INSURANCE AUSTRALIA GROUP LIMITED
HALF YEAR REPORT FOR THE PERIOD ENDED 31 DECEMBER 2022

APPENDIX 4D (ASX Listing Rule 4.2A)

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	31 December 2022	31 December 2021	CHANGE		
	$m	$m		$m	%*
Revenue from ordinary activities	**9,576**	9,233	Up	343	3.7
Net profit/(loss) after tax from ordinary activities attributable to shareholders of the Parent from continuing operations	**468**	172	Up	296	172.1
Net profit/(loss) after tax from ordinary activities attributable to shareholders of the Parent from discontinued operations	-	1	Down	(1)	(100.0)
Net profit/(loss) attributable to shareholders of the Parent	**468**	173	Up	295	170.5

* The percentage change is calculated by dividing the movement between the current and prior periods with the prior period amount and multiplying the result by 100.

DIVIDENDS – ORDINARY SHARES	AMOUNT PER SECURITY	FRANKED AMOUNT PER SECURITY
2022 Final dividend	5.0 cents	3.5 cents
2023 Interim dividend	6.0 cents	1.8 cents

INTERIM DIVIDEND DATE	
Record date	17 February 2023
Payment date	23 March 2023

The Company's Dividend Reinvestment Plan (DRP) has been suspended for the 2023 interim dividend.

This Appendix 4D for the half year ended 31 December 2022 is filed with the Australian Securities Exchange (ASX) under ASX Listing Rule 4.2A. Additional Appendix 4D disclosure requirements can be found in the half year financial report of Insurance Australia Group Limited for the period ended 31 December 2022 (Attachment A). This report is also to be read in conjunction with the Annual Report of Insurance Australia Group Limited for the year ended 30 June 2022 and any public announcements made by Insurance Australia Group Limited during the reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the ASX Listing Rules. Information presented for the previous corresponding period is for the half year ended 31 December 2021 (unless otherwise stated).

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

ATTACHMENT A

INSURANCE AUSTRALIA GROUP LIMITED

HALF YEAR REPORT FOR THE PERIOD ENDED 31 DECEMBER 2022

INSURANCE AUSTRALIA GROUP LIMITED

ABN 60 090 739 923

FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2022

INSURANCE AUSTRALIA GROUP LIMITED
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DIRECTORS' REPORT

The Directors present their 1H23 report together with the consolidated financial report of Insurance Australia Group Limited and its subsidiaries and the Auditor's Report. This report covers the reporting period 1 July 2022 to 31 December 2022 and where appropriate, references events that have occurred since the end of this period, but before publication.

The following terminology is used throughout the financial report:

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

DIRECTORS OF INSURANCE AUSTRALIA GROUP LIMITED

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

INDEPENDENT NON-EXECUTIVE	
Thomas (Tom) W Pockett	Director since 1 January 2015, Chairman since 22 October 2021
Simon C Allen	Director since 12 November 2019
David H Armstrong	Director since 1 September 2021
Sheila C McGregor	Director since 13 March 2018, resigned 21 October 2022
Jonathan (Jon) B Nicholson	Director since 1 September 2015
Helen M Nugent AC	Director since 23 December 2016
Scott J Pickering	Director since 1 November 2021
George D Sartorel	Director since 1 September 2021
George Savvides AM	Director since 12 June 2019
Michelle K Tredenick	Director since 13 March 2018

EXECUTIVE	
Nicholas (Nick) B Hawkins	Managing Director and Chief Executive Officer since 2 November 2020

PRINCIPAL ACTIVITY

The principal continuing activity of IAG is the underwriting of general insurance risks and investment management.

IAG is the largest general insurance company in Australia and New Zealand, selling insurance through a suite of brands. In Australia, IAG is a leading personal lines insurer, offering short-tail products across the country, as well as long-tail offerings. IAG also sells a range of commercial insurance products across Australia, with an emphasis on small-to-medium sized enterprises and a leading market share in rural areas. In Australia, the operations are separated into two distinct divisions, being Direct Insurance Australia (DIA) and Intermediated Insurance Australia (IIA). In New Zealand, IAG is the leading general insurance provider across both the direct and intermediated channels. All of these divisions benefit from access to a variety of distribution channels and an array of leading and well-established brands.

The Group reports its financial information under the following business division headings:

DIVISION	OVERVIEW	PRODUCTS
Direct Insurance Australia 46% of Group gross written premium (GWP)	Personal lines general insurance products, and some commercial lines, are sold directly to customers through a range of distribution channels, including branches, call centres and online, under the following brands: ■ NRMA Insurance, Australia wide (excluding Victoria); ■ RACV in Victoria, via a distribution relationship and underwriting joint venture with RACV; ■ SGIO in Western Australia; ■ SGIC in South Australia; ■ CGU Insurance (in NSW, ACT, VIC & QLD); and ■ ROLLiN' Insurance. The division also includes travel insurance and income protection products which are underwritten by third parties.	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 motor and fleet motor Long-tail insurance ■ Professional indemnity ■ Compulsory Third Party (motor injury liability)

DIVISION	OVERVIEW	PRODUCTS
Intermediated Insurance Australia 32% of Group GWP	Commercial lines general insurance products, and some personal lines, are provided through a network of intermediaries, such as brokers, agents, authorised representatives and financial institutions, under the following brands: ■ CGU Insurance; ■ WFI; and ■ Coles Insurance, via a distribution agreement with Coles.	Short-tail insurance ■ Motor vehicle ■ Home and contents ■ Lifestyle and leisure, such as boat and caravan ■ Travel ■ Business packages ■ Farm and crop ■ Commercial property ■ Construction and engineering ■ Commercial motor and fleet motor Long-tail insurance ■ Workers' compensation ■ Professional indemnity ■ Directors' and officers' ■ Public and products liability
New Zealand 22% of Group GWP	Personal lines and commercial lines general 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 under third party brands by IAG's corporate partners, including large financial institutions.	Short-tail insurance ■ Motor vehicle ■ Home and contents ■ Commercial property, motor and fleet motor ■ Construction and engineering ■ Niche insurance, such as pleasure craft, boat and caravan ■ Rural ■ Marine Long-tail insurance ■ Professional indemnity ■ Commercial liability
Corporate and other	Corporate and other comprises other activities, including corporate services, capital management activity, shareholders' funds investment activities, inward reinsurance from associates, investment in associates, and other businesses that offer products and services that are adjacent to IAG's insurance business.	

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

For the half year period ended 31 December 2021, there were no reconciling items between the statutory results (IFRS) and the management reported results (non-IFRS) and, accordingly, no reconciliation table has been provided for the prior period.

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

IAG's results for the current period contain the impact from a release in the provision for business interruption related claims. The High Court of Australia (HCA) on Friday 14 October 2022 denied special leave to appeal the decision of the Full Court of the Federal Court of Australia in the second business interruption test case handed down in February 2022. The HCA's decision in relation to the special leave applications resulted in the Group reducing the net provision by $360 million.

This provision is not expected to be a feature of the Group's future sustainable earnings profile. As a result, and to ensure consistency of the reporting of key insurance measures and metrics, this item has been shown in the 'Net corporate expense' line in the management reported view of the current period's results. This view is consistent with the approach adopted in IAG's Investor Report for the half year period ended 31 December 2022 (Investor Report).

Reconciliation between the statutory results (IFRS) and the management reported (non IFRS) results for the period ended 31 December 2022 is presented below:

31 DECEMBER 2022	STATUTORY RESULTS (IFRS)	BUSINESS INTERRUPTION CLAIM PROVISION	MANAGEMENT RESULTS (NON-IFRS PER INVESTOR REPORT)
	$m	$m	$m
Gross written premium	7,061	-	7,061
Movement in unearned premium liability	(208)	-	(208)
Gross earned premium	6,853	-	6,853
Outwards reinsurance premium expense	(2,740)	-	(2,740)
Net earned premium	4,113	-	4,113
Net claims expense	(2,551)	(360)	(2,911)
Commission expense	(550)	-	(550)
Underwriting expense	(989)	-	(989)
Reinsurance commission revenue	598	-	598
Net underwriting expense	(941)	-	(941)
Underwriting profit	621	(360)	261
Net investment income on assets backing insurance liabilities	89	-	89
Insurance profit	710	(360)	350
Net corporate (expense)/income(1)	(7)	360	353
Net other operating (expense)/income	(16)	-	(16)
Profit before income tax from continuing operations	687	-	687
Income tax expense	(213)	-	(213)
Profit after income tax from continuing operations	474	-	474
Non-controlling interests	(6)	-	(6)
Profit after income tax and non-controlling interests	468	-	468
Net profit after tax from discontinued operations	-	-	-
Profit attributable to IAG shareholders	468	-	468

(1) The $7 million expense was recognised within the 'Fee-based, corporate and other expenses' line in the consolidated statement of comprehensive income.

The adjustment summarised above reflects the impact on the current half year's pre-tax earnings. Analysis and commentary on the insurance profit and margin in the operating and financial review section of this report excludes the reconciling item listed above.

The gross reduction during the current period in the provision for business interruption related claims was $533 million. The net impact after recognition of a $173 million reduction in recoveries from IAG's whole-of-account quota share arrangements, is a $360 million increase to profit before tax from continuing operations. The increase to profit after tax is $252 million.

OPERATING AND FINANCIAL REVIEW

OPERATING RESULT FOR THE HALF YEAR

KEY RESULTS	31 December 2022 $m	31 December 2021 $m
Gross written premium (GWP)	**7,061**	6,570
Net earned premium (NEP)	**4,113**	3,963
Insurance profit(1)	**350**	282
Net profit/(loss) after tax(2)	**468**	173
Cash earnings(3)	**223**	176
Reported insurance margin(4)	**8.5%**	7.1%
Underlying insurance margin(5)	**10.7%**	15.1%
Dividend (cents per share)	**6.0**	6.0
Prescribed Capital Amount (PCA) multiple	**2.01**	1.82
Common Equity Tier 1 Capital (CET 1) multiple	**1.11**	1.02

(1) Reported insurance profit is the insurance profit on a management results basis. Based on the statutory results, the equivalent statutory insurance profit for the current half year is $710 million. The reported insurance profit in the prior corresponding half year for both statutory and management results was the same.
(2) Net profit/(loss) after tax is the Group's profit/(loss) after tax for the half year after adjusting for non-controlling interests.
(3) Cash earnings for the current half year is the Group's profit/(loss) after tax adjusted for acquired intangible amortisation expense of $2 million, business interruption provision release of $360 million, loss of $7 million on sale of AmGeneral, and a tax benefit of $106 million on corporate expenses.
(4) Reported insurance margin is the insurance profit as a percentage of NEP, both on a management results basis. Based on the statutory results, the equivalent statutory insurance margin for the current half year is 17.3%. The reported insurance margin in the prior corresponding half year for both statutory and management results was the same.
(5) IAG defines its underlying insurance margin as the reported insurance margin adjusted for prior year reserve releases or strengthening, natural perils claim costs above or below related allowances and credit spread gains or losses.

The Group's profit after tax for the half year was $474 million (1H22: $203 million). After adjusting for non-controlling interests in the Group result, net profit attributable to the shareholders of the Company was $468 million (1H22: $173 million). This result included:

- a $68 million increase in pre-tax insurance profit to $350 million (1H22: $282 million), driven by lower net natural perils claims costs, a higher gain from the narrowing of credit spreads, partially offset by a higher net strengthening of prior year reserves;
- a $360 million pre-tax release from the provision for business interruption claims associated with COVID-19 in the current period recorded under net corporate expense, compared to no items being recorded under net corporate expense in the prior corresponding half year; and
- a $19 million pre-tax increase in net investment income on shareholders' funds to $72 million (1H22: pre-tax income of $53 million).

Reported GWP of $7,061 million increased by 7.5% over the prior corresponding period (1H22: $6,570 million). Growth was driven by a combination of higher premium rates, volume growth and high retention levels across personal short-tail classes in Direct Insurance Australia (DIA), both higher premium rates and volume growth across commercial short-tail and long-tail in Intermediated Insurance Australia (IIA), and largely premium rate driven growth in New Zealand with overall volumes broadly flat.

