IAG NEW ZEALAND LIMITED

AND SUBSIDIARIES

ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2018

IAG NEW ZEALAND LIMITED AND SUBSIDIARIES
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IAG NEW ZEALAND LIMITED AND SUBSIDIARIES
DIRECTORS' REPORT

The Directors present their report together with the financial report of IAG New Zealand Limited (Company) and the consolidated financial report of IAG New Zealand Limited and its subsidiaries (Consolidated entity) for the financial year ended 30 June 2018 and the auditor's report thereon.

DIRECTORS

The Company's Directors in office at any time during or since the end of the financial year are as follows:

H.A. Fletcher (Chair), S.C. Allen, M.M. Devine, N.B. Hawkins, D.A. McKay and C.J. Olsen.

Directors were in office for the entire period unless otherwise stated.

PRINCIPAL ACTIVITY

The principal continuing activity of the Consolidated entity during the year was the underwriting of general insurance through IAG New Zealand Limited (Company) and related corporate services and investing activities.

FINANCIAL RESULTS OF THE CONSOLIDATED ENTITY

	30 June 2018 $000
Profit Before Income Tax	179,681
Income Tax Expense	(46,651)
Profit After Income Tax	133,030
Other Comprehensive Income and (Expense), net of Tax	229
Retained earnings as at 30 June 2017	(1,113,138)
Dividends paid	(141,200)
Retained earnings as at 30 June 2018	(1,121,079)
The state of the Consolidated entity's affairs as at 30 June 2018 was:	
Equity	1,305,664
Represented by:	
Assets	4,700,403
Liabilities	(3,394,739)
	1,305,664

REVIEW OF OPERATIONS

The net result of the Consolidated entity after applicable income tax for the financial year ended 30 June 2018 was a profit of $133.0 million. (2017 - profit of $85.6 million).

DIVIDENDS

Dividends of $141.2 million were paid during the year (2017 - $43.5 million).

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

The Company continues to be impacted by the Canterbury earthquakes that occurred in 2010 to 2011, as well as the aftershocks experienced in 2012. The Company's reinsurance arrangements have significantly mitigated the gross costs attributable to the Canterbury earthquakes. To further mitigate the uncertainty of the gross costs attributable to the earthquakes, effective 1 January 2016, IAG NZ purchased adverse development cover (ADC) which provides $900 million of additional protection. The Canterbury earthquakes have adversely impacted the reported underwriting profit by $22.8 million (2017 - $3.9 million).

Excluding the impact of the earthquake events noted above, the underwriting profit for the year is $160.6 million (2017 - $141.2 million).

Effective 1 January 2018, the Company has entered into a whole of account 12.5% quota share agreement with reinsurers Munich Re, Swiss Re and Hannover Re. The Company ceded 12.5% of Gross Written Premium and has recovered 12.5% of all claims during the period. The Company was also reimbursed for its share of operating costs and received a percentage based fee of the premium ceded. This is in addition to the existing 20% quota share agreement with Berkshire Hathaway effective 1 July 2015.

EVENTS SUBSEQUENT TO REPORTING DATE

On the 8th of August 2018, the Board determined to pay a dividend of $8 million to IAG (NZ) Holdings Limited. The dividend will be paid on or before 15 September 2018.

On the 8th of August 2018, the Board also resolved to buy back and cancel 100 million $1 ordinary shares issued by the Company from IAG (NZ) Holdings Limited.

DIRECTORS' USE OF COMPANY INFORMATION

During the reporting period the Board received no notices from Directors of the Company requesting to use Company information received in their capacity as Directors, which would not otherwise have been available to them.

DIRECTORS' REMUNERATION, INTERESTS AND EMPLOYEE REMUNERATION

The Company, with its shareholder's approval, has applied the exemption available under section 211(3) of the Companies Act 1993 in not disclosing the information required under section 211(1) paragraphs (a) and (e) to (j) of the Companies Act 1993.

AUDITOR

It is proposed that the auditor, KPMG, continue in office in accordance with section 207T of the Companies Act 1993.

Signed at Auckland this 8th day of August 2018 in accordance with a resolution of the Directors.

