		
Basic earnings per ordinary share(1)	**37.45**	40.08
Diluted earnings per ordinary share(2)	**36.44**	39.26

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

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

	2019 $m	2018 $m
B. RECONCILIATION OF EARNINGS USED IN CALCULATING EARNINGS PER SHARE		
Profit attributable to shareholders of the Parent which is used in calculating basic and diluted earnings per share	**1,076**	923
Finance costs of convertible securities, net of tax	**47**	38
Profit attributable to shareholders of the Parent which is used in calculating diluted earnings per share	**1,123**	961
Profit from continuing operations attributable to shareholders of the Parent	**871**	947
Profit/(loss) from discontinued operations attributable to shareholders of the Parent	**205**	(24)

	2019 Number of shares in millions	2018 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	**2,326**	2,363
Weighted average number of dilutive potential ordinary shares relating to:		
Convertible securities	**188**	142
Unvested share-based remuneration rights supported by treasury shares held in trust	**5**	4
	2,519	2,509

NOTE 4.4 DIVIDENDS

	2019		2018	
	Cents per share	**$m**	Cents per share	$m
A. ORDINARY SHARES				
2019 interim dividend paid on 20 March 2019 (2018: 2018 interim dividend) fully franked based on a tax rate of 30%	**12.0**	**277**	14.0	330
Special dividend paid on 26 November 2018 fully franked based on a tax rate of 30%	**5.5**	**130**	-	-
2018 final dividend paid on 27 September 2018 (2018: 2017 final dividend) fully franked based on a tax rate of 30%(1)	**20.0**	**473**	20.0	473
		880		803
B. DIVIDEND NOT RECOGNISED AT REPORTING DATE				
2019 final dividend 70% franked (2018: 2018 final dividend fully franked) based on a tax rate of 30% to be paid on 30 September 2019(1)	**20.0**	**462**	20.0	474

(1) Of the total 2018 final dividend declared of $474 million, right and entitlement of $1 million (2017 final dividend: $1 million) to dividends on unallocated treasury shares was waived during the year by the trustee of the IAG Share and Rights Plans Trust.

	2019	2018
	$m	$m
C. DIVIDEND FRANKING AMOUNT		
Franking credits available for subsequent financial periods based on a tax rate of 30%	**-**	100

IAG's franking credit balance has reduced in recent years, owing to past capital management measures and the move to a higher dividend payout policy. The consolidated amounts above are calculated from the balance of the franking account as at the end of the reporting period, adjusted for franking credits that will arise from the settlement, after the end of the reporting date, of tax-related balances and the franking credits that will be utilised for dividends determined but not recognised at the reporting date.

The Company, immediately after payment of the final dividend (70% franked), will have no further franking credits available for distribution.

D. DIVIDEND REINVESTMENT

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

A copy of the terms and conditions for the DRP is available at www.iag.com.au/shareholder-centre/dividends/reinvestment. The DRP for the 2019 interim dividend paid on 20 March 2019 was settled with the on-market purchase of 7.0 million shares priced at $7.37 per share (based on a VWAP for 10 trading days from 18 February 2019 to 1 March 2019 inclusive, with no discount applied).

E. RESTRICTIONS THAT MAY LIMIT THE PAYMENT OF DIVIDENDS

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

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

F. RECOGNITION AND MEASUREMENT

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

NOTE 4.5 DERIVATIVES

A. REPORTING DATE POSITIONS

	2019			2018		
	Notional contract amount	**Fair value asset**	**Fair value liability**	Notional contract amount	Fair value asset	Fair value liability
	$m	**$m**	**$m**	$m	$m	$m
I. Net investment hedges (hedge accounting applied)						
Forward foreign exchange contracts	**788**	**4**	**(5)**	1,223	11	(15)
II. Investment-related derivatives (derivatives without hedge accounting applied)						
Bond futures	**2,781**	**-**	**-**	2,559	-	-
Share price index futures	**(144)**	**-**	**-**	(28)	-	-
Forward foreign exchange contracts	**3,845**	**20**	**(15)**	3,394	-	(53)
III. Treasury-related derivatives (derivatives without hedge accounting applied)						
Forward foreign exchange contracts	**1,033**	**7**	**(5)**	754	6	(8)
Interest rate swaps	**535**	**11**	**(2)**	320	1	-

All derivative contracts are expected to be settled within 12 months, except for interest rate swaps.

B. RECOGNITION AND MEASUREMENT

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

I. Hedge accounting

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

Previously under *AASB 139*, the documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Beginning 1 July 2018 on transition to *AASB 9*, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

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

On transition to *AASB 9*, the measurement of derivatives designated as hedging instruments has remained unchanged. Refer to Note 8.5 for further details.

Hedge of net investments in foreign operations

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

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

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

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

	2019		2018	
	Change in fair value of items for ineffectiveness assessment	**Balance in foreign currency translation reserve**	Change in fair value of items for ineffectiveness assessment	Balance in foreign currency translation reserve
	$m	**$m**	$m	$m
I. Net investment hedges (hedge accounting applied)				
Forward foreign exchange contracts	**28**	**349**	(16)	377

During the year, IAG recognised $nil (2018: $nil) gain or loss due to ineffectiveness on derivative instruments designated as net investment hedges in the profit or loss.

II. Derivatives without hedge accounting applied
For derivatives that do not qualify for hedge accounting, the changes in fair value are immediately recognised in profit or loss. Transaction costs for purchases of derivatives are expensed as incurred.

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

5. OTHER BALANCE SHEET DISCLOSURES

SECTION INTRODUCTION

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

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

NOTE 5.1 GOODWILL AND INTANGIBLE ASSETS

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

	GOODWILL	SOFTWARE DEVELOPMENT EXPENDITURE	DISTRIBUTION CHANNELS	CUSTOMER RELATIONSHIPS	BRANDS AND OTHER	TOTAL
	$m	$m	$m	$m	$m	$m
2018						
C. COMPOSITION						
Cost	2,875	868	156	190	124	4,213
Accumulated amortisation and impairment	-	(747)	(120)	(125)	(38)	(1,030)
Balance at the end of the financial year	2,875	121	36	65	86	3,183
D. RECONCILIATION OF MOVEMENTS						
Balance at the beginning of the financial year	2,974	99	66	90	103	3,332
Additions acquired and developed	-	81	-	3	-	84
Disposal through sale of businesses	(15)	-	-	(1)	-	(16)
Net movement in discontinued operations	-	2	-	-	(1)	1
Transfers to assets held for sale	(62)	(3)	-	-	-	(65)
Amortisation	-	(58)	(29)	(25)	-	(112)
Amortisation and impairment charged to discontinued operations	-	(1)	-	-	(14)	(15)
Net foreign exchange movements	(22)	1	(1)	(2)	(2)	(26)
Balance at the end of the financial year	2,875	121	36	65	86	3,183

E. IMPAIRMENT

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

I. Impairment testing of goodwill

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

Goodwill is allocated to the following CGUs:

	2019	2018
	$m	$m
Australian Consumer	**774**	756
Australian Business	**1,421**	1,479
Australia	**2,195**	2,235
New Zealand	**668**	640
	2,863	2,875

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

- Cash flow forecasts are based on ten-year valuation forecasts for growth and profitability.
- Terminal value is calculated using a perpetuity growth formula based on the cash flow forecast at the end of the relevant valuation forecast period, terminal growth rate in profit or premium and, where appropriate, terminal insurance margin. Terminal growth rates and insurance margins are based on past performance and management's expectations for future performance in each segment and country. The terminal growth rate assumptions used in IAG's impairment assessment for significant CGUs as at 30 June 2019 are: Australian Consumer 4.8% (2018: 4.8%), Australian Business 4.0% (2018: 4.0%) and New Zealand 3.8% (2018: 3.7%).
- Discount rates reflect a beta and equity risk premium appropriate to IAG, with risk adjustments for individual segments and countries where applicable. The post-tax discount rates used for significant CGUs as at 30 June 2019 are: Australian Consumer 9.5% (2018: 9.5%), Australian Business 9.5% (2018: 9.5%) and New Zealand 10.1% (2018: 10.1%).