The underlying insurance margin of 10.7% was lower than the prior corresponding half year (1H22: 15.1% and 13.6% excluding a COVID-19 net impact of lower claims frequency). The reduction in underlying margins, excluding the COVID-19 net benefit, reflects a combination of influences including the impact of the increase in the full year natural peril allowance, the increase in average home and motor claim size due to inflationary impacts, partially offset by an increase in underlying investment yield on technical reserves, discount rate timing difference and an improvement in the expense ratio.

The reported insurance profit was $350 million (1H22: $282 million) which equates to a reported insurance margin of 8.5% (1H22: 7.1%). In addition to the underlying margin influences outlined above, the current half year reported insurance profit included an unfavourable net natural perils experience of $70 million, a net strengthening of prior year reserves of $48 million and an $29 million favourable impact from the narrowing of credit spreads.

Premiums

Reported 1H23 GWP of $7,061 million increased by 7.5% on the prior corresponding period (1H22: $6,570 million).

Growth of 9.0% to $3,219 million (1H22: $2,952 million) was achieved in DIA comprising:

- motor growth of 8.0% driven by higher average premiums of 7% and volume growth in Victoria, Western Australia and South Australia;
- home growth of 13.3% from higher premiums and customer volume growth of around 4% driven by the roll-out of NRMA Insurance in Western Australia and South Australia;
- retention levels for both motor and home have remained very high at more than 91% and 95% respectively; and
- Compulsory Third Party (CTP) growth of 0.3% impacted by lower market share in South Australia.

Growth of 7.8% to $2,303 million (1H22: $2,136 million) was achieved in IIA comprising:

- commercial short-tail growth of 13.4% driven by approximately 10% rate increases and positive volume growth;
- commercial long-tail growth of 15.6% with strong average premium and volume growth; and
- personal reduction of 7.1% reflecting exits of portfolios including IAL.

Growth of 3.9% in New Zealand to $1,539 million (1H22: $1,481 million). In local New Zealand currency, growth was stronger at 9.1%, comprising:

- Business growth of 13.6% with average rate increases of over 10%, strong retention and positive volume growth;
- Direct growth of 6.3% with average rate increases of 7%, while volumes have remained steady; and
- Bank Partner growth of 3.5% with high single digit average rate increases and a small volume reduction.

Insurance margin

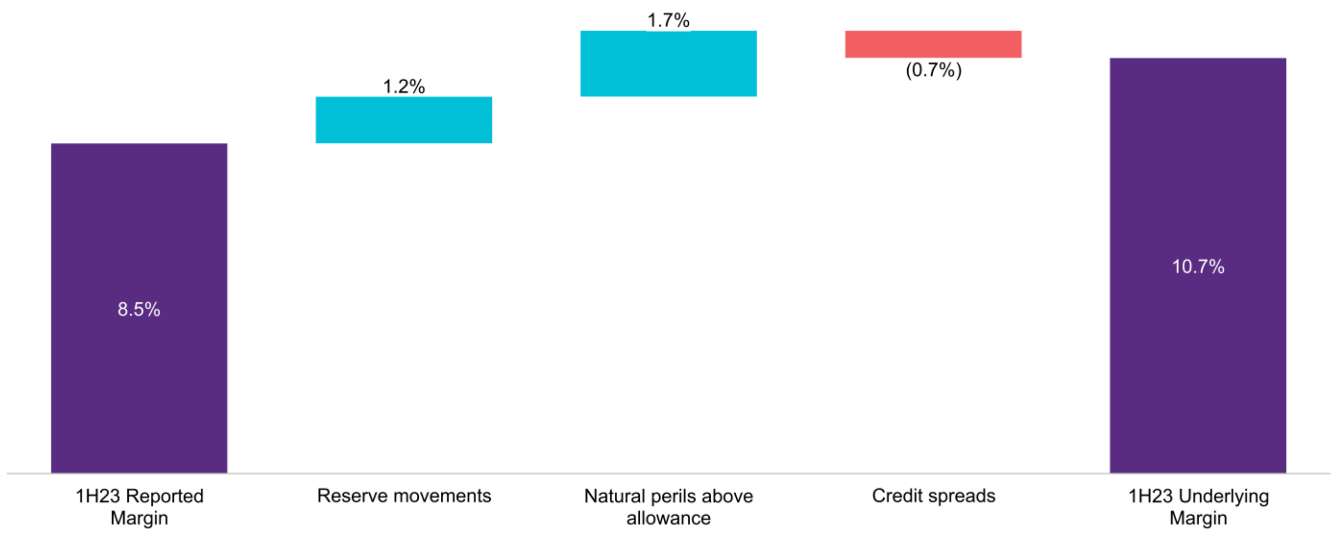
The underlying insurance margin is the reported insurance margin adjusted for prior year reserve releases or strengthening, natural perils claim costs above or below related allowances and credit spread gains or losses.

INSURANCE MARGIN IMPACTS	**31 December 2022 $m**	31 December 2021 $m
Underlying insurance profit	**439**	600
Reserve strengthening	**(48)**	(37)
Natural perils	**(524)**	(681)
Natural perils allowance	**454**	382
Credit spreads	**29**	18
Reported insurance profit(1)	**350**	282
Underlying insurance margin	**10.7%**	15.1%
Reserve strengthening	**(1.2)%**	(0.9)%
Natural perils	**(12.7)%**	(17.2)%
Natural perils allowance	**11.0%**	9.6%
Credit spreads	**0.7%**	0.5%
Reported insurance margin(2)	**8.5%**	7.1%

(1) Reported insurance profit is the insurance profit on a management results basis. Based on the statutory results, the equivalent statutory insurance profit for the current half year is $710 million. Reported insurance profit in the prior corresponding half year for both statutory and management results was the same.
(2) Reported insurance margin is the insurance profit as a percentage of NEP, both on a management results basis. Based on the statutory results, the equivalent statutory insurance margin for the current half year is 17.3%. Reported insurance margin in the prior corresponding half year for both statutory and management results was the same.

IAG's 1H23 underlying insurance margin was 10.7%, lower than 1H22 predominantly due to the impact of short-tail claims inflation. The underlying margin in 1H22 of 15.1% included a COVID-19 impact of lower claims frequency and was 13.6% without this benefit.

GROUP INSURANCE MARGIN - REPORTED VS. UNDERLYING



The reduction in underlying margins from 13.6% (without the COVID-19 impact) in 1H22 to 10.7% in 1H23 reflects a combination of influences.

On the positive side, this included:

- an increase in the underlying investment yield on technical reserves to 3.7% (1H22: 1.1%);
- an approximately 40 basis points (bps) benefit from discount rate timing difference as the impact of previous interest rate changes is recognised in the underlying margin; and
- an improvement in the expense ratio of 110bps.

These positive factors were more than offset by:

- an approximately 140bps impact from the increase in the full year natural perils allowance from $765 million to $909 million; and
- an approximately 470bps increase in the claims ratio due to inflationary impacts driving a significant increase in the average claims size of motor and home claims.

The 1H23 reported insurance profit of $350 million, equated to an 8.5% reported insurance margin (1H22: 7.1%). In addition to the underlying margin influences outlined above, this included:

- unfavourable net natural perils experience of $70 million in 1H23, compared to unfavourable experience of $299 million in 1H22;
- a $48 million impact from strengthening prior year reserves, compared to a strengthening of $37 million in 1H22; and
- a favourable impact from the narrowing of credit spreads of $29 million (1H22: $18 million).

Divisional insurance margins

DIVISIONAL INSURANCE MARGINS	**31 December 2022** **Insurance margin(1)**	31 December 2021 Insurance margin
Direct Insurance Australia		
Underlying insurance margin	**13.2%**	21.8%
Reported insurance margin	**8.9%**	10.5%
Intermediated Insurance Australia		
Underlying insurance margin	**5.7%**	5.0%
Reported insurance margin	**3.6%**	(0.3)%
New Zealand		
Underlying insurance margin	**13.2%**	16.8%
Reported insurance margin	**15.2%**	11.4%

(1) Reported insurance margin in the current half year for both statutory and management results is the same for DIA and New Zealand and is 30.4% for IIA based on the statutory results. Reported insurance margin in the prior corresponding half year for both statutory and management results was the same.

Detailed commentary on the insurance margin performance is provided in the divisional sections of the Investor Report. A short summary is provided below.

DIA's underlying margin of 13.2% reflects the impact of higher claims inflation, with a delay in the earned-through effect of higher premium rates. The comparative 21.8% included significant COVID-19 benefits due to lower motor claims frequency. Excluding COVID-19 benefits, the underlying margin in 1H22 was around 18.5%.

The DIA reported margin of 8.9% was also impacted by higher natural peril events and short-tail reserve strengthening.

IIA's underlying margin continued to improve despite the inflationary impact on short-tail personal claims. The 5.7% underlying margin in 1H23 (1H22: 5.0%) demonstrates the progress towards the $250 million insurance profit target in FY24.

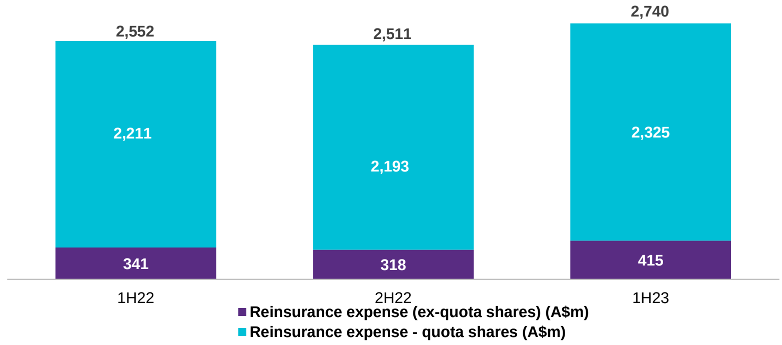
New Zealand's 1H23 underlying margin of 13.2% (1H22: 16.8%) was impacted by similar inflationary impacts on claims as Australian short-tail lines.

The reported insurance margin of 15.2% (1H22: 11.4%), improved due to lower natural peril costs.

Reinsurance expense

The total reinsurance expense includes the cost of all covers purchased, including catastrophe, casualty, facultative and proportional protection.

REINSURANCE EXPENSE



Quota share-related reinsurance expense increased broadly in line with gross earned premium growth. Non-quota share reinsurance expense increased by 22% to $415 million (1H22: $341 million) reflecting growth in IAG's business and a hardening of the reinsurance market.

Claims

IAG's immunised underlying loss ratio, which reflects trends in underlying or working claims, was 58.2% in 1H23, a significant increase on the 52.0% in 1H22. The increase reflects inflationary pressures and excludes all prior year reserve releases or strengthening, natural perils costs effects and discount rate adjustments.

IMMUNISED LOSS RATIO	**31 December 2022 $m**	31 December 2021 $m
Immunised underlying net claims expense(1)	**2,392**	2,062
Discount rate adjustment	**(53)**	(55)
Reserving and perils effects	**572**	718
Reported net claims expense(2)	**2,911**	2,725
Immunised underlying loss ratio(1)	**58.2%**	52.0%
Discount rate adjustment	**(1.3)%**	(1.3)%
Reserving and peril effects	**13.9%**	18.1%
Reported loss ratio(3)	**70.8%**	68.8%

(1) Immunised underlying net claims expense and loss ratio adjust the reported equivalent to exclude all prior year reserve releases or strengthening, natural perils costs and discount rate adjustments.
(2) Reported net claims expense in the current half year period is on a management results basis. Based on the statutory results, the equivalent statutory net claims expense in the current half year is $2,551 million. Reported net claims expense in the prior corresponding half year for both statutory and management results was the same.
(3) Reported loss ratio is net claims expense as a percentage of net earned premium. Based on the statutory results, the equivalent statutory loss ratio for the current half year is 62.0%. Reported loss ratio in the prior corresponding half year for both statutory and management results was the same.