H A Fletcher
....
Director

....
Director

IAG NEW ZEALAND LIMITED AND SUBSIDIARIES
CORPORATE GOVERNANCE STATEMENT

THE BOARD

The Board is accountable to the shareholder for the performance, operations and affairs of the Company. The role of the Board is to govern the Company by ensuring that there is an effective governance framework in place to promote and protect the Company's interests for the benefit of stakeholders, including compliance with New Zealand law and regulations. The Directors represent and serve the interests of the shareholder and collectively oversee and appraise the strategies, policies and performance of the Company.

The Board is responsible for oversight, including:

- driving the strategic direction of the Company and approving corporate strategies;
- approving significant corporate initiatives including major acquisitions and divestments, projects, and capital management transactions;
- approving the Company's risk management programme, including risk appetite and tolerance;
- evaluating Board processes and performance of the Board as a whole, as well as contributions by individual Directors;
- monitoring management's performance and the exercise of the Board's delegated authority;
- evaluating regularly and, if necessary, replacing the Chief Executive Officer (CEO);
- reviewing CEO, Chief Financial Officer (CFO) and senior management succession planning; and
- setting standards for and ensuring that proper governance practices (including appropriate standards of ethical behaviour, corporate governance, and social and environmental responsibility) are adhered to at all times.

The Board currently comprises four Independent Non-Executive Directors and two Executive Directors. The Board considers its size and composition annually. The Board's policy is to ensure that the Board comprises Directors who collectively have the relevant experience, knowledge, diversity and skills required, taking into account the Company's current size, market position, complexity and strategic focus.

The Directors in office at the date of this report are as follows:

H.A. FLETCHER - Chair and Independent Non-Executive Director
BSc, BCom, MCom (Hons), MBA

Mr Hugh Fletcher was appointed Chair of IAG New Zealand Limited in July 2003 and as a Director of Insurance Australia Group Limited in September 2007. Mr Fletcher is also Chair of IAG (NZ) Holdings Limited and IAG New Zealand Limited's Nomination, People and Remuneration Committee. He is a member of IAG New Zealand Limited's Risk and Audit Committees. Mr Fletcher was formerly the Chairman (and Independent Director since December 1998) of New Zealand Insurance Limited and CGNU Australia.

Mr Fletcher is currently a Non-Executive Director of AMI Insurance Limited, Fletcher Brothers Limited, Insurance Australia Group Limited, IAG Finance (New Zealand) Limited, IAG (NZ) Holdings Limited, Lumley General Insurance (N.Z.) Limited, NZI Staff Superannuation Fund Nominees Limited and Rubicon Limited. Mr Fletcher is a Trustee of The University of Auckland Foundation, The Dilworth Trust and the New Zealand Portrait Gallery Trust. Mr Fletcher was formerly Chief Executive Officer of Fletcher Challenge Limited, a New Zealand headquartered corporation with assets in the global building, energy, forestry and paper industries. He retired from an executive position in December 1997 after 28 years as an Executive, 11 of which he served as Chief Executive.

Mr Fletcher is a former Deputy Chairman of the Reserve Bank of New Zealand, former member of the Asia Pacific Advisory Committee of the New York Stock Exchange, former Non-Executive Director of Fletcher Building Limited, and has been involved as an Executive and Non-Executive Director in many countries in Asia, including China, India, Singapore, Indonesia, Malaysia and Thailand.

S.C. ALLEN - Independent Non-Executive Director
BSc, BCom

Mr Simon Allen was appointed as a Non-Executive Director of IAG New Zealand Limited on 1 September 2015.

Mr Allen has over 30 years' commercial experience in the New Zealand and Australian Capital Markets.

He was the Chief Executive of investment bank BZW and ABN AMRO in New Zealand for 21 years and has been actively involved in advising New Zealand companies, Government and investors on matters relating to their strategies and capital markets participation.

Mr Allen is currently Chair of Crown Infrastructure Partners and The New Zealand Refining Limited.

He is a Director of Gibbston Highway Limited, IAG (NZ) Holdings Limited and a Trustee of the Antarctic Heritage Trust.

Past governance roles include Auckland Council Investments, Chair at St Cuthbert's College, the Financial Markets Authority and the NZX Limited. Mr Allen has held directorships at the New Zealand Stock Exchange (NZSE), Auckland Healthcare Services Limited as well as several other unlisted companies.