II. Impairment testing of identified intangible assets

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

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

F. RECOGNITION AND MEASUREMENT

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

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

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

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

NOTE 5.2 INCOME TAX

	2019 $m	2018 $m
A. INCOME TAX EXPENSE		
Current tax	**242**	393
Deferred tax	**109**	(11)
Under provided in prior year	**12**	2
Income tax expense	**363**	384
Deferred income tax expense/(credit) included in income tax comprises		
Decrease in deferred tax assets	**110**	5
Decrease in deferred tax liabilities	**(1)**	(16)
	109	(11)
B. RECONCILIATION OF PRIMA FACIE TAX TO INCOME TAX EXPENSE		
Profit for the year before income tax	**1,332**	1,410
Income tax calculated at 30% (2018: 30%)	**400**	423
Amounts which are not deductible/(taxable) in calculating taxable income		
Difference in tax rate	**(43)**	(48)
Impairment not subject to income tax	**-**	11
Rebatable dividends	**(7)**	(4)
Interest on capital notes and convertible preference shares	**6**	6
Other	**(5)**	(6)
Income tax expense applicable to current year	**351**	382
Adjustment relating to prior year	**12**	2
Income tax expense attributable to profit for the year from continuing operations after impact of tax consolidation	**363**	384
C. DEFERRED TAX ASSETS		
I. Composition		
a. AMOUNTS RECOGNISED IN PROFIT		
Property and equipment	**70**	106
Employee benefits	**81**	78
Insurance provisions	**112**	113
Investments	**37**	30
Provisions	**5**	6
Tax losses	**323**	396
	628	729
b. AMOUNTS RECOGNISED DIRECTLY IN OTHER COMPREHENSIVE INCOME		
Defined benefit superannuation plans	**18**	11
	646	740
c. AMOUNTS SET-OFF AGAINST DEFERRED TAX LIABILITIES	**(193)**	(196)
	453	544
II. Reconciliation of movements		
Balance at the beginning of the financial year	**740**	772
Charged to profit or loss	**(110)**	(5)
Credited/(charged) to equity	**7**	(1)
Adjustments relating to prior year	**(6)**	11
Transfers to assets held for sale	**-**	(25)
Charged to discontinued operations	**-**	2
Foreign exchange differences	**15**	(14)
Balance at the end of the financial year prior to set-off	**646**	740

III. Tax losses

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

	2019 $m	2018 $m
D. DEFERRED TAX LIABILITIES		
I. Composition		
a. AMOUNTS RECOGNISED IN PROFIT		
Investments	**67**	67
Intangible assets	**21**	18
Other	**104**	108
	192	193
b. AMOUNTS RECOGNISED DIRECTLY IN OTHER COMPREHENSIVE INCOME		
Hedges	**1**	3
	193	196
c. AMOUNTS SET-OFF AGAINST DEFERRED TAX ASSETS	**(193)**	(196)
	-	-
II. Reconciliation of movements		
Balance at the beginning of the financial year	**196**	227
Credited to profit or loss	**(1)**	(16)
Credited to equity	**(2)**	(4)
Transfers to liabilities held for sale	**-**	(12)
Charged to discontinued operations	**-**	1
Balance at the end of the financial year prior to set-off	**193**	196

E. RECOGNITION AND MEASUREMENT

I. Income tax

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

II. Current tax

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

III. Deferred tax

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

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

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

IV. Tax consolidation

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

NOTE 5.3 PROVISIONS

	2019 $m	2018 $m
A. EMPLOYEE BENEFITS		
I. Expense recognised in the consolidated statement of comprehensive income		
Defined contribution superannuation plans	**106**	106
Defined benefit superannuation plans	**5**	6
Share-based remuneration	**27**	32
Salaries and other employee benefits expense	**1,514**	1,472
	1,652	1,616
II. Provision recognised on the consolidated balance sheet		
Annual leave	**85**	87
Long service leave	**91**	88
Cash-based incentive arrangements	**103**	97
Defined benefit superannuation plans	**46**	17
Executive performance rights	**20**	16
Other employee benefits	**4**	4
	349	309

The employee benefits provision includes $114 million (2018: $80 million) which is expected to be settled after more than 12 months from reporting date.

	2019 $m	2018 $m
B. RESTRUCTURING PROVISION		
Balance at the beginning of the financial year	**18**	23
Additions	**48**	29
Amounts settled	**(26)**	(34)
Balance at the end of the financial year	**40**	18

The provision primarily comprises restructuring costs in respect of recent operating model changes in Australia and Asia. All provisions outstanding at the reporting date are expected to be settled within 12 months (2018: all).

C. RECOGNITION AND MEASUREMENT

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

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

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

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

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

VI. Restructuring provision

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

6. GROUP STRUCTURE

SECTION INTRODUCTION

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

NOTE 6.1 DISPOSALS OF BUSINESSES

A. THAILAND OPERATIONS

IAG completed the sale of its Thailand operations, which included Safety Insurance Public Company Limited, on 31 August 2018. Details of the sale are as follows:

	2019 Thailand $m
Consideration received:	
Cash consideration	515
Withholding tax and stamp duty	(9)
Net cash consideration received	506
Carrying amount of net assets disposed of	(209)
Non-controlling interests	2
Other transaction costs, net of tax	(80)
Gain on sale before income tax and reclassification of foreign currency translation reserve	219
Reclassification of foreign currency translation reserve	(11)
Gain on sale after income tax	208

The carrying amounts of assets and liabilities as at the date of sale (31 August 2018) were:

	31 August 2018 Thailand $m
Cash held for operational purposes	25
Investments*	270
Trade and other receivables	70
Reinsurance and other recoveries on outstanding claims	81
Deferred insurance expenses	112
Other assets	32
Goodwill and intangible assets	65
Total assets held for sale	655
Trade and other payables	78
Outstanding claims liability	154
Unearned premium liability	200
Other liabilities	14
Total liabilities held for sale	446
Net assets	209

* Includes cash and short-term money held in investments of $98 million.

NOTE 6.2 DISCONTINUED OPERATIONS

On 19 June 2018, IAG announced it had entered into a sale agreement with Tokio Marine & Nichido Fire Insurance Co., Ltd. (Tokio Marine) for IAG's operations in Thailand and Indonesia. Separate to the transactions with Tokio Marine, IAG has reached an agreement to sell its interest in AAA Assurance Corporation, based in Vietnam. As a result of the sale agreements, these consolidated Asian businesses have been identified and presented as discontinued operations from the 2018 financial year. The sale of IAG's Thailand operations was completed on 31 August 2018, with the performance of this operation being included up to this date. The remaining transactions with regards to the sale of IAG's operations in Vietnam and Indonesia are expected to conclude in the first half of the 2020 financial year, subject to the receipt of requisite regulatory approvals and/or notifications.