Underlying claims trends

At a Group level, the underlying loss ratio of 58.2% has significantly increased on the 52.0% in the prior corresponding period which also included an approximately 200bps benefit from the COVID-19 impact resulting in lower motor claims frequency.

On the positive side, the ratio benefited from some early impact from the earn-through effect of higher premium rates. This was more than offset by:

- double-digit increases in average motor claim costs mainly driven by disruption of the supply chain network; and
- higher average home claim costs driven by increases in the price of labour and materials.

Reserve releases/strengthening

Prior period reserve strengthening of $48 million occurred in 1H23, a slight deterioration from $37 million in 1H22 but a significant improvement on the $135 million in 2H22.

Adverse claim development in short-tail classes resulted from inflation-driven increases in claims settlement, particularly for prior period natural peril events. These totalled $30 million in DIA and $29 million in IIA and were partially offset by $10 million in releases from CTP schemes and a $1 million release from New Zealand.

Natural perils

Net natural perils claims costs in 1H23 were $524 million (1H22: $681 million). This was $70 million above the allowance for the period, based on straight-line apportionment of the $909 million FY23 allowance (1H22: $299 million above allowance).

1H23 NET NATURAL PERILS COSTS BY EVENT	$m
East Coast Low NSW and Heavy Rain NZ (July 2022)	68
Complex Low and Nelson Floods NZ (August 2022)	19
Vic/Tas Heavy Rain and Flooding (October 2022)	84
SA/Vic Thunderstorms and Central West NSW Floods (November 2022)	61
Other events (<$15 million)	292
Total	524

Natural perils costs in 1H23 were driven by the La Nina weather pattern which delivered heavy rain and flooding across NSW, Victoria, South Australia and New Zealand.

None of the events in 1H23 were covered by IAG's catastrophe reinsurance or aggregate cover. At 31 December 2022, the $500 million (pre-quota share) deductible attached to the FY23 aggregate cover had been eroded by $165 million as a result of 1H23 peril events.

Expenses

Gross operating costs (excluding commissions and on a pre-quota share basis) were $1,245 million in 1H23, 4.5% lower than $1,303 million in 1H22. Gross operating costs represent the total controllable cost base across the Group and include underwriting expenses, claims handling costs and the expenses in IAG's fee-based businesses (FY22: $2,531 million).

GROSS OPERATING COSTS	**31 December 2022 $m**	31 December 2021 $m
Gross underwriting expense ex-levies(1)	**879**	890
Claims handling and fee-based expense	**366**	413
Total gross operating costs	**1,245**	1,303

(1) The "Expenses" table later in this section illustrates how "Gross underwriting expense ex-levies" reconciles to "Underwriting expense" in the consolidated statement of comprehensive income on page 18 of this report.

The 4.5% reduction in gross operating costs in 1H23 was a function of IAG's ongoing focus on financial discipline. Included in the costs for the 1H23 period is depreciation and ongoing technology and system investment across IAG's Enterprise Platform as part of an ongoing program to transform IAG's capacity to meet the needs of customers and drive operational excellence. This includes investments in automation and artificial intelligence to unlock efficiencies central to reducing expenses.

IAG continues to manage expenses to maintain the Group's operating capacity with a focus on automation, efficiency and effectiveness, and thereby constraining growth in the total gross expense base. Within gross operating costs, gross underwriting expense ex-levies decreased by 1.2% in 1H23.

The table below highlights how gross underwriting expense and commission expense flow through to net commission and underwriting expense after quota share impacts.

EXPENSES	**31 December 2022 $m**	31 December 2021 $m
Gross underwriting expense ex-levies	**879**	890
Levies	**110**	135
Total gross underwriting expense	**989**	1,025
Gross commission expense	**550**	522
Total gross expense	**1,539**	1,547
Reinsurance commission revenue	**(598)**	(598)
Total net expense(1)	**941**	949
Net underwriting expense	**575**	602
Net commission expense	**366**	347
Total net expense(1)	**941**	949

(1) Total net underwriting expense in the current and prior corresponding half year for both statutory and management results are the same.

The administration ratio on an ex-levies basis reduced to 12.1% in 1H23 (1H22: 12.9%), with the commission ratio of 8.9% relatively steady, reflecting a stable business mix.

Net investment income/loss on assets backing insurance liabilities

Net investment income on technical reserves contributed $89 million in 1H23 (1H22: $7 million loss) despite the portfolio reducing to $7.2 billion at 31 December 2022 (30 June 2022: $7.7 billion). The portfolio reduction is driven by the combined impact of the lower business interruption claim provision and increased discount rates.

Key components of the investment return in 1H23 were:

- an underlying yield of $135 million representing an annualised return of approximately 3.7%;
- $29 million in gains from a net narrowing in credit spreads; and
- a negative impact of $75 million from an ongoing increase in risk free rates in 1H23 leading to mark-to-market losses.

The portfolio is aligned with the average weighted duration of IAG's claims liability, of around two years.

Additional matters

Provision for potential business interruption claims

The total pre-tax net provision for business interruption claims associated with COVID-19 was $606 million at 31 December 2022 (30 June 2022: $975 million). During the current half year period, following the High Court of Australia's decision on 14 October 2022 to deny special leave to appeal the decision of the Full Court of the Federal Court of Australia in the second business interruption test case handed down in February 2022, the net provision was reduced by $360 million. An adjustment to discount rates on the provision resulted in a further $9 million adjustment.

The revised business interruption claim provision is based on IAG's actuarial modelling and includes a significant risk margin. As further information becomes available, IAG will review the provision and make adjustments accordingly.

IAG continues to defend a representative class action that has been filed in the Federal Court of Australia relating to policyholders with business interruption policies.

BCC Trade Credit and Greensill

The complex issues around trade credit insurance claims continue to be managed and defended by Insurance Australia Limited (IAL), including the litigation arising out of the purported underwriting of Greensill and other trade credit policies by BCC Trade Credit Pty Ltd (BCC). Claims and litigation seeking confirmation of policy coverage and/or validity of claims was and remains anticipated and IAG will defend these litigated claims. IAL is currently defending proceedings brought against it in the Federal Court of Australia and the Supreme Court of New South Wales. Given the impending expiry of limitation periods by which claims are to be brought, the commencement of additional and significant litigated claims is expected and IAG anticipates that it will take a number of years to bring these matters to resolution.

As previously advised, IAG maintains that, through the protections it has put in place, it has no net insurance exposure to trade credit policies sold through BCC.

BCC is an underwriting agency that was authorised to underwrite trade credit insurance, in accordance with specific underwriting guidelines, through IAL. Trade credit insurance is designed to protect insured businesses who provide credit terms to their customers. The policies are designed to indemnify for losses arising from a failure to pay genuine debts owed by customers by covering an agreed percentage of defaults on the payment of the business' accounts receivable.

IAL's 50% interest in BCC was sold to Tokio Marine Management (Australasia) Pty Ltd (Tokio Marine) with effect from 9 April 2019. As part of the sale transaction arrangements, BCC continued to underwrite risks on behalf of IAL to 30 June 2019, with Tokio Marine & Nichido Fire Insurance Co Ltd (TMNF) retaining the risk for policies written during this period, and earlier written policies, net of reinsurance. In addition to reinsurance in place in respect of these policies, IAG entered into agreements with TMNF for it to hold any remaining exposure to trade credit insurance written by BCC on behalf of IAL before 30 June 2019.

IAL ceased underwriting trade credit insurance on 30 June 2019. The IAL trade credit portfolio is in run-off with IAL managing existing and future claims. The existing claims include both claims relating to Greensill entities and claims related to the remainder of the BCC trade credit portfolio. IAG has revised the outstanding claims liability to $471 million at 31 December 2022 (30 June 2022: $477 million) mainly due to recognition of claims handling expenses, with the majority relating to expected legal costs associated with claims notified, along with an assessment of existing claims following the receipt of additional claim information and an assessment of any new claims lodged during the year relating to the BCC portfolio. This has been determined in accordance with IAG's usual claims reserving practices, which takes into account an assessment of the validity of claims. IAG has also recognised $471 million (30 June 2022: $477 million) of related reinsurance recoveries and indemnities in respect of trade credit related claims, although a reinsurer may challenge its obligations with respect to any claim exposures.

Asian interests

IAG's remaining Asian investment is a 13.93% interest in Bohai Property Insurance Company Ltd (Bohai) in China. This is included in shareholders' funds investments and commentary is provided in the "Investments" section of the Investor Report.

Other profit and loss drivers

Net corporate expense

Net corporate expense in 1H23 includes the $360 million reduction in the provision for business interruption related claims (1H22: nil) and a $7 million adjustment to the net proceeds from the divestment of AmGeneral Insurance Berhad (AmGeneral) in Malaysia announced on 19 July 2021.

Fee-based business

Fee-based business costs of $14 million in 1H23 (1H22: $13 million) reflect investment in new businesses aligned with IAG's strategy, focusing on advanced technologies, data asset capabilities, innovation and mobility initiatives, including:

- net costs from the Ambiata specialist data activation business and from the innovation hubs run by Firemark Labs of approximately $7 million;
- costs from the ongoing development of the Carbar digital car-trading platform business of approximately $3 million;
- Customer Loyalty Platform costs of approximately $2 million to leverage data and analytics to unify brands, products and services, and deliver better customer experiences with rewards for risk mitigating behaviours and loyalty; and
- a loss of approximately $1 million from Motorserve's car servicing activities (1H22: $3 million loss).

Net investment income on shareholders' funds

Net investment income on shareholders' funds was a profit of $72 million in 1H23, compared to a profit of $53 million in 1H22, reflecting:

- a return of $45 million from fixed interest and cash (1H22: $10 million loss);
- a return of $30 million from equities (1H22: $42 million); and
- a loss of $3 million from alternatives and other adjustments (1H22: $21 million profit).

At 31 December 2022, the weighting to defensive assets (fixed interest and cash) in the shareholders' funds was 77%, compared to 68% at 30 June 2022.

Tax expense

IAG reported a tax expense of $213 million in 1H23, a significant increase on the $77 million in 1H22 due to the increase in pre-tax earnings. IAG's effective tax rate (pre-amortisation and impairment) was approximately 31%. The difference between the effective tax rate and the Australian corporate rate of 30% is due to the non-deductible impact of the AmGeneral net proceeds adjustment and capital note payments.

Non-controlling interests

Profit after tax attributable to non-controlling interests in 1H23 was $6 million (1H22: $30 million).

Non-controlling interests are principally represented by RACV's 30% interest in Insurance Manufacturers of Australia Pty Limited (IMA), whose short-tail business lines in NSW, Victoria and the ACT form a significant part of DIA. IMA posted a reduced profit in 1H23 owing to the natural peril events in NSW and Victoria, along with inflationary impacts, as reflected in DIA's reported insurance margin reducing to 8.9% in 1H23 from 10.5% in 1H22.

Acquired intangible amortisation and impairment

A modest amortisation and impairment expense of $2 million was recorded in 1H23 compared to $4 million in 1H22.

Net profit/(loss) after tax

A net profit after tax and outside equity interests of $468 million (1H22: $173 million) reflected the aforementioned items.

REVIEW OF FINANCIAL CONDITION

A. FINANCIAL POSITION

The total assets of the Group as at 31 December 2022 were $34,428 million compared to $34,083 million as at 30 June 2022. Movements within the overall net increase in assets of $345 million include:

- an increase in investments of $362 million associated with the proceeds from the sale of AmGeneral, the net proceeds from the issuance of Capital Notes 2 and partial redemption of Capital Notes 1, positive returns on the investment portfolio and operating earnings for the half year, partially offset by funds outflow for the payment of the 2022 final dividend and on-market share buy-back;
- an increase of $292 million in deferred insurance expenses associated with the catastrophe reinsurance cover renewal for the 2023 calendar year;
- an increase of $285 million in trade and other receivables predominantly relating to increase in premiums receivable reflecting growth in GWP across Australia and New Zealand and an increase in reinsurance recoveries on paid claims mainly in respect of natural peril events pertaining to prior periods; and
- an increase of $141 million in goodwill and intangible assets mainly from capitalisation of costs associated with the development and implementation of various systems; partially offset by
- a decrease in assets held for sale of $342 million following the completion of the AmGeneral sale on 28 July 2022; and
- a decrease of $285 million in reinsurance and other recoveries on outstanding claims primarily relating to the receipt of recoveries on prior period natural peril events.