M.M. DEVINE - Independent Non-Executive Director
ONZM, BCom, MBA
Ms Mary Devine was appointed as a Non-Executive Director of IAG New Zealand Limited on 27 April 2012 and is Chair of IAG New Zealand Limited's Risk Committee.

Ms Devine currently holds directorships with Briscoe Group Limited, Christchurch City Holdings Limited, IAG (NZ) Holdings Limited, Meridian Energy Limited and Foodstuffs South Island Limited.

Ms Devine is a former Managing Director of department store J. Ballantyne & Co and former Chief Executive of the Australasian multi-channel retailer EziBuy. She has particular experience in corporate strategy, brand marketing and multi-channel retailing. Ms Devine was previously a Director of the Advisory Board for the transition of Canterbury Earthquake Recovery Authority (CERA).

In 2013, Ms Devine was awarded an Officer of the New Zealand Order of Merit (ONZM) for services to business.

N.B. HAWKINS – Executive Director
Chief Financial Officer, Australia
BCom, FCA
Mr Nick Hawkins is IAG's Chief Financial Officer and was appointed an Executive Director of IAG New Zealand Limited in March 2006. Mr Hawkins leads the team that provides Group-wide financial insight, actively managing and optimising the balance sheet and capital platform, in addition to managing the company's reinsurance programme. He also has oversight of IAG's operations in Asia.

Mr Hawkins joined IAG in 2001 and was appointed Chief Financial Officer in 2008. Mr Hawkins has previously held a number of senior roles with the Group, including as Chief Executive Officer of IAG's New Zealand business, Head of Asset Management & Group Strategy and General Manager Group Finance.

Before joining IAG, Mr Hawkins was a partner with the international accounting firm KPMG, where he specialised in working with financial services clients.

Mr Hawkins is a Director of IAG Finance (New Zealand) Limited, IAG (NZ) Holdings Limited and a number of Insurance Australia Group Limited subsidiary companies.

D.A. McKAY - Independent Non-Executive Director
ONZM, BA, AMP (Harvard)
Mr Doug McKay was appointed as a Non-Executive Director of IAG New Zealand Limited on 10 February 2014 and is Chair of IAG New Zealand Limited's Audit Committee.

Mr McKay is Chair of Bank of New Zealand Limited, the Eden Park Trust Board and is a member of the Institute of Directors in New Zealand. Mr McKay currently holds directorships with Genesis Energy Limited, IAG (NZ) Holdings Limited, National Australia Bank Limited, Tourism Transport Limited, Wymac Consulting Limited and is a Trustee of W.H. Hargreaves Trust.

Mr McKay has held previous executive positions with Lion Nathan Limited, Carter Holt Harvey Limited, Goodman Fielder Pty Limited, Sealord Group Limited, Independent Liquor (NZ) Limited and Procter & Gamble. Mr McKay was the inaugural Chief Executive of the Auckland Council from May 2010 to December 2013.

In 2015, Mr McKay was awarded an Officer of the New Zealand Order of Merit (ONZM) for services to business and local government.

C.J. OLSEN - Executive Director
Chief Executive Officer, New Zealand
BAAcc
Mr Craig Olsen has over 25 years' experience in the insurance industry. Mr Olsen was appointed Chief Executive New Zealand in December 2015 with a commencement date of 1 January 2016.

Mr Olsen was previously Executive General Manager – Direct Insurance New Zealand. Prior to that, he was Executive General Manager – Transformation, responsible for the successful integration of AMI into IAG in New Zealand.

Mr Olsen joined IAG in 2000 and has held a number of senior roles in Australia and New Zealand, including Head of Workers' Compensation – Victoria; and national General Manager of CGU Workers' Compensation division.

Mr Olsen is a director of AMI Insurance Limited, IAG (NZ) Holdings Limited, the Insurance Council of New Zealand, Loyalty New Zealand Limited and Lumley General Insurance (N.Z.) Limited.

Mr Olsen has a Bachelor of Accountancy from the University of South Australia and has completed programs at the Australian Graduate School of Management and the Australian Institute of Company Directors.

BOARD COMMITTEES

AUDIT COMMITTEE

Current membership of the Audit Committee is Doug McKay (Chair), Simon Allen, Mary Devine and Hugh Fletcher.