	2019	2018
	$m	$m
A. RESULTS OF DISCONTINUED OPERATIONS		
Revenue	**224**	493
Expenses	**(227)**	(516)
Loss before income tax	**(3)**	(23)
Income tax expense	**(1)**	(2)
Loss for the year from discontinued operations	**(4)**	(25)
Gain on sale of subsidiaries after income tax (see Note 6.1)	**208**	-
Profit/(loss) from discontinued operations	**204**	(25)
Other comprehensive income, net of tax	**20**	1
Total comprehensive income/(loss) from discontinued operations	**224**	(24)
Profit/(loss) for the year attributable to shareholders of the Parent	**205**	(24)
Loss for the year attributable to non-controlling interests	**(1)**	(1)
Profit/(loss) for the year from discontinued operations	**204**	(25)
Total comprehensive income/(loss) for the year attributable shareholders of the Parent	**225**	(23)
Total comprehensive loss for the year attributable non-controlling interests	**(1)**	(1)
Total comprehensive income/(loss) from discontinued operations	**224**	(24)
B. EARNINGS PER SHARE FROM DISCONTINUED OPERATIONS		
Basic earnings per share, from discontinued operations – cents per share	**8.81**	(1.02)
Diluted earnings per share, from discontinued operations – cents per share	**8.14**	(0.96)
C. CASH FLOW FROM DISCONTINUED OPERATIONS		
Net cash flows from operating activities	**(24)**	(47)
Net cash flows from investing activities*	**382**	34
Net cash flows from financing activities	**23**	(4)
Net cash flows for the year from discontinued operations	**381**	(17)

* The net cash flows from investing activities for the year ended 30 June 2019 include a net inflow of $383 million from the sale of IAG's Thailand operations, which comprises the net cash consideration received of $506 million and the cash and cash equivalents disposed of totalling $123 million.

D. ASSETS AND LIABILITIES HELD FOR SALE

As at 30 June 2018, the assets and liabilities that were classified as held for sale related to IAG's consolidated businesses in Thailand, Vietnam and Indonesia. Following the completion of the sale of the operations in Thailand, the remaining assets and liabilities classified as held for sale now relate to the businesses in Vietnam and Indonesia.

	2019	2018
	$m	$m
Cash held for operational purposes	**10**	32
Investments	**33**	282
Trade and other receivables	**3**	72
Reinsurance and other recoveries on outstanding claims	**3**	52
Deferred insurance expenses	**3**	111
Other assets	**8**	41
Goodwill and intangible assets	**1**	65
Total assets held for sale	**61**	655
Trade and other payables	**7**	65
Outstanding claims liability	**9**	157
Unearned premium liability	**10**	206
Other liabilities	**1**	16
Total liabilities held for sale	**27**	444

E. RECOGNITION AND MEASUREMENT

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

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

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

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

NOTE 6.3 DETAILS OF SUBSIDIARIES

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

	COUNTRY OF INCORPORATION/ FORMATION	EXTENT OF BENEFICIAL INTEREST IF NOT 100%	
		2019	2018
		%	%
A. ULTIMATE PARENT			
Insurance Australia Group Limited	Australia		
B. SUBSIDIARIES			
I. Australian general insurance operations			
Insurance Australia Limited	Australia		
Insurance Manufacturers of Australia Pty Limited	Australia	**70.00**	70.00
II. New Zealand general insurance operations			
AMI Insurance Limited	New Zealand		
IAG New Zealand Limited	New Zealand		
Lumley General Insurance (NZ) Limited	New Zealand		
III. International insurance operations			
AAA Assurance Corporation*	Vietnam	**73.07**	73.07
IAG Re Labuan (L) Berhad	Malaysia		
IAG Re Singapore Pte Ltd	Singapore		
PT Asuransi Parolamas*	Indonesia	**80.00**	80.00
Safety Insurance Public Company Limited*	Thailand	**-**	98.61
IV. Corporate operations			
IAG Finance (New Zealand) Limited	Australia		

* On 19 June 2018, IAG announced the sale of its businesses in Thailand, Vietnam and Indonesia. The sale of the Thailand operations was completed on 31 August 2018. Refer to Note 6.2.

NOTE 6.4 NON-CONTROLLING INTERESTS

A. SUMMARISED FINANCIAL INFORMATION

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

	INSURANCE MANUFACTURERS OF AUSTRALIA PTY LIMITED	
	2019	2018
	$m	$m
I. Summarised statement of comprehensive income		
Net premium revenue	**3,344**	3,085
Profit after tax attributable to the Parent entity	**229**	186
Profit after tax attributable to non-controlling interest	**98**	79
Other comprehensive income	**(2)**	1
Total comprehensive income	**325**	266
II. Summarised balance sheet		
Total assets	**4,603**	4,136
Total liabilities	**(3,619)**	(3,237)
Net assets	**984**	899
Carrying amount of non-controlling interest	**295**	270
III. Summarised cash flow		
Net cash flows from operating and investing activities	**168**	34
Dividends paid to other IAG entities	**(168)**	(83)
Dividends paid to non-controlling interest	**(72)**	(36)
Total net cash flows	**(72)**	(85)

NOTE 6.5 INVESTMENT IN JOINT VENTURE AND ASSOCIATES

A. INTERESTS IN JOINT VENTURE AND ASSOCIATES

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

	COUNTRY OF INCORPORATION/ FORMATION	PRINCIPAL ACTIVITY	CARRYING VALUE		OWNERSHIP INTEREST	
			2019	2018	**2019**	2018
			$m	$m	**%**	%
AmGeneral Holdings Berhad (AmGeneral)	Malaysia	Insurance underwriting	**356**	392	**49.00**	49.00
SBI General Insurance Company Limited (SBI General)	India	Insurance underwriting	**172**	139	**26.00**	26.00
Other			**16**	26		
			544	557		

B. SUMMARISED FINANCIAL INFORMATION

Summarised financial information of material associates is provided below. The summarised financial information represents the financial position and performance of the entities as a whole (100% stand-alone basis) and not just IAG's share. The financial statements below are for the year ended 31 March 2019.

	2019		2018	
	AmGeneral Holdings Berhad $m	**SBI General Insurance Company Limited $m**	AmGeneral Holdings Berhad $m	SBI General Insurance Company Limited $m
I. Summarised statement of comprehensive income				
Revenue	**570**	**1,004**	519	784
Profit after tax	**71**	**65**	74	79
Other comprehensive expense	**-**	**-**	(1)	-
Total comprehensive income	**71**	**65**	73	79
II. Summarised balance sheet				
Total assets	**1,914**	**1,502**	1,982	1,185
Total liabilities	**(1,210)**	**(1,131)**	(1,198)	(887)
Net assets as at reporting date	**704**	**371**	784	298
IAG's ownership interest	**345**	**96**	384	77
Other adjustments*	**11**	**76**	8	62
Carrying value as at 30 June	**356**	**172**	392	139

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

None of the associates are listed on a stock exchange. Those entities that do not have a 30 June financial year end are equity accounted using financial information for the reporting year to 30 June which includes, at least in part, unaudited management results.

C. RECOGNITION AND MEASUREMENT

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

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

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

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

NOTE 6.6 PARENT ENTITY DISCLOSURES

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

		PARENT
	2019	2018
	$m	$m
A. FINANCIAL RESULTS		
Profit for the year	**511**	1,428
Total comprehensive income for the year, net of tax	**511**	1,428
B. FINANCIAL POSITION		
Current assets	**238**	12
Total assets	**10,441**	10,789
Current liabilities	**87**	159
Total liabilities	**2,047**	1,563
C. SHAREHOLDERS' EQUITY		
Share capital	**6,617**	7,082
Retained earnings	**1,777**	2,144
Total shareholders' equity	**8,394**	9,226

D. CONTINGENT LIABILITIES

There are no known material exposures to the Parent or events that would require it to satisfy any guarantees or take action under a support agreement (2018: nil).

Recognition and measurement

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

E. COMMITMENTS

The Parent has no material commitments (2018: nil).

7. UNRECOGNISED ITEMS

SECTION INTRODUCTION

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

- contingencies – these primarily relate to contingent liabilities that are only recognised in the financial statements when their settlement becomes probable or the amount to be settled can be reliably measured;
- commitments – this note provides information on IAG's future contractual obligations, which includes those in relation to signed property lease agreements; and
- events subsequent to reporting date – information is included on non-adjusting events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. For example, disclosure of the final dividend in relation to a financial year as it is declared to be paid by the Board subsequent to the reporting date.