The total liabilities of the Group as at 31 December 2022 were $27,609 million compared with $27,583 million as at 30 June 2022. Movements within the overall net increase in liabilities of $26 million include:

- a $318 million increase in interest-bearing liabilities predominantly attributable to the issuance of $500 million of Capital Notes 2 in December 2022 and the partial redemption of approximately $184 million of Capital Notes 1 issued in 2016; and
- a $253 million increase in unearned premium liability reflecting the GWP growth during the current half year; partially offset by
- a $404 million decrease in outstanding claims liability primarily representing the combined impact of the release in business interruption provision, lower reserves for natural peril events, partially offset by increased short-tail reserves from higher frequency and inflationary impacts, and prior period strengthening mainly across short-tail reserves; and
- a $158 million decrease in provisions mainly due to the continued settlements made associated with customer refunds, restructuring and payroll compliance matters.

IAG shareholders' equity (excluding non-controlling interests) increased from $6,163 million as at 30 June 2022 to $6,494 million as at 31 December 2022, reflecting the combined effect of:

- a current half year net profit attributable to shareholders of $468 million;
- a payment of the final dividend of $123 million declared in respect of the 2022 financial year; and
- the on-market share buy-back of $73 million (including transaction costs).

B. CASH FROM OPERATIONS

The net cash inflows from operating activities for the half year ended 31 December 2022 were $289 million compared with $412 million for the prior corresponding half year. The movement is mainly attributable to the net effect of:

- a $411 million increase in premiums received, largely reflecting the period-on-period premium growth;
- a $320 million increase in reinsurance and other recoveries received primarily due to the significant recoveries on prior period events; and
- a $163 million decrease in income tax paid predominantly driven by the absence of instalment payments by the Australian tax consolidated group due to carried forward tax losses and the lower final income tax paid by Insurance Manufacturers of Australia Pty Limited, a subsidiary of the Company, in respect of the 2022 assessment year, partially offset by
- a $802 million increase in claims costs paid largely attributable to the settlement of claims on prior period natural peril events and current period claim payments as a result of higher frequency and inflationary impacts; and

- a $220 million increase in outwards reinsurance premium expense paid primarily driven by the increased amount ceded to whole-of-account quota share partners in line with GWP growth.

C. INVESTMENTS

The Group's investments at 31 December 2022 totalled $12,175 million compared to $11,813 million at 30 June 2022. The increase reflected the combined effect of:

- cash inflows as a result of the sale of AmGeneral, net proceeds from the issuance of Capital Notes 2 and partial redemption of Capital Notes 1;
- $123 million dividend payment in September 2022; and
- operational and earnings changes in the period.

IAG's overall investment allocation is defensively positioned, with approximately 90% of total investments in fixed interest and cash as at 31 December 2022. IAG applies distinct investment strategies to its two pools of investment assets:

- technical reserves, which back insurance liabilities, are wholly invested in fixed interest and cash; and
- a more diversified approach is taken to shareholders' funds, comprising a mix of fixed interest and cash, and growth assets (equities and alternatives).

IAG's allocation to growth assets (equities and alternatives) was approximately 23% of shareholders' funds at 31 December 2022, approximately 9% lower than the level at 30 June 2022.

D. INTEREST-BEARING LIABILITIES

IAG's interest-bearing liabilities stood at $2,373 million at 31 December 2022, compared to $2,055 million at 30 June 2022, with the increase reflecting the issue of $500 million of Capital Notes 2 in December 2022 and the redemption of approximately $184 million of the Capital Notes 1 issued in 2016. Under the Capital Notes 1 Terms, IAG may elect to exchange the outstanding Capital Notes 1 on 15 June 2023, subject to APRA's prior written approval, further conditions and IAG's absolute discretion.

E. CAPITAL MIX

IAG's capital mix is defined by regulatory capital targets. IAG's intent remains to manage regulatory capital to its 1.6 to 1.8 times PCA benchmark over the longer term.

During the current half year period, the Company issued $500 million in new Capital Notes 2 which qualify as Additional Tier 1 Capital for regulatory capital purposes. As part of this offer, certain eligible holders of Capital Notes 1 issued in 2016 were invited to reinvest their Capital Notes 1 into Capital Notes 2 and approximately $184 million in Capital Notes 1 were redeemed as part of the offer.

F. CAPITAL POSITION

Under the Australian Prudential Regulation Authority's (APRA) Prudential Standards, IAG's Common Equity Tier 1 (CET1) capital was $2,877 million (30 June 2022: $2,364 million) and total regulatory capital was $5,220 million (30 June 2022: $4,380 million) at 31 December 2022. IAG has set the following related targeted benchmarks:

- a CET1 target range of 0.9 to 1.1 times the PCA, compared to a regulatory requirement of a minimum 0.6 times; and
- a total capital position equivalent to 1.6 to 1.8 times the PCA, compared to a regulatory requirement of a minimum of 1.0 times.

At 31 December 2022, IAG had a CET1 multiple of 1.11 (30 June 2022: 0.97) and a PCA multiple of 2.01 (30 June 2022: 1.80).

STRATEGY AND RISK MANAGEMENT

A. STRATEGY

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

IAG's trusted brands, established supply chain, deep data assets and financial strength are key attributes, providing competitive advantage.

IAG's long-term objective remains: the delivery of top quartile Total Shareholder Return, with a sustainable growth profile. To realise this, IAG has set its strategy to '*create a stronger, more resilient IAG*'.

Four strategic pillars provide focus, inform IAG's operating model and underpin IAG's strategy:

Grow with our customers

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

Build better businesses

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

Create value through digital

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

Manage our risks

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

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

B. BUSINESS RISK AND RISK MANAGEMENT

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

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

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

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

- strategic risk – risk that internal or external factors disrupt the assumptions underpinning IAG's strategy or compromise its ability to set and execute an appropriate strategy. This includes environmental, social and governance risk which encompasses climate risk considerations;
- organisational conduct and customer risk – risk of behaviour or action taken by entities and employees associated with IAG that may have negative outcomes for IAG's customers, staff, communities, and markets in which IAG operates. It includes the risk that products are designed, priced, distributed and managed in a way that does not meet the reasonable needs and objectives of customers;
- insurance risk – risk of unintended financial loss as a result of:
  - inadequate or inappropriate underwriting;
  - inadequate or inappropriate product design and pricing;
  - unforeseen, unknown or unintended liabilities that may eventuate;
  - inadequate or inappropriate claims management including reserving; and
  - insurance concentration risk (i.e. by locality, segment factor, or distribution);
- reinsurance risk – risk of financial loss as a result of:
  - lack of capacity in the reinsurance market;
  - insufficient or inappropriate reinsurance coverage;
  - inadequate underwriting and/or pricing of reinsurance exposures retained by IAG's reinsurance captives;
  - inadequate or inappropriate reinsurance recovery management;
  - reinsurance arrangements not legally binding; and
  - reinsurance concentration risk;
- market risk – risk of adverse movements in market prices (equities, derivatives, interest rates, foreign exchange, etc) or inappropriate concentration within the investment funds;
- credit risk – risk arising from a counterparty's failure to meet its obligations in accordance with the agreed terms. This includes investment and derivative counterparties, reinsurers and premium debtors;
- liquidity risk – risk of inadequate funds and/or illiquid asset portfolios to meet liabilities as they fall due;
- capital risk – risk that capital is:
  - insufficient or excessive given the nature, strategies and objectives of the Group; or
  - comprised of a mix of equity, debt, reinsurance, including IAG's 32.5% whole-of-account quota share arrangements, or other expiring sources of capital that is unsuitable or unsustainable due to its cost, structure, flexibility, or IAG's ability to renew or replace on acceptable terms;
- operational risk – the failure to achieve objectives due to inadequate or failed internal processes, people and systems or from external events;
- regulatory and compliance risk – risk of legal or regulatory impacts or reputational loss arising from failure to manage compliance obligations or failure to anticipate and prepare for changes in the regulatory environment; and
- model risk – the potential for adverse consequences from decisions based on incorrect, misapplied, or misused model outputs and reports, including automated decisions based on model output.

In addition to the above risks, as the economy emerges from the COVID-19 pandemic, together with the occurrence of other global events, there are various factors that are impacting the operating environment. This includes effects that IAG is experiencing such as increasing interest rates and emergence of higher inflation. This is expected to impact claims and operating costs, investment returns and premiums charged to customers, and is being monitored closely.

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

IAG plays an important role in communicating, managing, and mitigating the evolving risks individuals and communities face across Australia and New Zealand under the changing climate. To ensure IAG can continue to act in this role and deliver for its customers, climate change and ESG risk management is aligned with IAG's strategy. This helps to guide decision-making and ensures that value is being created for both the community and the business.

In November 2022, the Board approved an updated Social and Environmental Framework. The Framework outlines IAG's commitments to managing social and environmental risks and opportunities across the business, including the role its people are expected to play in supporting and delivering on these commitments. IAG's climate and ESG performance is further supported by its Climate & Disaster Resilience Action Plan, Responsible Investment Policy, Reconciliation Action Plan, and Modern Slavery Statement. These can be found at www.iag.com.au.

In October 2022, IAG published refreshed science-based targets for scope 1 and 2 emissions to align with 1.5°C of warming. The new scope 1 and 2 emissions target calls for a 37.8% reduction in emissions by 2030 using a baseline year of FY21. IAG also shared its Net Zero Roadmap outlining its key activities to manage and reduce direct and indirect emissions sources, including scope 3 emissions. It is aligned with the Insurance Council of Australia's (ICA) Climate Change Roadmap published in November 2022. IAG will review its Net Zero Roadmap and associated interim targets regularly and make updates to ensure that they remain relevant to IAG's strategy and aligned to changes in the science, methodologies, regulations, and stakeholder expectations. The Net Zero Roadmap can be found at www.iag.com.au.

There is more work needed to define and improve the understanding of IAG's scope 3 emissions footprint across its supply chain and underwriting portfolios to support further emissions reduction activities. A key focus is participating in activities of the UN-convened Net-Zero Insurance Alliance to develop an industry-appropriate methodology to support a just transition to net zero.

Delivering IAG's purpose 'to make your world a safer place' and managing social risks involves consideration across IAG's value chain of operations. IAG manages these risks in a number of ways, including: assessment of high-risk suppliers, ensuring IAG's front line people are trained in how to support customers experiencing vulnerability, and supporting Aboriginal and Torres Strait Islanders and Māori through delivery of IAG's Reconciliation Action Plan in Australia and the He Rautaki Māori (Māori Engagement Strategy) in New Zealand.

IAG will continue to uplift its understanding of climate and ESG risks and opportunities, and to provide transparent disclosures consistent with evolving, relevant recommendations. This includes those of the Task Force on Climate-related Financial Disclosures and the International Sustainability Standards Board. It also includes emerging mandatory climate disclosure requirements, including those being introduced in New Zealand from FY24. An update on our climate and ESG initiatives can be found in IAG's Investor Report. More information can also be found in IAG's Group and New Zealand-specific 2022 Climate-related disclosures at www.iag.com.au/safer-communites.

Detail of IAG's overall RMF, which is outlined in the RMS, is set out in Note 3.1 within the 30 June 2022 Annual Report and in the Corporate Governance Statement, which is available at www.iag.com.au.