The purpose of the Audit Committee is to assist the Board in fulfilling its statutory and fiduciary responsibilities by monitoring:

- the integrity of external and internal financial reporting, including compliance with applicable laws, regulations and other requirements in relation to external financial reporting;
- that Directors and management are provided with high quality financial and non-financial information that reflects a true and fair view of the Company's performance and can be relied on by them to make informed judgements;
- tax and financial risks;
- that the independence of the external auditor, the internal auditor and the Appointed Actuary is safeguarded.

RISK COMMITTEE

Current membership of the Risk Committee is Mary Devine (Chair), Simon Allen, Hugh Fletcher and Doug McKay.

The purpose of the Risk Committee is to assist the Board with discharging its responsibilities to exercise due care, skill and diligence regarding:

- effective oversight of material risks and oversight of risk management and control systems for adequacy and effective function;
- monitoring compliance with the Company's Risk Management Programme and associated policies, Group Risk Management Strategy and associated policies and Group Reinsurance Management Strategy;
- effective operation and oversight of compliance systems and to ensure compliance with the requirements of applicable laws, regulations, industry codes and organisational policies and standards;
- oversight of the Company's risk management and governance frameworks; and
- safeguarding the independence of the Appointed Actuary and Chief Risk Officer.

NOMINATION, PEOPLE AND REMUNERATION COMMITTEE

Current membership of the Nomination, People and Remuneration Committee is Hugh Fletcher (Chair), Simon Allen, Mary Devine and Doug McKay.

The key role of the Nomination, People and Remuneration Committee is to:

- review and determine Director and Executive remuneration; and
- review Board capabilities, composition and succession planning.

MANAGEMENT COMMITTEES

LEADERSHIP TEAM RISK COMMITTEE (LTRC)

Current membership of the LTRC is Craig Olsen (Chair), Melissa Cantell, Anna Cleland, Kevin Hughes, Martin Hunter, Alistair Smith, Garry Taylor and Blair Williams.

The LTRC oversees the operation and governance of the Leadership Team Audit Committee and the Insurance Risk Committee directly overseeing operational and strategic risk.

The role of the LTRC is to promote a proactive risk management culture; to ensure adequate awareness and debate; and provide adequate management oversight of all significant risks in relation to the following risk areas:

- strategic
- insurance
- reinsurance
- financial
- operational

LEADERSHIP TEAM AUDIT COMMITTEE (LTAC)

Current membership of the LTAC is Alistair Smith (Chair), Scott Barkman, Christian Barrington and Martin Hunter.

The purpose of the LTAC is to allow senior management of the Company to provide input into the formulation of recommendations for the Board concerning issues related to:

- reinsurance - including endorsement of major reinsurance renewal strategies;
- capital management - including processes, risk appetite, economic capital targets and minimum capital requirements as prescribed by the Reserve Bank of New Zealand;
- asset and liability management - including overseeing market risk and making recommendations to the Board regarding balance sheet and capital mix; and
- risk management.

INSURANCE RISK COMMITTEE (IRC)

Current membership of the IRC is Martin Hunter (Chair), Christian Barrington, Kevin Hughes, Darren Maher and Alistair Smith.

The role of the IRC is to implement and oversee compliance with the New Zealand Business Division Licence (the IAG Group-granted licence governing pricing, underwriting and claims).

RESERVING COMMITTEE
Current membership of the Reserving Committee is Alistair Smith (Chair), Christian Barrington, Kevin Hughes, Martin Hunter and Garry Taylor.

The role of the Reserving Committee is to review the adequacy of the technical reserves of the insurance business including reviewing the recommendations of the Actuarial Team.

CHIEF EXECUTIVE OFFICER (CEO)

The Board has delegated responsibility for the overall management and profit performance of the Company, including all day-to-day operations and administration, to the CEO, who is responsible for:

- the efficient and effective operation of the Company;
- fostering a culture of performance, integrity, respect and a considered sense of urgency;
- ensuring the ongoing development, implementation and monitoring of IAG's risk management and internal controls framework;
- ensuring the Board is provided with accurate and clear information in a timely manner to promote effective decision-making; and
- ensuring all material matters affecting the Company are brought to the Board's attention.