NOTE 7.1 CONTINGENCIES

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

IAG conducts fiduciary activities in the form of investment management as it operates as manager, custodian or trustee for a number of investments and trusts. The funds managed on behalf of third parties which are not included in IAG's balance sheet had a fair value as at the reporting date of $358 million (2018: $335 million).

As at 30 June 2019, the Group had a contingent liability in respect of the matter outlined below:

- As was communicated in an ASX announcement dated 11 April 2019, IAG confirms that a representative proceeding has been filed by Johnson Winter & Slattery in the Federal Court of Australia against its subsidiaries, Swann Insurance (Aust) Pty Ltd and Insurance Australia Limited, on behalf of Jones Asirifi Otchere. Given that these proceedings are at a very early stage, it is currently not possible to determine the ultimate impact of this claim, if any, upon IAG. IAG is defending this claim.

NOTE 7.2 COMMITMENTS

	2019	2018
	$m	$m
A. OPERATING LEASE COMMITMENTS		
I. Property		
Due within 1 year	**75**	84
Due within 1 to 2 years	**75**	89
Due within 2 to 5 years	**205**	237
Due after 5 years	**363**	559
	718	969
II. Equipment		
Due within 1 year	**23**	25
Due within 1 to 2 years	**42**	13
Due within 2 to 5 years	**9**	32
	74	70
	792	1,039
III. Sub-lease payments		
Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases	**41**	-

B. RECOGNITION AND MEASUREMENT

Certain properties, motor vehicles and computer equipment are leased under non-cancellable operating leases. Most leases are subject to annual review and, where appropriate, a right of renewal has been incorporated into the lease agreements. There are no options to purchase the relevant assets on expiry of the lease.

Operating lease payments are recognised as an expense in the consolidated statement of comprehensive income on a straight-line basis over the term of the lease. The operating lease incentives received are initially recognised as a liability, presented as trade and other payables, and are subsequently reduced through recognition in profit or loss on a straight-line basis over the period of the lease.

NOTE 7.3 EVENTS SUBSEQUENT TO REPORTING DATE

As the following events occurred after reporting date and did not relate to conditions existing at reporting date, no account has been taken of them in the financial statements for the current reporting year ended 30 June 2019. These include:

- On 8 August 2019, the Board determined to pay a final dividend of 20.0 cents per share, 70% franked. The dividend will be paid on 30 September 2019. The DRP will operate by acquiring shares on-market for participants with no discount applied.

8. ADDITIONAL DISCLOSURES

SECTION INTRODUCTION

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

NOTE 8.1 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

	2019 $m	2018 $m
A. COMPOSITION OF CASH AND CASH EQUIVALENTS		
Cash held for operational purposes	538	448
Cash and short-term money held in investments	1,121	753
Cash and cash equivalents in discontinued operations	39	144
Cash and cash equivalents	1,698	1,345

	2019 $m	2018 $m
B. RECONCILIATION OF PROFIT FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	1,173	1,001
I. Non-cash items		
Net (gains) and losses on disposal of subsidiaries excluding transaction costs	(300)	-
Net gains on investments	(191)	(31)
Amortisation of intangible assets and impairment	106	161
Depreciation of property and equipment	64	58
Other non-cash items	(16)	(1)
II. Movement in operating assets and liabilities		
Insurance assets	(398)	(1,335)
Insurance liabilities	(37)	(70)
Net movement in other operating assets and liabilities	217	174
Net movement in tax assets and liabilities	(91)	(9)
Provisions	62	(1)
Net cash flows from operating activities	589	(53)

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

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

D. RECOGNITION AND MEASUREMENT

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

NOTE 8.2 RELATED PARTY DISCLOSURES

A. KEY MANAGEMENT PERSONNEL

I. Details of compensation

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

	2019	2018
	$000	$000
Short-term employee benefits	**12,854**	14,098
Post-employment benefits	**333**	326
Other long-term benefits	**14**	89
Termination benefits	**-**	810
Share-based payments	**8,856**	8,769
	22,057	24,092

II. Other benefits

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

NOTE 8.3 REMUNERATION OF AUDITORS

	2019	2018
	$000	$000
A. KPMG		
Audit of the financial statements prepared for the Parent and subsidiaries	**7,504**	7,762
Audit of statutory returns in accordance with regulatory requirements	**576**	585
Other assurance services	**175**	121
Advisory services	**3,031**	2,620
Total remuneration of auditors	**11,286**	11,088

In relation to the Royal Commission, IAG engaged external legal advisors. As part of this engagement, the legal advisors appointed IAG's auditors, KPMG, to provide project administration, documentation and preparation assistance, process and control review and testing and general assistance. During the 2019 financial year, the costs incurred for this engagement relating to KPMG totalled $1,526 thousand (2018: $1,503 thousand), which have been presented within advisory services costs above.

NOTE 8.4 NET TANGIBLE ASSETS

	2019	2018
	$	$
Net tangible assets per ordinary share	**1.43**	1.47

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

NOTE 8.5 IMPACT OF NEW AUSTRALIAN ACCOUNTING STANDARDS ISSUED

A. ISSUED AND EFFECTIVE

The new Australian Accounting Standards and Interpretations applicable for the current reporting year are given below. The adoption of these standards did not have a material financial impact:

TITLE	DESCRIPTION
AASB 9	Financial Instruments
AASB 15	Revenue from Contracts with Customers
AASB 2016-5	Classification and Measurement of Share-based Payment Transactions
AASB 2017-1	Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014-2016 Cycle and Other Amendments
AASB 2017-3	Amendments to Australian Accounting Standards – Clarifications to AASB 4
AASB Interpretation 22	Foreign Currency Transactions and Advance Consideration

AASB 9 Financial Instruments

For IAG, *AASB 9 Financial Instruments* became effective for periods beginning on 1 July 2018, replacing the existing accounting requirements for financial instruments under *AASB 139 Financial Instruments: Recognition and Measurement*. *AASB 9* introduces changes to the classification and measurement of financial instruments, replaces the 'incurred loss' impairment model with a new 'expected loss' model when recognising expected credit losses on financial assets, and includes new general hedge accounting requirements.

IAG has applied *AASB 9* retrospectively, with no material change to the carrying amount of its financial instruments when measured under the requirements of *AASB 9*. From a classification perspective, there was no impact on IAG's financial instruments as reflected in the table below. IAG's investments continue to be designated as at fair value through profit or loss on initial recognition and subsequently remeasured to fair value at each reporting date, reflecting the business model applied by IAG to manage and evaluate its investment portfolio. An analysis has been performed of the lifetime expected credit losses associated with IAG's in-scope financial assets and the provisions raised under *AASB 139* are sufficient when considering the lifetime expected credit losses associated with these assets. *AASB 9* specifically excludes from its scope the rights and obligations arising from insurance contracts, as defined under *AASB 4 Insurance Contracts*.