FY23 GUIDANCE AND OUTLOOK

IAG's updated guidance for FY23 is based on the 1H23 financial results and the financial impact of the Auckland flooding event, resulting in:

- Forecast GWP growth of around 10%, an increase from earlier guidance of 'mid-to-high single digit' growth. This is primarily rate driven reflecting claims inflation, higher reinsurance costs and an increased natural peril expectation. Modest volume growth and an increase in customer numbers are expected;
- A reported insurance margin of around 10%, a reduction from earlier guidance of '14% to 16%', which assumes:
  - an improvement in the second half underlying margin based on:
    - increased net earned premium reflecting the benefit of higher premiums;
    - benefits of claims initiatives and a moderation of underlying inflation in the supply chain; and
    - expected increased underlying investment yields; partially offset by
    - a reinsurance reinstatement premium and higher commission expenses;
  - a natural peril expectation of $1,145 million;
  - no 2H23 material prior period reserve releases or strengthening; and
  - no 2H23 material movements in macro-economic conditions including foreign exchange rates or investment markets.

IAG retains its aspirational goal to achieve a 15% to 17% insurance margin and a reported return on equity (ROE) of 12% to 13% over the medium term. These goals are based on delivery of IAG's ambitions of:

- an increase in the customer base of 1 million to 9.5 million by FY26;
- an IIA insurance profit of at least $250 million by FY24;
- $400 million in value from DIA claims and supply chain cost reductions on a run-rate basis from FY26;
- greater than 80% of customer interactions across digital channels; and
- further simplification and efficiencies to maintain the Group's cost base at around $2.5 billion.

These goals and ambitions are subject to assumptions and dependencies, including that there are no material adverse developments in macro-economic conditions and disruptions or events beyond IAG's control (for example, natural perils events in excess of IAG's allowances).

DIVIDENDS

The Board has determined to pay an interim dividend of 6.0 cents per share, franked to 30% (1H22: 6.0 cents per share, unfranked). The interim dividend equates to a payout ratio of 68% of 1H23 net profit after tax (NPAT) adjusted for the business interruption claim provision release (1H22: 84% of cash earnings).

IAG's dividend policy is to pay out 60% to 80% of NPAT excluding the after-tax impact from releases from the business interruption claim provision.

As at 31 December 2022, and prior to allowance for payment of the interim dividend, IAG had a $257 million franking balance on a consolidated basis. The Company currently has $22 million franking credits available for distribution.

The Company's Dividend Reinvestment Plan (DRP) has been suspended for the interim dividend.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the half year, the following changes became effective:

- On 28 July 2022, IAG completed the sale of AmGeneral Insurance Berhad (AmGeneral), the Malaysian business in which it held a 49% interest, to Liberty Insurance Berhad (announced on 19 July 2021). IAG's share of the sale proceeds was $344 million, received in cash.
- On 17 October 2022, IAG announced, it would undertake an on-market share buy-back of up to $350 million. The share buy-back commenced in November 2022 and has a proposed end date of 16 October 2023. During the current period, the Company has acquired on-market 15 million shares for a consideration of $73 million (including transaction costs) at an average price per share of $4.84.
- On 22 December 2022, the Company issued $500 million of Capital Notes 2. After allowance for a reinvestment offer for certain eligible holders of IAG Capital Notes 1 issued in 2016 and transaction costs, the Company raised a net amount of $308 million. The Capital Notes 2 qualify as Additional Tier 1 Capital under APRA's Prudential Framework for General Insurers.

EVENTS SUBSEQUENT TO REPORTING DATE

Details of matters subsequent to the end of the half year are set out below and in Note 3.6 within the financial statements. These include:

- On 13 February 2023, the Board determined to pay an interim dividend of 6.0 cents per share, franked to 30%. The dividend will be paid on 23 March 2023. The Company's Dividend Reinvestment Plan (DRP) has been suspended for the interim dividend.
- As announced on 3 February 2023, IAG's reported profitability in the second half of the current financial year will include net natural peril claim costs from the severe storms and flooding in Auckland and the North Island (Auckland event) which commenced Friday 27 January 2023. As advised on 9 January 2023, based on a combination of IAG's catastrophe and whole-of account quota share arrangements, the Maximum Event Retention at 1 January 2023 was $236 million. A preliminary assessment of expected claims for the Auckland event indicates that the natural perils cost impact, net of reinsurance, will be at the $236 million retention level.
- On 3 February 2023, IAG also provided an update on its preliminary financial results for the half year ended 31 December 2022. IAG announced it expects FY23 GWP growth to be around 10%, an increase from the previous guidance of 'mid to high-single digit'. This reflects further increases in premiums in response to inflation, natural perils experience, and additional reinsurance costs. The combination of the increase in the expectation for natural perils, the additional reinsurance drop-down reinstatement premium, the anticipated inflationary impact on claims following the Auckland event and the overall macro-economic environment results in the FY23 reported insurance margin being revised to around 10% from the previous range of 14% to 16%. These financial statements are consistent with the preliminary financial results reported.
- On 12 January 2023, IAG announced the renewal of its largest Whole of Account Quota Share (WAQS) agreement, with National Indemnity Company, a subsidiary of Berkshire Hathaway Inc., which represents 20% of the total 32.5% WAQS program. The renewed agreement, effective 1 January 2023, applies until December 2029. The Strategic Relationship Agreement and the equity ownership Subscription Agreement, originally announced on 16 June 2015, will not be continuing under the new arrangements.
- On 9 January 2023, IAG announced it had agreed terms to renew arrangements with WAQS partners, Munich Re and Swiss Re, representing 10% of the 12.5% whole of account program that was due to expire on 30 June 2023. The new agreements became effective from 1 January 2023 and have a term of five years.

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

The lead auditor's independence declaration is set out on page 16 and forms part of the Directors' Report for the half year ended 31 December 2022.

ROUNDING OF AMOUNTS

The Company is of a kind referred to in the *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* issued by ASIC. Amounts in the financial report and Directors' Report have been rounded to the nearest million dollars unless otherwise stated, in accordance with that instrument.

Signed at Sydney this 13th day of February 2023 in accordance with a resolution of the Directors.

Nick Hawkins

Nick Hawkins
Director

LEAD AUDITOR'S INDEPENDENCE DECLARATION

UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

TO THE DIRECTORS OF INSURANCE AUSTRALIA GROUP LIMITED

I declare that, to the best of my knowledge and belief, in relation to the review of Insurance Australia Group Limited for the half year ended 31 December 2022 there have been:

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

KPMG.

KPMG

Brendan Twining
Partner

Sydney
13 February 2023

CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 31 DECEMBER 2022

	NOTE	**31 December 2022 $m**	31 December 2021 $m
Gross earned premium		**6,853**	6,515
Outwards reinsurance premium expense		**(2,740)**	(2,552)
Net earned premium (i)		**4,113**	3,963
Claims expense		**(4,422)**	(4,720)
Reinsurance and other recoveries revenue		**1,871**	1,995
Net claims expense (ii)	2.1	**(2,551)**	(2,725)
Commission expense		**(550)**	(522)
Underwriting expense		**(989)**	(1,025)
Reinsurance commission revenue		**598**	598
Net underwriting expense (iii)		**(941)**	(949)
Underwriting profit (i) + (ii) + (iii)		**621**	289
Investment income on assets backing insurance liabilities		**94**	(1)
Investment expenses on assets backing insurance liabilities		**(5)**	(6)
Insurance profit		**710**	282
Investment income on shareholders' funds		**79**	57
Fee and other income		**81**	61
Share of net (loss)/profit of associates		**(8)**	7
Finance costs		**(64)**	(47)
Fee-based, corporate and other expenses		**(111)**	(81)
Profit before income tax from continuing operations		**687**	279
Income tax expense		**(213)**	(77)
Profit after income tax from continuing operations		**474**	202
Profit after income tax from discontinued operations		**-**	1
Profit for the period		**474**	203
OTHER COMPREHENSIVE INCOME/(EXPENSE)			
Items that may be reclassified subsequently to profit or loss:			
Net movement in foreign currency translation reserve, net of tax		**47**	16
Items that will not be reclassified to profit or loss:			
Remeasurements of defined benefit plans, net of tax		**10**	24
Other comprehensive income from continuing operations, net of tax		**57**	40
Other comprehensive loss from discontinued operations, net of tax		**-**	(1)
Total comprehensive income for the period, net of tax		**531**	242
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO			
Shareholders of the Parent - continuing operations		**468**	172
Shareholders of the Parent - discontinued operations		**-**	1
Non-controlling interests - continuing operations		**6**	30
Profit for the period		**474**	203
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO			
Shareholders of the Parent - continuing operations		**525**	211
Non-controlling interests - continuing operations		**6**	31
Total comprehensive income for the period, net of tax		**531**	242

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

	NOTE	**31 December 2022 cents**	31 December 2021 cents
EARNINGS PER SHARE – CONTINUING AND DISCONTINUED OPERATIONS			
Basic earnings per ordinary share	3.2	**19.02**	7.03
Diluted earnings per ordinary share	3.2	**17.62**	6.64
EARNINGS PER SHARE – CONTINUING OPERATIONS			
Basic earnings per ordinary share	3.2	**19.02**	6.99
Diluted earnings per ordinary share	3.2	**17.62**	6.60

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

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2022

	NOTE	**31 December 2022 $m**	30 June 2022 $m
ASSETS			
Cash held for operational purposes		**396**	350
Investments	3.1	**12,175**	11,813
Trade and other receivables		**4,865**	4,580
Current tax assets		**84**	31
Assets held for sale		**-**	342
Reinsurance and other recoveries on outstanding claims	2.1	**7,601**	7,886
Deferred insurance expenses		**4,126**	3,834
Deferred levies and charges		**133**	112
Deferred tax assets		**741**	955
Right-of-use assets		**393**	412
Property and equipment		**188**	180
Other assets		**149**	146
Investment in joint venture and associates		**25**	31
Goodwill and intangible assets		**3,552**	3,411
Total assets		**34,428**	34,083
LIABILITIES			
Trade and other payables		**3,052**	3,013
Current tax liabilities		**-**	13
Unearned premium liability		**7,084**	6,831
Outstanding claims liability	2.1	**13,560**	13,964
Lease liabilities		**510**	529
Provisions	2.2	**513**	671
Other liabilities		**517**	507
Interest-bearing liabilities	2.4	**2,373**	2,055
Total liabilities		**27,609**	27,583
Net assets		**6,819**	6,500
EQUITY			
Share capital	2.5	**7,313**	7,386
Treasury shares held in trust		**(13)**	(24)
Reserves		**45**	3
Retained earnings		**(851)**	(1,202)
Parent interest		**6,494**	6,163
Non-controlling interests		**325**	337
Total equity		**6,819**	6,500

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2022

	SHARE CAPITAL	TREASURY SHARES HELD IN TRUST	FOREIGN CURRENCY TRANSLATION RESERVE	SHARE-BASED REMUN-ERATION RESERVE	RETAINED EARNINGS	NON-CONTROLLING INTERESTS	TOTAL EQUITY
	$m	$m	$m	$m	$m	$m	$m
31 December 2022							
Balance at the beginning of the financial period	**7,386**	**(24)**	**(27)**	**30**	**(1,202)**	**337**	**6,500**
Profit for the period	**-**	**-**	**-**	**-**	**468**	**6**	**474**
Other comprehensive income	**-**	**-**	**47**	**-**	**10**	**-**	**57**
Total comprehensive income for the period	**-**	**-**	**47**	**-**	**478**	**6**	**531**
Transactions with owners in their capacity as owners							
On-market share buy-back, including transaction cost	**(73)**	**-**	**-**	**-**	**-**	**-**	**(73)**
Share-based remuneration	**-**	**11**	**-**	**(5)**	**(4)**	**-**	**2**
Dividends determined and paid	**-**	**-**	**-**	**-**	**(123)**	**(18)**	**(141)**
Additional investment in subsidiaries	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at the end of the financial period	**7,313**	**(13)**	**20**	**25**	**(851)**	**325**	**6,819**
31 December 2021							
Balance at the beginning of the financial period	7,386	(33)	(10)	23	(1,120)	310	6,556
Profit for the period	-	-	-	-	173	30	203
Other comprehensive income	-	-	15	-	23	1	39
Total comprehensive income for the period	-	-	15	-	196	31	242
Transactions with owners in their capacity as owners							
Share-based remuneration	-	8	-	(1)	-	-	7
Dividends determined and paid	-	-	-	-	(320)	(6)	(326)
Additional investment in subsidiaries	-	-	-	-	-	2	2
Balance at the end of the financial period	7,386	(25)	5	22	(1,244)	337	6,481