The CEO, together with the New Zealand Leadership Team, manages the Company in accordance with the policies, budget, corporate plan and strategies approved by the Board, and has the power to manage the Company, subject to the limits set out in the Charter of CEO Delegated Authority Limits.

CORPORATE GOVERNANCE POLICIES, PRACTICES AND PROCESSES
The Company is a member of Insurance Australia Group Limited ("IAG Group") and is committed to operating and complying with all IAG Group operating policies and procedures, except where they are inconsistent with the requirements of New Zealand law or regulations, or where the Board considers they are not in the best interests of the Company. Where further refinement of IAG Group policies and procedures is required to better reflect the New Zealand regulatory, legislative or operating environment, the Company has specific policies in place to address the New Zealand situation.

The Company's corporate governance policies, practices and processes are contained in the Company's Risk Management Programme which has been approved by the Reserve Bank of New Zealand.

IAG NEW ZEALAND LIMITED AND SUBSIDIARIES
FINANCIAL REPORT

IAG NEW ZEALAND LIMITED AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2018

	NOTE	PARENT		CONSOLIDATED	
		2018	2017	**2018**	2017
		$000	$000	**$000**	$000
Premium revenue	4	**2,575,235**	2,419,719	**2,575,235**	2,419,719
Outwards reinsurance premium expense		**(998,962)**	(857,192)	**(998,962)**	(857,192)
Net premium revenue (i)		**1,576,273**	1,562,527	**1,576,273**	1,562,527
Claims expense	8	**(1,784,600)**	(2,119,915)	**(1,784,600)**	(2,119,915)
Reinsurance and other recoveries revenue	4	**746,420**	1,018,904	**746,420**	1,018,904
Net claims expense (ii)	8	**(1,038,180)**	(1,101,011)	**(1,038,180)**	(1,101,011)
Acquisition costs	5	**(458,411)**	(446,363)	**458,411**	(446,363)
Reinsurance commission revenue	4	**213,314**	154,846	**213,314**	154,846
Net acquisition costs		**(245,097)**	(291,517)	**(245,097)**	(291,517)
Other underwriting expenses	5	**(155,215)**	(136,854)	**(155,215)**	(136,854)
Underwriting expenses (iii)		**(400,312)**	(428,371)	**(400,312)**	(428,371)
Underwriting profit (i) + (ii) + (iii)		**137,781**	33,145	**137,781**	33,145
Investment income on assets backing insurance liabilities	4	**16,028**	22,576	**16,028**	22,576
Investment expenses on assets backing insurance liabilities		**(1,517)**	(1,970)	**(1,517)**	(1,970)
Insurance profit		**152,292**	53,751	**152,292**	53,751
Investment income on shareholder's funds	4	**27,630**	63,400	**28,204**	63,751
Fee based, corporate and other expenses	5	**(815)**	(710)	**(815)**	(711)
Profit before income tax		**179,107**	116,441	**179,681**	116,791
Income tax (expense)/credit	7	**(46,651)**	(31,220)	**(46,651)**	(31,220)
Profit for the year		**132,456**	85,221	**133,030**	85,571
OTHER COMPREHENSIVE INCOME AND (EXPENSE), NET OF TAX					
Items that will not be reclassified to profit or loss:					
Remeasurements of defined benefit plans		**313**	(674)	**313**	(674)
Income tax (expense)/credit on other comprehensive income and (expense)		**(84)**	203	**(84)**	203
Other comprehensive income and (expense), net of tax		**229**	(471)	**229**	(471)
Total comprehensive income and (expense) for the year, net of tax		**132,685**	84,750	**133,259**	85,100