The measurement bases of IAG's financial assets and liabilities under *AASB 139* and *AASB 9* are as follows:

Asset/liability	Measurement basis under AASB 139	Measurement basis under AASB 9	Carrying amount of asset/(liability) as at 1 July 2017 under AASB 9 and AASB 139 $m
Interest-bearing investments(1)	Fair value through profit or loss	No change	10,368
Equity investments	Fair value through profit or loss	No change	1,578
Other trusts	Fair value through profit or loss	No change	158
Derivatives without hedge accounting applied(2)	Fair value through profit or loss	No change	33
Derivatives with hedge accounting applied	Fair value through other comprehensive income	No change	11
Cash	Amortised cost	No change	424
Trade and other receivables(3)	Amortised cost	No change	535
Interest-bearing liabilities	Amortised cost	No change	(1,624)
Other payables(4)	Amortised cost	No change	(701)

(1) Interest-bearing investments includes assets held to back insurance liabilities (policyholder funds) and those that form part of shareholders' funds, with each portfolio managed separately. Policyholder funds are available for future settlement of claims and can generally be readily sold or exchanged for cash to settle claims. IAG invests policyholder funds, wherever possible, in securities with interest rate sensitivities that align to the underlying insurance liabilities. To significantly reduce any accounting mismatch with movements in insurance liabilities from changes in interest rate, IAG adopted the option available under *AASB* 9 to designate policyholder funds to be measured at fair value through profit or loss. IAG invests shareholders' funds to maximise the return on risk-based capital, consistent with IAG's risk appetite and flexibility requirements, which results in the portfolio being measured at fair value through profit or loss.

(2) Derivatives without hedge accounting applied include derivatives for both investment and treasury purposes.

(3) This excludes receivables arising from IAG's insurance contracts as these are out of scope of *AASB 9* and derivatives disclosed in 'derivatives with/without hedge accounting applied' above.

(4) This excludes derivatives disclosed in 'derivatives with/without hedge accounting applied' above.

AASB 15 Revenue from Contracts with Customers

AASB 15 Revenue from Contracts with Customers also became effective for periods beginning on 1 July 2018, with no material impact to IAG. *AASB 15* introduces a single model for the recognition of revenue based on when an entity satisfies the contractual performance obligations by transferring a promised good and service to a customer. It does not apply to insurance contracts and financial instruments. Hence the majority of IAG's revenue is not impacted by this change. Revenue from contracts with customers, as defined by *AASB 15*, is disclosed as 'Fee and other income' in the statement of comprehensive income. Whilst IAG has adopted the standard retrospectively, there has been no material change in the measurement of 'Fee and other income' on implementation of *AASB 15* as the existing recognition and measurement of revenue under the applicable contracts meets the requirements under the new standard.

B. ISSUED BUT NOT YET EFFECTIVE

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

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

TITLE	DESCRIPTION	OPERATIVE DATE	NOTE
AASB 16	Leases	1 January 2019	C
AASB 17	Insurance Contracts	1 January 2021	B
AASB 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate	1 January 2022	A
AASB 2015-10	Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128	1 January 2022	A
AASB 2017-6	Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation	1 January 2019	A
AASB 2017-7	Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures	1 January 2019	A
AASB 2018-1	Amendments to Australian Accounting Standards – Annual Improvements 2015–2017 Cycle	1 January 2019	A
AASB 2018-2	Amendments to Australian Accounting Standards – Plan Amendment, Curtailment or Settlement	1 January 2019	A
AASB 2018-6	Amendments to Australian Accounting Standards – Definition of a Business	1 January 2020	A
AASB 2018-7	Amendments to Australian Accounting Standards – Definition of Material	1 January 2020	A
AASB Interpretation 23	Uncertainty over Income Tax Treatments, and relevant amending standards	1 January 2019	A
Conceptual Framework	Amendments to standards to apply the new definition and recognition criteria in the Conceptual Framework for Financial Reporting	1 January 2020	A

TABLE NOTE

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

B The changes may have financial impact, however the assessment has not been completed yet.

C These changes are not expected to have a significant financial impact, but will result in additional disclosure.

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

AASB 16 Leases

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

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

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

On transition to *AASB 16*, IAG has applied a modified retrospective approach to leases previously measured as operating leases under *AASB 117*. The modified retrospective approach provides two options for measurement of the ROUA. The first option is to measure the ROUA as an amount equal to the lease liability adjusted for any prepaid or accrued lease payments. The second option is to measure the ROUA as if *AASB 16* had always been applied from the initial recognition of the lease. These measurement options will be applied on a lease-by-lease basis.

As at 1 July 2019, IAG recognised lease liabilities of $655 million, ROUAs of $561 million and net investment in sublease of $35 million. IAG has applied the modified retrospective approach on adoption of the standard. Under this approach, the cumulative effect of adoption is recognised as an adjustment to opening retained earnings as at 1 July 2019, with no restatement of comparative information.

AASB 17 Insurance Contracts

AASB 17, a new accounting standard for insurance contracts, was adopted by the Australian Accounting Standards Board on 19 July 2017 subsequent to being issued by the IASB on 18 May 2017. The standard is expected to be effective for periods beginning 1 January 2022 (subject to approval of the proposed one year delay). The first applicable reporting period for IAG is expected to be the year ending 30 June 2023, with the comparative period for the year ending 30 June 2022. The standard introduces a new general measurement model for accounting for insurance contracts, with the application of a simplified approach (similar to AASB 1023) permitted in certain circumstances. IAG is currently undertaking a detailed impact assessment of the new standard, and it is expected that the vast majority of insurance contracts underwritten by the Group will meet the requirements of the simplified approach (based on current portfolio mix). However, there are expected to be substantial changes in the presentation of the financial statements and disclosures.

In addition to the proposed one-year delay in the effective date of the standard, the IASB has proposed wording changes intended to remedy implementation issues identified to date. These proposed changes have been included in an exposure draft issued on 26 June 2019, and are subject to a 90-day comment period before they can be finalised. Given the potential for change in the standard, and the complexity and differing interpretation of the requirements, the final impact of certain requirements may not be determined until global interpretations and regulatory responses to the new standard reach a broad consensus.

DIRECTORS' DECLARATION

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

- the financial statements and notes 1 to 8.5, including all the remuneration disclosures that are contained in the Remuneration Report of the Directors' Report, are in accordance with the *Corporations Act 2001* including:
  - giving a true and fair view of the financial position of the Group as at 30 June 2019 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date;
  - complying with Australian Accounting Standards and the Corporations Regulations 2001; and
  - the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.2.B; and
- the Remuneration Report of the Directors' Report complies with the *Corporations Act 2001* and Australian Accounting Standards; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declaration required by section 295A of the *Corporations Act 2001* from the Chief Executive Officer and the Chief Financial Officer for the financial year ended 30 June 2019.

Signed at Sydney this 8th day of August 2019 in accordance with a resolution of the Directors.

Peter Harmer
Director

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF INSURANCE AUSTRALIA GROUP LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

Opinion

We have audited the Financial Report of Insurance Australia Group Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The Financial Report comprises:

- Consolidated balance sheet as at 30 June 2019;
- Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated cash flow statement for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

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

Basis for opinion

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

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

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

Key Audit Matters

The Key Audit Matters we identified are:

- Valuation of Gross outstanding claims liability
- Valuation of Reinsurance and other recoveries on outstanding claims
- Valuation of Goodwill and Investment in joint venture and associates

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of Gross outstanding claims liability ($10,296 million)

Refer to Note 2.2 of the Financial Report

The key audit matter

Valuation of Gross outstanding claims liability is a key audit matter due to the following factors:

- judgement is required by us to consider the central estimate of the gross outstanding claims liability. This is a significant estimate as the eventual outcomes of incurred but unsettled claims at the balance sheet date are inherently uncertain;
- there is limited information available and a greater level of uncertainty inherent in assessing the Group's estimations of claims which have been incurred by the balance sheet date but have not yet been reported to the Group;

How the matter was addressed in our audit

We involved our actuarial specialists and senior personnel with deep industry experience. Our key procedures included:

- comparing the Group's actuarial methodologies with the methodologies applied in the industry, prior periods and the requirements of accounting standards;
- obtaining an understanding of the Group's governance processes, including Reserving Committees and actuarial control cycles for the valuation of the outstanding claims liabilities;