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

CONSOLIDATED CASH FLOW STATEMENT

FOR THE HALF YEAR ENDED 31 DECEMBER 2022

	31 December 2022 $m	31 December 2021 $m
CASH FLOWS FROM OPERATING ACTIVITIES		
Premium received	**7,031**	6,620
Reinsurance and other recoveries received	**2,046**	1,726
Claim costs paid	**(4,917)**	(4,115)
Outwards reinsurance premium expense paid	**(2,753)**	(2,533)
Dividends, interest and trust distributions received	**193**	153
Finance costs paid	**(52)**	(45)
Income taxes paid	**(64)**	(227)
Other operating receipts	**1,119**	1,074
Other operating payments	**(2,314)**	(2,241)
Net cash flows from operating activities	**289**	412
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash flows on disposal/(acquisition) of subsidiaries and associates	**353**	(41)
Net cash flows from sale/(purchase) of investments and plant and equipment	**(164)**	(775)
Net cash flows from investing activities	**189**	(816)
CASH FLOWS FROM FINANCING ACTIVITIES		
On-market share buy-back, net of transaction costs	**(73)**	-
Proceeds from borrowings, net of transaction costs	**308**	31
Repayment of borrowings	**(3)**	-
Principal element of lease payments	**(41)**	(40)
Dividends paid to shareholders of the Parent	**(123)**	(320)
Dividends paid to non-controlling interests	**(18)**	(6)
Net cash flows from financing activities	**50**	(335)
Net movement in cash held	**528**	(739)
Effects of exchange rate changes on balances of cash held in foreign currencies	**6**	2
Cash and cash equivalents at the beginning of the financial period	**938**	2,029
Cash and cash equivalents at the end of the financial period*	**1,472**	1,292

* Includes $396 million of cash held for operational purposes and $1,076 million of cash and cash equivalents held in investments (31 December 2021: $388 million of cash held for operational purposes, $904 million of cash and cash equivalents held in investments).

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

NOTES TO THE FINANCIAL STATEMENTS

1. OVERVIEW

NOTE 1.1 INTRODUCTION

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

The financial report has been organised into the following sections:

1. Overview – contains information that impacts the financial report as a whole, as well as segment reporting disclosures.
2. Significant events and transactions – disclosure of significant changes in the Group's financial position and performance.
3. Interim disclosures – disclosures required to comply with Australian Accounting Standard *AASB 134 Interim Financial Reporting*.

NOTE 1.2 ABOUT THIS REPORT

A. CORPORATE INFORMATION

Insurance Australia Group Limited (Company or Parent), the ultimate parent entity in the Group, is a for-profit company incorporated and domiciled in Australia and limited by shares publicly traded on the Australian Securities Exchange (ASX). Its registered office and principal place of business is Level 13, Tower Two, Darling Park, 201 Sussex Street, Sydney, NSW 2000, Australia. This financial report covers the consolidated financial statements for the Company and its subsidiaries (IAG or Group) for the half year ended 31 December 2022.

This report is also to be read in conjunction with the Annual Report for the year ended 30 June 2022 and any public announcements made by the Company during the reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the ASX Listing Rules.

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

B. STATEMENT OF COMPLIANCE

This general purpose half year financial report was authorised by the Board of Directors for issue on 13 February 2023 and complies with Australian Accounting Standard *AASB 134 Interim Financial Reporting* and the recognition and measurement requirements of other applicable Australian Accounting Standards adopted by the Australian Accounting Standards Board (AASB), the *Corporations Act 2001* and the ASX Listing Rules.

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

C. BASIS OF PREPARATION

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

The balance sheet is prepared with the assets and liabilities presented broadly in order of liquidity.

The financial report is presented in Australian dollars, which is the functional currency of the Company.

D. SIGNIFICANT ACCOUNTING POLICIES ADOPTED

The accounting policies adopted in the preparation of this financial report have been applied consistently by all entities in IAG and are the same as those applied for the previous reporting year, unless otherwise stated. The financial statements of entities operating outside Australia that maintain accounting records in accordance with overseas accounting principles are adjusted where necessary to comply with the significant accounting policies of IAG. The significant accounting policies adopted in the preparation of this financial report are set out within the relevant note in the Annual Report for the year ended 30 June 2022.

I. Changes in accounting policies

There were no new Australian Accounting Standards and Interpretations that are applicable for the current reporting period.

II. Critical accounting estimates and judgements

In the process of applying the significant accounting policies, certain critical accounting estimates and assumptions are applied, and judgements are made by management, the results of which affect the amounts recognised in the financial statements. The estimates and related assumptions are based on experience and other factors that are considered to be reasonable, and are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which they are revised, and future periods if relevant. The areas where material estimates and judgments are applied in preparing the financial statements for the half year ended 31 December 2022 are set out below, with further details provided within the relevant note in the Annual Report for the year ended 30 June 2022.

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

III. Coronavirus (COVID-19) pandemic and other macro-economic factors

As the economy recovers from the effects of the COVID-19 pandemic, there has been the emergence of other risks associated with global supply chain disruptions, labour shortage and geopolitical tensions, contributing to market volatility and inflationary pressures which has prompted action by central banks to raise risk-free rates. IAG is experiencing the effects of these macro-economic factors, which is increasing the estimation uncertainty in the preparation of these financial statements. The Group has developed various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 December 2022 that the Directors believe are reasonable based on all available information. There is a considerable degree of judgement involved in preparing these estimates. The underlying assumptions are also subject to uncertainties which are often outside the control of the Group. Accordingly, actual economic conditions may be different from those forecast and the effect of those differences may significantly impact accounting estimates included in these financial statements.

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

The impact of the macro-economic factors outlined above on the accounting estimates relating to the outstanding claims liability is discussed in this section, with details of the other impacted accounting estimates provided within both Note 1.2 and the related note in the Annual Report for the year ended 30 June 2022. Readers should carefully consider these disclosures when reviewing the financial statements for the half year ended 31 December 2022.

- Outstanding claims liability

IAG's insurance portfolio continues to experience impacts as a result of the changing macro-economic environment. There is a risk that the associated macro-economic factors could be different than estimated and, as a result, the development of the claims over time could result in the ultimate cost of those claims being higher or lower than the current outstanding claims liability established. The impacts on claims experience are expected to differ between classes of business and, for certain classes, potentially impact across more than one accident year.

During the current period, IAG has continued to observe elevated inflationary pressure on claims costs, particularly in motor and home portfolios due to supply chain and labour market disruption, as well as elevated costs from demand surge inflation as a result of higher natural peril claims activity.

The total pre-tax net provision for business interruption claims associated with COVID-19 was $606 million at 31 December 2022 (30 June 2022: $975 million). The High Court of Australia (HCA) on Friday 14 October 2022 denied special leave to appeal the decision of the Full Court of the Federal Court of Australia in the second business interruption test case handed down in February 2022. The HCA's decision in relation to the special leave applications resulted in the Group reducing the net provision by $360 million.

The revised business interruption provision is based on IAG's actuarial modelling and includes a significant risk margin. As further information becomes available, IAG will review the provision and make adjustments accordingly.

Insurance Australia Limited (IAL) is continuing to defend a representative class action that has been filed in the Federal Court of Australia relating to policyholders with business interruption policies. The ultimate impact from these claims, including legal costs expected to be incurred in the defence of the claims, are expected to be covered by the provision for business interruption claims.

NOTE 1.3 SEGMENT REPORTING

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

A. REPORTABLE SEGMENTS

IAG has general insurance operations in Australia and New Zealand with the reportable segments for the half year period ended 31 December 2022 comprising the following business divisions:

I. Direct Insurance Australia

This segment predominantly provides personal lines, and some commercial lines, general insurance products sold directly to customers primarily under the NRMA Insurance, SGIO and SGIC brands, the RACV brand in Victoria (via a distribution relationship and underwriting joint venture with RACV), as well as the CGU Insurance and ROLLiN' Insurance brands.

II. Intermediated Insurance Australia

This segment predominantly provides commercial lines, and some personal lines, general insurance products sold to customers through intermediaries including brokers, authorised representatives and distribution partners primarily under the CGU Insurance and WFI brands, as well as the Coles Insurance brand via a distribution agreement with Coles.

III. New Zealand

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

IV. Corporate and other

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

B. FINANCIAL INFORMATION

	DIRECT INSURANCE AUSTRALIA	INTERMEDIATED INSURANCE AUSTRALIA	NEW ZEALAND	CORPORATE AND OTHER	TOTAL
	$m	$m	$m	$m	$m
31 December 2022					
I. Financial performance					
Total external revenue(1)	**4,596**	**2,931**	**1,949**	**100**	**9,576**
Underwriting profit/(loss)	**115**	**378**	**130**	**(2)**	**621**
Net investment income on assets backing insurance liabilities	**52**	**31**	**6**	**-**	**89**
Insurance profit/(loss)	**167**	**409**	**136**	**(2)**	**710**
Net investment income on shareholders' funds	**-**	**-**	**-**	**72**	**72**
Share of net loss of associates	**(8)**	**-**	**-**	**-**	**(8)**
Finance costs	**-**	**-**	**-**	**(64)**	**(64)**
Other net operating result	**(4)**	**(1)**	**-**	**(18)**	**(23)**
Total segment result from continuing operations	**155**	**408**	**136**	**(12)**	**687**
Income tax expense					**(213)**
Profit for the period from continuing operations					**474**
II. Other segment information					
Capital expenditure(2)	**-**	**-**	**-**	**150**	**150**
Depreciation and amortisation expense	**42**	**31**	**9**	**1**	**83**
31 December 2021					
I. Financial performance					
Total external revenue(1)	4,209	3,043	1,897	84	9,233
Underwriting profit/(loss)	189	8	94	(2)	289
Net investment (loss)/income on assets backing insurance liabilities	-	(12)	5	-	(7)
Insurance profit/(loss)	189	(4)	99	(2)	282
Net investment income on shareholders' funds	-	-	-	53	53
Share of net profit of associates	(4)	-	-	11	7
Finance costs	-	-	-	(47)	(47)
Other net operating result	(6)	4	-	(14)	(16)
Total segment result from continuing operations	179	-	99	1	279
Income tax expense					(77)
Profit for the period from continuing operations					202
II. Other segment information					
Capital expenditure(2)	-	-	-	126	126
Depreciation and amortisation expense	33	23	7	-	63

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

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

2. SIGNIFICANT EVENTS AND TRANSACTIONS

SECTION INTRODUCTION

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

NOTE 2.1 CLAIMS AND REINSURANCE AND OTHER RECOVERIES ON OUTSTANDING CLAIMS

A. NET CLAIMS EXPENSE

	31 December 2022	31 December 2021
	$m	$m
Gross claims – discounted	**4,422**	4,720
Reinsurance and other recoveries – discounted	**(1,871)**	(1,995)
Net claims expense	**2,551**	2,725

B. NET OUTSTANDING CLAIMS LIABILITY

I. Composition of net outstanding claims liability

	31 December 2022	30 June 2022
	$m	$m
Gross central estimate - discounted	**10,547**	10,948
Reinsurance and other recoveries - discounted	**(6,035)**	(6,317)
Net central estimate - discounted	**4,512**	4,631
Claims handling costs - discounted	**453**	420
Risk margin	**994**	1,027
Net outstanding claims liability - discounted	**5,959**	6,078

C. CHANGES DURING THE PERIOD

I. BUSINESS INTERRUPTION

The total pre-tax net provision for business interruption claims associated with COVID-19 was $606 million at 31 December 2022 (30 June 2022: $975 million). The High Court of Australia (HCA) on Friday 14 October 2022 denied special leave to appeal the decision of the Full Court of the Federal Court of Australia in the second business interruption test case handed down in February 2022. The HCA's decision in relation to the special leave applications resulted in the Group reducing the net provision by $360 million.