- judgement is required when considering the Group's application of historical experience of claims development to determine current estimates, including the greater variability between the original estimation and the ultimate settlement of claims where there is a long time delay between the claim being incurred and the ultimate settlement. Examples include claims arising from Workers' Compensation, Liability, Compulsory Third Party (CTP) and the main Canterbury earthquakes of September 2010 and February 2011;
- claims estimation uses an actuarial modelling process which involves complex and subjective actuarial methodologies, as well as judgements and assumptions about future events and developments, both within and external to the Group. Actuarial assumptions include loss ratios, claim frequency and average size of claims, and allowance for future claims inflation. Changes in methodologies, judgements and assumptions can have significant implications to the quantification of outstanding claims liabilities, as outlined in Note 2.2(E);
- the Canterbury earthquake claims require judgement and technical actuarial expertise to evaluate the Group's attribution of claims costs between the September 2010 and the February 2011 Canterbury earthquake events;
- judgement is required to assess the Group's estimation of the periods the claims are expected to be settled in;
- the estimation of claims at year end relies on the integrity of the underlying data, including claim payments and individual estimates of unsettled claims, which is gathered from a number of different systems; and
- outstanding claims includes statistically determined risk margins developed by the Group to make allowance for the inherent uncertainty in estimating ultimate claim settlements. The risk margins are included to achieve a specified probability of adequacy for the total outstanding claims reserves. This is an area of significant complexity and judgement for us.

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

- evaluating the actuarial methodologies and the assumptions including loss ratios, claim frequency and average size of claims, ultimate claims costs and allowance for future claims inflation applied in the previous reporting period by comparing the actual claims development to the prior year claims liability estimate. We used the information to assess the current year's actuarial assumptions applied in the valuation;
- challenging key actuarial assumptions by comparing these to our expectations based on the Group's historical experience, our industry knowledge and externally observable trends (e.g. APRA and regulatory statistics);
- evaluating the attribution of claims cost to Canterbury earthquake events, by comparing these to our expectations based on the Group's historical experience, our industry knowledge and externally observable trends;
- considering judgements by the Group to estimate the period in which the claims will be settled by analysing historical payment patterns and any significant changes;
- assessing the risk margin parameters for significant portfolios to external sources of data including published statistics (e.g. APRA-published data), prior periods and our industry knowledge;
- critically evaluating the Group's judgment in the execution of the outstanding claims liability calculations by comparing the overall results to our expectations based on the Group's historical experience, our industry knowledge and externally observable trends (e.g. listed competitors);
- for certain classes of business we independently projected the gross outstanding claims liability by applying our own actuarial methodologies and selecting assumptions for those methodologies. We used this re-projection to compare our results to the Group's estimates and challenge any significant differences;
- our procedures for testing key inputs such as claim payments and estimates of unsettled claims into the valuation, financial records and controls included:
  - testing accounting and actuarial controls, such as reconciliations of key data. We involved our IT specialists for testing data integrity risks within the claims process and claims systems;
  - testing key controls (e.g. reconciliations, limits of authority or segregation of duties) within the estimation of claims case estimates and claims payments;
  - testing samples of claims case estimates and paid claims to third party evidence (such as quotes or invoices); and
- we assessed the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.

Valuation of Reinsurance and other recoveries on outstanding claims ($5,779 million)
Refer to Note 2.2 of the Financial Report

The key audit matter

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

- reinsurance and other recoveries are quantified from claims case estimates, paid claims data and estimates of ultimate claims settlement amounts;

How the matter was addressed in our audit

In addition to the audit procedures undertaken to assess the valuation of gross outstanding claims liability above, our procedures included:

- testing a sample of key controls for entering reinsurance arrangements;

- the Group has extensive reinsurance arrangements designed to protect its aggregate exposure to catastrophic claim events; and
- the Group also has a range of significant reinsurance contracts, including the whole-of-account quota share arrangements, the catastrophe excess of loss program, adverse development covers in the form of excess of loss contracts, and other quota share arrangements.

Our consideration of the accounting treatment across multiple contracts, assessment of recoverability in line with the reinsurance agreements, the assessment of counterparty credit worthiness and capital strength requires significant effort by our senior resources. Our team have deep industry experience and specialised technical skills.

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

Valuation of Goodwill ($2,863 million) and Investment in joint venture and associates ($544 million)
Refer to Notes 5.1 and 6.5 of the Financial Report

The key audit matter

Valuation of goodwill and investment in joint venture and associates is a Key Audit Matter as:

- judgement is involved by us in assessing the cash generating units identified by the Group;
- our evaluation of potential impairment involves applying judgement by us in relation to the Group's forecast cash flows and key forward looking assumptions. Instances where judgement is required by us include discount rates, risk premium, growth rates, profit measures and terminal growth rates. We focused specifically on those cash generating units and associates where there were potential impairment indicators (e.g. performance compared to budget); and
- the Group uses complex discounted cash flow models to perform their annual testing of goodwill for impairment. The models use adjusted historical performance, and a range of internal and external sources as inputs to the assumptions. Complex modelling, particularly those containing highly judgemental allocations of corporate costs to cash generating units, using forward-looking assumptions tends to be prone to greater risk for potential bias, error and inconsistent application. These conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used for assumptions, and their consistent application.

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

How the matter was addressed in our audit

With the assistance of our valuation specialists, our procedures included:

- evaluating the Group's determination of their cash generating units based on our knowledge of the business, and understanding of the industries in which the Group operates, against the accounting standard requirements;
- performing sensitivity testing, using the Group's models, to evaluate the impact of varying key assumptions such as growth rates and discount rates within a reasonably possible range. This enabled us to critically challenge the Group's quantification of assumptions and focus our procedures to the most sensitive assumptions;
- assessing the Group's key assumptions used in the discounted cash flow models such as discount rates, risk premium, growth rates, profit measures and terminal growth rates by comparing them to external, observable metrics (e.g. GDP growth and inflation including forecasts provided by Oxford Economics and IBIS World), historical experience, our knowledge of the markets, and current market practice;
- considering the appropriateness of the discounted cash flow methodology applied by the Group to perform the annual test of impairment against the requirements of the accounting standards;
- comparing the forecast cash flows contained in the discounted cash flow models to Board approved budgets and business plans;
- assessing the accuracy of past budgets to actual cash flows in order to challenge the Group's current forecasts;
- comparing the valuations for a sample of joint ventures and associates to external and observable valuations for broadly similar enterprises, and investigating significant outliers;

- assessing the Group's allocation of corporate costs to the forecast cash flows contained in the value-in-use model, based on the requirements of the accounting standard and our understanding of the business;
- involving our specialists, we evaluated the internally prepared discounted cash flow model. This included:
  - assessing the valuation approach and methodology against market and industry practices and accounting standards; and
  - assessing the integrity of the models used, including the accuracy of the underlying formulas;
- using our IT specialists we tested the general IT environment as well as specific system controls in relation to the underlying data used in the valuation models to assess the integrity of the data; and
- we assessed the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standards.

Other Information

Other Information is financial and non-financial information in Insurance Australia Group Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

REPORT ON THE REMUNERATION REPORT

Opinion

In our opinion, the Remuneration Report of Insurance Australia Group Limited for the year ended 30 June 2019, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 19 to 41 of the Directors' Report for the year ended 30 June 2019.

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

KPMG

KPMG

Andrew Yates
Partner

Sydney
8 August 2019

Ian Moyser
Partner

SHAREHOLDER INFORMATION

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

ASX CODES

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

Insurance Australia Group Limited's wholly-owned subsidiary IAG Finance (New Zealand) Limited issued reset exchangeable securities (RES) in January 2005 which are listed on the ASX under IANG.

ANNUAL REPORT

Under the *Corporations Act 2001* regarding the provision of Annual Reports to shareholders, the default option for receiving Annual Reports is an electronic copy via IAG's website at www.iag.com.au.

ANNUAL GENERAL MEETING

The 2019 annual general meeting (AGM) of Insurance Australia Group Limited will be held on 25 October 2019 commencing at 9:30am at the Wesley Conference Centre, 220 Pitt Street, Sydney NSW 2000. The AGM will be webcast live on the internet at www.iag.com.au/shareholder-centre/annual-meetings and an archive version will be placed on the website to enable the AGM to be viewed at a later time.

ONLINE VOTING

Shareholders can lodge voting instructions electronically either as a direct vote or by appointing a proxy for the 2019 AGM at www.iag.com.au. The information required to log on and use online voting is shown on the voting form.

SHAREHOLDER QUESTIONS

If shareholders would like to submit a written question to the Company or the Company's auditor with regard to the AGM or any of the resolutions to be discussed, shareholders should use the form supplied with the notice of meeting and return it with their completed Voting Form in the pre-addressed envelope provided or by fax to +61 (0)3 9473 2555. Questions for the auditor must be received by 5pm on 18 October 2019.

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

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

DIVIDEND PAYMENT METHODS

Insurance Australia Group Limited no longer issues dividend payments by cheque to shareholders resident in Australia. Shareholders should provide the share registry with their alternative instructions as detailed below:

IAG ordinary shares

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

MANAGEMENT OF HOLDING

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

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

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

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

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

Once shareholders have completed these steps, they are then able to update their details and submit their changes to the share register including:

- change or amend their address if they are registered with an SRN;
- nominate or amend their direct credit payment instructions;
- set up or amend their DRP instructions;
- sign up for electronic shareholder communications, including the annual report via email; and
- add/change tax file number (TFN) / Australian business number (ABN) details.

A confirmation/receipt number will be shown on-screen for the online transaction which should be recorded should shareholders have a question in the future.

Shareholders are strongly advised to lodge their TFN, ABN or exemption. If they choose not to lodge these details with the share registry, then IAG is obliged to deduct tax at the highest marginal tax rate (plus the Medicare levy) from the unfranked portion of any dividend or interest payment.

Shareholders may also complete a number of transactions or request a form over the phone by contacting the share registry on 1300 360 688.

EMAIL ALERT SERVICE

Shareholders can register to receive an email alert advising of new IAG media releases, financial announcements or presentations. Shareholders simply need to visit IAG's website at www.iag.com.au, click on the email alert button in the right-hand margin and register their email address.

IAG has an email alert service that allows shareholders to choose to receive email alerts about specific subjects (annual meetings, annual reports, careers information, company announcements, government submissions, results and sustainability reports).

EMAIL ENQUIRIES

If shareholders have a question, they can email their enquiry directly to IAG's share registry at iag@computershare.com.au. If their question relates to an IAG company matter and the answer is not on IAG's website, they can email their question to investor.relations@iag.com.au.

ORDINARY SHARES INFORMATION

TWENTY LARGEST ORDINARY SHAREHOLDERS AS AT 8 JULY 2019	NUMBER OF SHARES	% OF ISSUED SHARES
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	585,823,304	25.35
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	391,346,639	16.93
CITICORP NOMINEES PTY LIMITED	140,435,182	6.08
NATIONAL INDEMNITY COMPANY	87,612,209	3.79
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	61,397,976	2.66
NATIONAL NOMINEES LIMITED	60,562,692	2.62
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	33,709,021	1.46
BNP PARIBAS NOMS PTY LTD <DRP>	16,402,071	0.71
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	11,951,096	0.52
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	7,096,736	0.31
AMP LIFE LIMITED	6,490,481	0.28
MILTON CORPORATION LIMITED	5,896,948	0.26
IAG SHARE PLAN NOMINEE PTY LIMITED <IAG DAP UNALLOCATED ACCOUNT>	5,551,331	0.24
ARGO INVESTMENTS LIMITED	4,910,330	0.21
AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	4,030,114	0.17
BKI INVESTMENT COMPANY LIMITED	3,443,446	0.15
MUTUAL TRUST PTY LTD	2,797,118	0.12
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <IPS SUPER A/C>	2,349,705	0.10
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,042,291	0.09
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	1,787,245	0.08
Total for top 20	1,435,635,935	62.13

RANGE OF ORDINARY SHAREHOLDERS AS AT 8 JULY 2019	NUMBER OF HOLDERS	NUMBER OF SHARES	% OF ISSUED SHARES
1-1,000	389,889	205,085,438	8.87
1,001-5,000	249,605	465,961,244	20.16
5,001-10,000	12,803	87,334,256	3.78
10,001-100,000	4,343	82,428,412	3.57
100,001 and over	104	1,470,237,233	63.62
Total	656,744	2,311,046,583	100.00
Shareholders with less than a marketable parcel of 60 shares as at 8 July 2019	4,422	103,108	

DIVIDEND DETAILS

SHARE CLASS	DIVIDEND	FRANKING	AMOUNT PER SHARE	DRP ISSUE PRICE	PAYMENT DATE
Ordinary	Interim	Fully franked	12.0 cents	$7.3701	20 March 2019
Ordinary	Special	Fully franked	5.5 cents	$7.1029	26 November 2018
Ordinary	Final	70% franked	20.0 cents	*	30 September 2019

* The DRP issue price for the final dividend is scheduled to be announced on 5 September 2019.

SUBSTANTIAL SHAREHOLDINGS INFORMATION

SUBSTANTIAL SHAREHOLDERS AS AT 8 JULY 2019	NUMBER OF SHARES	% OF ISSUED SHARES
Ordinary shares		
The Vanguard Group, Inc.	115,541,621	5.12

IAGPD CAPITAL NOTES INFORMATION

TWENTY LARGEST CAPITAL NOTE HOLDERS AS AT 8 JULY 2019	NUMBER OF NOTES	% OF ISSUED NOTES
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	561,385	13.89
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	161,576	4.00
NATIONAL NOMINEES LIMITED	127,856	3.16
BNP PARIBAS NOMS PTY LTD <DRP>	91,851	2.27
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <IPS SUPER A/C>	77,974	1.93
CITICORP NOMINEES PTY LIMITED	74,226	1.84
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	67,642	1.67
NAVIGATOR AUSTRALIA LTD <JB WERE LIST FIX INT SMA A/C>	60,742	1.50
NAVIGATOR AUSTRALIA LTD <MLC INVESTMENT SETT A/C>	59,156	1.46
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	51,192	1.27
NULIS NOMINEES (AUSTRALIA) LIMITED <NAVIGATOR MAST PLAN SETT A/C>	48,935	1.21
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <NO 1 ACCOUNT>	31,914	0.79
MUTUAL TRUST PTY LTD	27,168	0.67
INVIA CUSTODIAN PTY LIMITED <INCOME POOL A/C>	20,000	0.49
AUSTRALIAN EXECUTOR TRUSTEES LIMITED <IPS IDPS A/C>	17,901	0.44
NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	16,321	0.40
CITICORP NOMINEES PTY LIMITED <DPSL>	15,537	0.38
THE WYATT BENEVOLENT INSTITUTION INC	15,517	0.38
TRUSTEES OF CHURCH PROPERTY FOR THE DIOCESE OF NEWCASTLE <SAVINGS & DEVELOPMENT A/C>	12,870	0.32
INVIA CUSTODIAN PTY LIMITED < RISF A/C>	12,500	0.31
Total for top 20	1,552,263	38.38

RANGE OF CAPITAL NOTE HOLDERS AS AT 8 JULY 2019	NUMBER OF HOLDERS	NUMBER OF NOTES	% OF ISSUED NOTES
1-1,000	4,301	1,410,755	34.91
1,001-5,000	407	813,446	20.13
5,001-10,000	33	230,016	5.69
10,001-100,000	20	736,231	18.22
100,001 and over	3	850,817	21.05
Total	4,764	4,041,265	100.00
Capital note holders with less than a marketable parcel of 5 notes as at 8 July 2019	4	9	