The revised business interruption provision is based on IAG's actuarial modelling and includes a significant risk margin. As further information becomes available, IAG will review the provision and make adjustments accordingly.

Insurance Australia Limited (IAL) is continuing to defend a representative class action that has been filed in the Federal Court of Australia relating to policyholders with business interruption policies. The ultimate impact from these claims, including legal costs expected to be incurred in the defence of the claims, are expected to be covered by the provision for business interruption claims.

The impact on the business interruption element of the net outstanding claims liabilities (net of reinsurance recoveries) before income tax to changes in key actuarial assumptions is summarised below:

	MOVEMENT IN ASSUMPTION	**31 December 2022**	30 June 2022
		Increase/ (decrease)	Increase/ (decrease)
		$m	$m
Utilisation	+15%	**14**	75
	-15%	**(14)**	(164)
Causation	+15%	**135**	179
	-15%	**(127)**	(188)
Turnover assumption	+15%	**26**	116
	-15%	**-**	(110)

II. TRADE CREDIT INSURANCE

The complex issues around trade credit insurance claims continue to be managed and defended by Insurance Australia Limited (IAL), including the litigation arising out of the purported underwriting of Greensill and other trade credit policies by BCC Trade Credit Pty Ltd (BCC). Claims and litigation seeking confirmation of policy coverage and/or validity of claims was and remains anticipated and IAG will defend these litigated claims. IAL is currently defending proceedings brought against it in the Federal Court of Australia and the Supreme Court of New South Wales. Given the impending expiry of limitation periods by which claims are to be brought, the commencement of additional and significant litigated claims is expected and IAG anticipates that it will take a number of years to bring these matters to resolution.

As previously advised, IAG maintains that, through the protections it has put in place, it has no net insurance exposure to trade credit policies sold through BCC.

BCC is an underwriting agency that was authorised to underwrite trade credit insurance, in accordance with specific underwriting guidelines, through IAL. Trade credit insurance is designed to protect insured businesses who provide credit terms to their customers. The policies are designed to indemnify for losses arising from a failure to pay genuine debts owed by customers by covering an agreed percentage of defaults on the payment of the business' accounts receivable.

IAL's 50% interest in BCC was sold to Tokio Marine Management (Australasia) Pty Ltd (Tokio Marine) with effect from 9 April 2019. As part of the sale transaction arrangements, BCC continued to underwrite risks on behalf of IAL to 30 June 2019, with Tokio Marine & Nichido Fire Insurance Co Ltd (TMNF) retaining the risk for policies written during this period, and earlier written policies, net of reinsurance. In addition to reinsurance in place in respect of these policies, IAG entered into agreements with TMNF for it to hold any remaining exposure to trade credit insurance written by BCC on behalf of IAL before 30 June 2019.

IAL ceased underwriting trade credit insurance on 30 June 2019. The IAL trade credit portfolio is in run-off with IAL managing existing and future claims. The existing claims include both claims relating to Greensill entities and claims related to the remainder of the BCC trade credit portfolio. IAG has revised the outstanding claims liability to $471 million at 31 December 2022 (30 June 2022: $477 million) mainly due to recognition of claims handling expenses, with the majority relating to expected legal costs associated with claims notified, along with an assessment of existing claims following the receipt of additional claim information and an assessment of any new claims lodged during the year relating to the BCC portfolio. This has been determined in accordance with IAG's usual claims reserving practices, which takes into account an assessment of the validity of claims. IAG has also recognised $471 million (30 June 2022: $477 million) of related reinsurance recoveries and indemnities in respect of trade credit related claims, although a reinsurer may challenge its obligations with respect to any claim exposures.

D. RECOGNITION AND MEASUREMENT

I. Outstanding claims liability and claims expense

Claims expense represents the sum of claim payments and the movement in the closing outstanding claims liability from one financial period to the next.

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

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

a. CENTRAL ESTIMATE OF THE FUTURE CASH FLOWS

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

b. DISCOUNTING

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

c. RISK MARGIN

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

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

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

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

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

	31 December 2022	30 June 2022
	%	%
The percentage risk margin applied to the net outstanding claims liability	**20**	20
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.

NOTE 2.2 PROVISIONS

	31 December 2022	30 June 2022
	$m	$m
A. PROVISIONS		
Employee benefits	**315**	322
Restructuring provision	**6**	23
Customer refunds provision*	**186**	309
Payroll compliance provision	**6**	17
	513	671

* This balance includes an offsetting amount of $18 million (30 June 2022: $3 million) in respect of recoverable indirect taxes.

B. SIGNIFICANT MOVEMENTS DURING THE PERIOD

I. Customer refunds provision

This provision relates to multi-year pricing issues identified by IAG as part of a proactive review of its pricing systems and related business processes.

On 15 October 2021, IAG advised that ASIC had commenced civil penalty proceedings in the Federal Court of Australia alleging contraventions of the *ASIC Act 2001* and the *Corporations Act 2001* by Insurance Australia Limited (IAL), a wholly-owned subsidiary of the Company. The proceedings relate to IAL's failure to pass on the full amount of discounts to a significant number of NRMA Home, Motor, Caravan and Boat Insurance customers between March 2014 and September 2019. IAG identified this issue as part of a review in 2019 and self-reported the issue to ASIC. IAG is closely working with ASIC through the remediation program in respect of this issue. The customer refunds associated with these proceedings are covered by the customer refund provision, which also covers other products and pricing-related matters.

During the current half year period, there has been no net impact to earnings related to changes in the customer refund provision, with the reduction in the provision of $123 million relating to the impact of ongoing remediation payments to impacted customers and the incurrence of costs associated with running the program. The gross customer refunds provision was $186 million at 31 December 2022 (30 June 2022: $309 million). The provision comprises premium refunds, interest attributable to those refunds, the cost of administering the associated remediation program and other pricing-related matters. The appropriateness of all underlying assumptions continues to be reviewed as the remediation program progresses and the ASIC civil penalty proceedings conclude. Adjustments will be made to the provision, including for any civil penalty, where required.

II. Payroll compliance provision

This provision relates to a retrospective compliance review across a number of IAG's payroll-related procedures connected to primary and ancillary legislative and key entitlement obligations.

During the current half year period, there has been no net impact to earnings related to changes in the payroll compliance provision, with the reduction in the provision of $11 million relating to the settlement of employee entitlement shortfalls and the incurrence of costs associated with running the program. The gross payroll compliance provision was $6 million at 31 December 2022 (30 June 2022: $17 million). The provision has comprised employee entitlement shortfalls, interest applicable to those amounts and the cost of administering the associated remediation program.

C. RECOGNITION AND MEASUREMENT

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

NOTE 2.3 DISPOSAL OF BUSINESSES

On 19 July 2021, IAG announced that AmGeneral Holdings Berhad (AmGeneral), the Malaysian business in which it held a 49% interest, had signed an Implementation Agreement for the proposed sale of its insurance business to Liberty Insurance Berhad (Liberty). Regulatory approval for the sale was received on 28 June 2022 with completion of the transaction (including distribution of sale proceeds to IAG through a Court-approved capital reduction) occurring on 28 July 2022. IAG's share of the sale proceeds was $344 million, received in cash. This resulted in the recognition of an after tax loss of $7 million.

	31 December 2022 $m
Cash consideration received	344
Carrying amount of investment in associate	(338)
Other transaction costs	(3)
Profit on sale before income tax and reclassification of foreign currency translation reserve	3
Reclassification of foreign currency translation reserve	(10)
Loss on sale before income tax	(7)
Income tax (expense)/benefit	-
Loss on sale after income tax	(7)

NOTE 2.4 INTEREST-BEARING LIABILITIES

			31 December 2022		30 June 2022	
Final Maturity Date	**Issue Date**	**Principal Amount**	**Carrying Value $m**	**Fair Value $m**	Carrying Value $m	Fair Value $m
A. COMPOSITION						
I. Capital nature						
TIER 1 REGULATORY CAPITAL						
Capital notes						
No fixed date(1)(2)(3)	22 December 2016	$220 million	**220**	**225**	404	412
No fixed date(1)	22 December 2022	$500 million	**500**	**507**	-	-
			720		404	
TIER 2 REGULATORY CAPITAL						
AUD subordinated term notes						
15 December 2036	24 August 2020	$450 million	**450**	**444**	450	442
15 June 2044	29 March 2018	$350 million	**350**	**347**	350	349
15 June 2045	28 March 2019	$450 million	**450**	**443**	450	447
			1,250		1,250	
NZD subordinated term notes(4)						
15 June 2038	5 April 2022	NZ$400 million	**373**	**352**	362	352
II. Operational nature						
Other interest-bearing liabilities			**47**	**47**	50	50
Less: capitalised transaction costs			**(17)**		(11)	
			2,373		2,055	

(1) On 22 December 2022, the Company issued $500 million of Capital Notes 2. After allowance for a reinvestment offer for certain eligible holders of Capital Notes 1 issued in 2016 and transaction costs, the Company raised a net amount of $308 million.

(2) The principal amount reduced from $404 million on 22 December 2022 to $220 million as a result of the reinvestment offer noted above in relation to Capital Notes 2.

(3) Under the Capital Notes 1 Terms, IAG may elect to exchange the outstanding Capital Notes 1 on 15 June 2023, subject to APRA's prior written approval, further conditions and IAG's absolute discretion.

(4) At the reporting date, the Company recognised accrued interest of $1 million (30 June 2022: $1 million) which is presented within trade and other payables.

B. SIGNIFICANT MOVEMENTS DURING THE PERIOD
On 22 December 2022, the Company issued $500 million of Capital Notes 2. The Capital Notes 2 qualify as Additional Tier 1 Capital under APRA's Prudential Framework for General Insurance.

The significant terms and conditions of the issued Capital Notes 2 are as follows:
- distribution rate equals the sum of the three-month bank bill swap rate (BBSW) plus a margin of 3.50% per annum, adjusted for franking credits;
- payments of quarterly distributions are non-cumulative and 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, subject to certain exceptions;
- IAG may convert, redeem or resell capital notes on 15 June 2029, or upon occurrence of certain events, subject to APRA approval; and
- the capital notes are scheduled for mandatory conversion into a variable number of ordinary shares of the Company (subject to a maximum number of 210 million shares) on 15 March 2032 or each subsequent distribution payment date on which the mandatory conversion conditions are satisfied.

C. RECOGNITION AND MEASUREMENT
Interest-bearing liabilities are initially measured at fair value (net of transaction costs) and subsequently measured at amortised cost using the effective interest method. 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 term notes where their fair value is calculated using their quoted market price in a market that is considered to be lacking sufficient depth to be considered active (fair value hierarchy level 2).

NOTE 2.5 EQUITY

	31 December 2022	30 June 2022	**31 December 2022**	30 June 2022
	Number of shares in millions	Number of shares in millions	**$m**	$m
A. SHARE CAPITAL				
Ordinary shares				
Balance at the beginning of the financial period	**2,465**	2,465	**7,386**	7,386
On-market share buy-back, including transaction costs	**(15)**	-	**(73)**	-
Balance at the end of the financial period	**2,450**	2,465	**7,313**	7,386

B. NATURE AND PURPOSE OF EQUITY
All ordinary shares on issue are fully paid and have no par value. Ordinary shares entitle the holder to a vote at the general meeting of the Company and to participate in the dividends and the proceeds on winding up of the Company in proportion to the number of, and amounts paid on, the shares held. Shares are classified as equity when there is no obligation to transfer cash or other assets to the holder. Transaction costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

C. CHANGES DURING THE PERIOD
On 17 October 2022, IAG announced, it would undertake an on-market share buy-back of up to $350 million. The share buy-back commenced in November 2022 and has a proposed end date of 16 October 2023. During the current period, the Company has acquired on-market 15 million shares for a consideration of $73 million (including transaction costs) at an average price per share of $4.84.