CORPORATE DIRECTORY

KEY DATES

2019 financial year end	30 June 2019
Full year results and dividend announcement	8 August 2019
Notice of meeting mailed to shareholders	10 September 2019
Final dividend for ordinary shares	
■ Record date	20 August 2019
■ Payment date	30 September 2019
Annual general meeting information	
■ Written questions for the auditor close	18 October 2019
■ Proxy return close	23 October 2019
■ Annual general meeting	25 October 2019
Half year end	31 December 2019
Half year results and dividend announcement	12 February 2020*
Interim dividend for ordinary shares	
■ Record date	19 February 2020*
■ Payment date	25 March 2020*
2020 financial year end	30 June 2020
Full year results and dividend announcement	7 August 2020*

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

CONTACT DETAILS

Share registry
Computershare Investor Services Pty Limited
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Australia

Hand deliveries to
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(outside Australia) +61 (0)3 9415 4210

Fax
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Email
iag@computershare.com.au

Registered office
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Sydney NSW 2000
Australia

Telephone
+61 (0)2 9292 9222

Fax
+61 (0)2 9292 8072

Website
www.iag.com.au

FIVE-YEAR FINANCIAL SUMMARY

	2019	2018	2017[13]	2016	2015
	$m	$m	$m	$m	$m
Gross written premium	**12,005**	11,647	11,439	11,367	11,440
Gross earned premium	**11,942**	11,522	11,321	11,411	11,525
Outwards reinsurance premium expense	**(4,704)**	(3,851)	(3,122)	(3,183)	(1,196)
Net premium revenue	**7,238**	7,671	8,199	8,228	10,329
Net claims expense	**(4,619)**	(4,617)	(5,082)	(5,397)	(6,941)
Net underwriting expense	**(1,716)**	(1,877)	(2,079)	(2,116)	(2,847)
Underwriting profit[1]	**903**	1,177	1,038	715	541
Net investment income on assets backing insurance liabilities	**321**	230	232	463	562
Management reported insurance profit[1]	**1,224**	1,407	1,270	1,178	1,103
Net investment income from shareholders' funds	**227**	165	246	97	223
Other income	**111**	164	180	204	187
Share of net profit of associates[2]	**42**	31	19	17	6
Finance costs	**(94)**	(82)	(93)	(99)	(107)
Corporate and administration expenses[3]	**(124)**	(185)	(222)	(423)	(383)
Acquired intangible amortisation and impairment	**(54)**	(90)	(57)	(54)	(80)
Profit before income tax	**1,332**	1,410	1,343	920	949
Income tax expense	**(363)**	(384)	(328)	(218)	(119)
Profit after tax from continuing operations	**969**	1,026	1,015	702	830
Profit/(loss) after tax from discontinued operations	**204**	(25)	(10)	-	-
Net profit attributable to non-controlling interests	**(97)**	(78)	(76)	(77)	(102)
Net profit attributable to shareholders of the Parent	**1,076**	923	929	625	728
Cash earnings[4]	**931**	1,034	990	867	987
Ordinary shareholders' equity ($ million)	**6,404**	6,669	6,562	6,563	6,817
Total assets ($ million)	**29,286**	29,766	29,597	30,030	31,402
KEY RATIOS					
Gross written premium growth	**3.1 %**	1.8 %	n/a	(0.6)%	17.0 %
Loss ratio[5]	**63.8 %**	60.2 %	62.0 %	65.6 %	67.2 %
Expense ratio[6]	**23.7 %**	24.5 %	25.3 %	25.7 %	27.6 %
Combined ratio[7]	**87.5 %**	84.7 %	87.3 %	91.3 %	94.8 %
Reported insurance margin[8]	**16.9 %**	18.3 %	15.5 %	14.3 %	10.7 %
Underlying insurance margin[9]	**16.6 %**	14.1 %	12.4 %	14.0 %	13.1 %
SHARE INFORMATION					
Dividends per ordinary share (cents)[10]	**37.50**	34.00	33.00	36.00	29.00
Basic earnings per ordinary share (cents)[11]	**46.26**	39.06	39.03	25.79	31.22
Basic earnings per ordinary share - cash basis (cents)[12]	**40.04**	43.78	41.60	35.78	42.33
Diluted earnings per ordinary share (cents)[11]	**44.58**	38.30	37.72	25.34	30.45
Diluted earnings per ordinary share - cash basis (cents)[12]	**38.83**	42.75	40.13	34.76	40.92
Ordinary share price at 30 June ($) (ASX: IAG)	**8.26**	8.53	6.78	5.45	5.58
Capital notes price at 30 June ($) (ASX: IAGPD)	**106.95**	104.67	106.53	-	-
Reset exchangeable securities price at 30 June ($) (ASX: IANG)	**101.38**	102.66	103.40	100.00	103.10
Issued ordinary shares (million)	**2,311**	2,367	2,367	2,431	2,431
Issued capital notes (million)	**4**	4	4	-	-
Market capitalisation (ordinary shares) at 30 June ($ million)	**19,089**	20,191	16,048	13,249	13,565
Net tangible asset backing per ordinary share ($)	**1.43**	1.47	1.36	1.30	1.34

(1) The amounts for 2016 financial year are presented on a management reported (non-IFRS) basis which is not directly comparable to the equivalent statutory (IFRS) figure. A reconciliation between the two is outlined in the Operating and Financial Review section of the Directors' Report in the 30 June 2016 Annual Report.
(2) Share of net profit of associates includes regional support and development costs.
(3) Includes a $198 million impairment of capitalised software for 2016 and a $60 million impairment of the investment in Bohai Insurance for 2015.
(4) Cash earnings represent non-IFRS financial information. It is defined as net profit after tax attributable to shareholders of the Parent, plus amortisation and impairment of acquired identifiable intangibles, and excluding any unusual items (non-recurring in nature).
(5) The loss ratio refers to the net claims expense as a percentage of net premium revenue.
(6) The expense ratio refers to net underwriting expense as a percentage of net premium revenue.
(7) The combined ratio refers to the sum of the loss ratio and expense ratio.
(8) Reported insurance margin is a ratio of insurance profit over net premium revenue.
(9) Underlying insurance margin is defined as the reported insurance margin adjusted for net natural peril claim costs less related allowance for the period, reserve releases in excess of 1% of NEP and credit spread movements.
(10) The dividends per ordinary share are partially franked for the 2019 financial year, and fully franked for the previous financial years presented.
(11) Reflects basic and diluted earnings per ordinary share on an accounting basis.
(12) Basic and diluted earnings per ordinary share on a cash basis are calculated with reference to cash earnings.
(13) The financial information for 2017 has been re-presented to reflect the changed treatment of the Asian businesses as discontinued operations. Financial information for 2016 and 2015 is not re-presented.

PEFC
PEFC/21-31-119

Pacesetter Laser Recycled is 30% recycled and made up from elemental chlorine free bleached pulp which is PEFC™ certified sourced from sustainably managed sources. It is manufactured by an ISO 14001 certified mill.

iag

Australia

NRMA INSURANCE SGIO SGIC swann insurance

RACV[1] CGU wfi Coles Insurance[2]

New Zealand

STATE NZI ami Lumley

1 IAG's short tail personal insurance products are distributed in Victoria under the RACV brand, via a distribution relationship and underwriting joint venture with RACV. These products are distributed by RACV and manufactured by Insurance Manufacturers of Australia Pty Limited (IMA), which is 70% owned by IAG and 30% owned by RACV.

2 IAG owns 100% of Insurance Australia Limited (IAL), the underwriter of general insurance products under the Coles Insurance brand. These products are distributed by Coles under an Authorised Representative Agreement with IAL.