3. INTERIM DISCLOSURES

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

NOTE 3.1 INVESTMENTS

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

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

I. Level 1 quoted prices
The fair value is determined by reference to quoted prices (mid-market) in active markets for identical assets and liabilities. For IAG, this category includes cash and short-term discount securities, government securities and listed equities.

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

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

- purchases of $67 million (31 December 2021: $1 million) and sales of $15 million (31 December 2021: $48 million) in interest-bearing instruments;
- purchases of $11 million (31 December 2021: $23 million) and sales of $42 million (31 December 2021: $100 million) in unlisted equity; and
- there have been no significant transfers between Level 2 and Level 3 during the current and prior financial periods.

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

	LEVEL 1 $m	LEVEL 2 $m	LEVEL 3 $m	TOTAL $m
31 December 2022				
Interest-bearing investments	**3,220**	**7,408**	**389**	**11,017**
Growth investments	**569**	**219**	**331**	**1,119**
Derivatives	**-**	**39**	**-**	**39**
	3,789	**7,666**	**720**	**12,175**
30 June 2022				
Interest-bearing investments	3,160	6,986	354	10,500
Growth investments	555	357	401	1,313
	3,715	7,343	755	11,813

NOTE 3.2 EARNINGS PER SHARE

	31 December 2022 cents	31 December 2021 cents
A. REPORTING PERIOD VALUES		
Continuing and discontinued operations		
Basic earnings per ordinary share(1)(2)	**19.02**	7.03
Diluted earnings per ordinary share(3)	**17.62**	6.64
Continuing operations		
Basic earnings per ordinary share(1)(2)	**19.02**	6.99
Diluted earnings per ordinary share(3)	**17.62**	6.60

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

(2) In relation to the basic earnings per ordinary share of 19.02 cents for the current half year period, 10.24 cents per ordinary share relates to the business interruption provision release of $360 million ($252 million post-tax). On 17 October 2022, IAG announced, it would undertake an on-market share buy-back of up to $350 million. The share buy-back commenced in November 2022 and has a proposed end date of 16 October 2023.

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

	31 December 2022 $m	31 December 2021 $m
B. RECONCILIATION OF EARNINGS USED IN CALCULATING EARNINGS PER SHARE		
Profit/(loss) attributable to shareholders of the Parent which is used in calculating basic and diluted earnings per share	**468**	173
Finance costs of convertible securities, net of tax	**36**	10
Profit/(loss) attributable to shareholders of the Parent which is used in calculating diluted earnings per share	**504**	183
Profit/(loss) from continuing operations attributable to shareholders of the Parent	**468**	172
Profit/(loss) from discontinued operations attributable to shareholders of the Parent	**-**	1

	31 December 2022 Number of shares in millions	31 December 2021 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	**2,460**	2,462
Weighted average number of dilutive potential ordinary shares relating to:		
Convertible securities	**398**	292
Unvested share-based remuneration rights supported by treasury shares held in trust	**2**	3
	2,860	2,757

NOTE 3.3 DIVIDENDS

	31 December 2022 Cents per share	31 December 2022 $m	31 December 2021 Cents per share	31 December 2021 $m
A. ORDINARY SHARES				
2022 70% franked final dividend paid on 22 September 2022 (31 December 2021: 2021 unfranked final dividend)	**5.0**	**123**	13.0	320
B. DIVIDEND NOT RECOGNISED AT REPORTING DATE				
2023 30% franked interim dividend (31 December 2021: 2022 unfranked interim dividend) to be paid on 23 March 2023	**6.0**	**147**	6.0	148

C. DIVIDEND REINVESTMENT

The Company has a Dividend Reinvestment Plan (DRP) which allows eligible shareholders with ordinary shares to elect to receive their dividend entitlement in the form of ordinary shares of the Company. The price of DRP shares is the volume-weighted average price (VWAP), less a discount if determined by the Directors, calculated over the pricing period (which is at least five trading days) as determined by the Directors for each dividend payment date. A copy of the terms and conditions for the DRP is available at www.iag.com.au/shareholder-centre/dividends/reinvestment.

The DRP for the 2022 final dividend paid on 22 September 2022 was settled with the on-market purchase of 4.3 million shares priced at $4.64 per share (based on a daily VWAP for 5-day trading window from 29 August 2022 to 2 September 2022 inclusive, with no discount applied).

The DRP has been suspended for the 2023 interim dividend.

NOTE 3.4 DERIVATIVES

	31 December 2022			30 June 2022		
	Notional contract amount	**Fair value asset**	**Fair value liability**	Notional contract amount	Fair value asset	Fair value liability
	$m	**$m**	**$m**	$m	$m	$m
A. REPORTING DATE POSITIONS						
I. Net investment hedges (hedge accounting applied)						
Forward foreign exchange contracts	**-**	**-**	**-**	737	2	(13)
II. Derivatives (without hedge accounting applied)						
Bond futures	**2,974**	**-**	**(40)**	2,380	-	-
Share price index futures	**11**	**-**	**-**	17	-	-
Forward foreign exchange contracts	**3,747**	**52**	**-**	3,199	1	(75)

B. RECOGNITION AND MEASUREMENT

I. Hedge accounting

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

II. Derivatives without hedge accounting applied

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

NOTE 3.5 CONTINGENCIES

As at 31 December 2022, the Group had the following specific contingent liability to report:

- On 1 August 2022, IAG announced it had been served with a shareholder representative proceeding filed in the Supreme Court of Victoria on behalf of persons who acquired shares in IAG during the period 11 March 2020 and 20 November 2020 (inclusive), in relation to IAG's disclosure of the potential impact of COVID-19 related business interruption claims. It is currently not possible to determine the ultimate financial impact this proceeding may have on IAG, if any. IAG continues to defend the proceeding.

From time to time the Group is exposed to contingent risks and liabilities arising from the conduct of its business including:

- actual and potential disputes, claims and legal proceedings, including litigation arising out of insurance policies and regulatory matters;
- investigations into conduct, including actual and potential regulatory breaches, carried out by regulatory authorities on either an industry-wide or Group-specific basis;
- internal investigations and reviews into conduct, including actual and potential regulatory breaches, carried out by or on behalf of the Group; and
- contracts that involve giving contingent commitments such as warranties, indemnities or guarantees.

Such matters are often highly complex and uncertain. 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. Where appropriate, provisions have been made (refer to Note 2.2 for further details on provisions).

NOTE 3.6 EVENTS SUBSEQUENT TO REPORTING DATE

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

- On 13 February 2023, the Board determined to pay an interim dividend of 6.0 cents per share, franked to 30%. The dividend will be paid on 23 March 2023. The Company's Dividend Reinvestment Plan (DRP) has been suspended for the interim dividend.
- As announced on 3 February 2023, IAG's reported profitability in the second half of the current financial year will include net natural peril claim costs from the severe storms and flooding in Auckland and the North Island (Auckland event) which commenced Friday 27 January 2023. As advised on 9 January 2023, based on a combination of IAG's catastrophe and whole-of account quota share arrangements, the Maximum Event Retention at 1 January 2023 was $236 million. A preliminary assessment of expected claims for the Auckland event indicates that the natural perils cost impact, net of reinsurance, will be at the $236 million retention level.
- On 3 February 2023, IAG also provided an update on its preliminary financial results for the half year ended 31 December 2022. IAG announced it expects FY23 GWP growth to be around 10%, an increase from the previous guidance of 'mid to high-single digit'. This reflects further increases in premiums in response to inflation, natural perils experience, and additional reinsurance costs. The combination of the increase in the expectation for natural perils, the additional reinsurance drop-down reinstatement premium, the anticipated inflationary impact on claims following the Auckland event and the overall macro-economic environment results in the FY23 reported insurance margin being revised to around 10% from the previous range of 14% to 16%. These financial statements are consistent with the preliminary financial results reported.

- On 12 January 2023, IAG announced the renewal of its largest Whole of Account Quota Share (WAQS) agreement, with National Indemnity Company, a subsidiary of Berkshire Hathaway Inc., which represents 20% of the total 32.5% WAQS program. The renewed agreement, effective 1 January 2023, applies until December 2029. The Strategic Relationship Agreement and the equity ownership Subscription Agreement, originally announced on 16 June 2015, will not be continuing under the new arrangements.
- On 9 January 2023, IAG announced it had agreed terms to renew arrangements with WAQS partners, Munich Re and Swiss Re, representing 10% of the 12.5% whole of account program that was due to expire on 30 June 2023. The new agreements became effective from 1 January 2023 and have a term of five years.

NOTE 3.7 NET TANGIBLE ASSETS

	31 December 2022	30 June 2022
	$	$
Net tangible assets per ordinary share	**1.20**	1.12

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

NOTE 3.8 IMPACT OF NEW AUSTRALIAN ACCOUNTING STANDARDS ISSUED

ISSUED BUT NOT YET EFFECTIVE

AASB 17 Insurance Contracts

AASB 17, the new accounting standard for insurance contracts, will be effective for the Group from 1 July 2023. The Annual Report of Insurance Australia Group Limited for the year ended 30 June 2022 included disclosure on the key areas impacted by the standard in Note 8.5.

IAG continues to monitor market developments, as a result of the evolving interpretations, in considering its approach to setting Group-wide accounting policies, developing application methodologies, establishing appropriate processes and controls, sourcing required data and implementing actuarial and finance system changes. As previously disclosed, IAG intends to use, to the extent permissible by *AASB 17*, the premium allocation approach for both insurance and reinsurance contracts. IAG is nearing completion of its detailed impact assessment and has indicatively determined that the Group is expected to be eligible to apply the premium allocation approach to insurance contracts issued and to its non-proportional reinsurance contracts held. This indicative outcome is based on the latest assessment undertaken and current portfolio mix. A full eligibility assessment of the remaining contracts is in progress, with primary focus on determining the measurement model applicable to IAG’s multi-year whole-of-account reinsurance contracts. The requirements of *AASB 17* are complex and IAG’s expectations are subject to change as it continues to assess the impact of the standard and interpretation developments. However, ultimately *AASB 17* is not expected to change the underlying economics or cash flows of IAG’s business but has the potential to impact profit emergence profiles. Although IAG’s *AASB 17* implementation project has made significant progress, as some material judgements are still under consideration and global interpretations continue to evolve, at this time it is not practicable to reliably quantify the effects on IAG’s consolidated financial statements.

Regulators, including the Australian Prudential Regulation Authority (APRA) and Australian Taxation Office (ATO) continue to consider their response to the new standard. On 27 September 2022, APRA finalised changes to the capital and reporting frameworks for insurance. A full assessment of the impact on capital requirements of the amended APRA prudential standards is currently underway. APRA's objective, throughout the consultation process, has been to minimise undue burden on industry, and seek capital neutrality where possible and appropriate.

DIRECTORS' DECLARATION

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

- the consolidated financial statements and Notes 1 to 3.8 are in accordance with the *Corporations Act 2001* including:
  - giving a true and fair view of the financial position of the Group as at 31 December 2022 and of its performance, as represented by the results of its operations and its cash flows, for the half year ended on that date; and
  - complying with Australian Accounting Standard *AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed at Sydney this 13th day of February 2023 in accordance with a resolution of the Directors.

Nick Hawkins
Director

INDEPENDENT AUDITOR'S REVIEW REPORT

KPMG

TO THE SHAREHOLDERS OF INSURANCE AUSTRALIA GROUP LIMITED

Conclusion

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

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

- giving a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the half year ended on that date; and
- complying with Australian Accounting Standard *AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The half year financial report comprises:

- Consolidated balance sheet as at 31 December 2022;
- Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated cash flow statement for the half year ended on that date;
- Notes 1 to 3.8 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' declaration.

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

Basis for conclusion

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

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

Responsibilities of the Directors for the half year financial report

The Directors of the Company are responsible for:

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

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

Our responsibility is to express a conclusion on the half year financial report based on our review. *ASRE 2410* requires us to conclude whether we have become aware of any matter that makes us believe that the half year financial report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2022 and its performance for the half year ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

KPMG.

KPMG

Brendan Twining
Partner

Sydney
13 February 2023

Andrew Reeves
Partner