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

IAG NEW ZEALAND LIMITED AND SUBSIDIARIES
BALANCE SHEETS AS AT 30 JUNE 2018

	NOTE	PARENT		CONSOLIDATED	
		2018	2017	**2018**	2017
		$000	$000	**$000**	$000
ASSETS					
Cash held for operational purposes	23	**53,087**	53,910	**53,091**	53,914
Investments	12	**1,239,075**	1,244,192	**1,241,583**	1,246,334
Premium receivable	13	**824,130**	706,121	**824,130**	706,121
Trade and other receivables	13	**162,773**	205,668	**162,773**	205,668
Receivables from related bodies corporate	21	**12**	12	**-**	-
Current tax assets		**18**	1	**19**	1
Deferred outwards reinsurance expense	10	**679,702**	545,080	**679,702**	545,080
Deferred acquisition costs	10	**207,176**	208,275	**207,176**	208,275
Reinsurance and other recoveries on outstanding claims	9	**831,939**	1,090,632	**831,939**	1,090,632
Deferred tax assets	7	**404,272**	432,140	**404,272**	432,140
Plant and equipment		**44,833**	40,865	**44,833**	40,865
Intangible assets	14	**30,064**	43,858	**30,064**	43,858
Investment in subsidiaries	16	**1,302**	1,302	**-**	-
Goodwill	15	**206,813**	206,813	**207,473**	207,473
Other assets		**13,534**	12,250	**13,348**	12,062
Total assets		**4,698,730**	4,791,119	**4,700,403**	4,792,423
LIABILITIES					
Trade and other payables	17	**202,285**	270,204	**203,952**	272,034
Reinsurance premium payable		**478,708**	406,911	**478,708**	406,911
Payables to related bodies corporate	21	**35,034**	11,919	**35,034**	11,919
Unearned premium liability	11	**1,242,144**	1,121,160	**1,242,144**	1,121,160
Employee benefits provision	18	**38,594**	40,581	**38,594**	40,581
Outstanding claims liability	8	**1,290,433**	1,557,198	**1,290,433**	1,557,198
Other liabilities		**105,874**	69,023	**105,874**	69,023
Total liabilities		**3,393,072**	3,476,996	**3,394,739**	3,478,826
Net assets		**1,305,658**	1,314,123	**1,305,664**	1,313,597
EQUITY					
Ordinary share capital	22	**2,898,433**	2,898,433	**2,898,433**	2,898,433
General reserve	22	**(478,445)**	(478,445)	**(478,445)**	(478,445)
Equity reserve	22	**6,916**	6,866	**6,755**	6,747
Retained earnings		**(1,121,246)**	(1,112,731)	**(1,121,079)**	(1,113,138)
Total equity		**1,305,658**	1,314,123	**1,305,664**	1,313,597

Signed in Auckland this 8th day of August 2018 in accordance with a resolution of the Directors.

HHFletcher .... Director

.... Director

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

KPMG

IAG NEW ZEALAND LIMITED AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2018

CONSOLIDATED	SHARE CAPITAL $000	GENERAL RESERVE $000	EQUITY RESERVE $000	RETAINED EARNINGS $000	TOTAL EQUITY $000
2018					
Balance at the beginning of the financial year	**2,898,433**	**(478,445)**	**6,747**	**(1,113,138)**	**1,313,597**
Profit/(loss) for the year	-	-	-	**133,030**	**133,030**
Other comprehensive expense that will not be reclassified to profit or loss	-	-	-	**229**	**229**
Total comprehensive income/(expense) for the year	-	-	-	**133,259**	**133,259**
Shares repurchased	-	-	-	-	-
Share based payment	-	-	**8**	-	**8**
Dividends determined and paid	-	-	-	**(141,200)**	**(141,200)**
Balance at the end of the financial year	**2,898,433**	**(478,445)**	**6,755**	**(1,121,079)**	**1,305,664**
2017					
Balance at the beginning of the financial year	3,598,433	(478,445)	5,698	(1,154,788)	1,970,898
Profit/(loss) for the year	-	-	-	85,571	85,571
Other comprehensive expense that will not be reclassified to profit or loss	-	-	-	(471)	(471)
Total comprehensive income/(expense) for the year	-	-	-	85,100	85,100
Shares repurchased	(700,000)	-	-	-	(700,000)
Share based payment	-	-	1,049	-	1,049
Dividends determined and paid	-	-	-	(43,450)	(43,450)
Balance at the end of the financial year	2,898,433	(478,445)	6,747	(1,113,138)	1,313,597

PARENT	SHARE CAPITAL $000	GENERAL RESERVE $000	EQUITY RESERVE $000	RETAINED EARNINGS $000	TOTAL EQUITY $000
2018					
Balance at the beginning of the financial year	**2,898,433**	**(478,445)**	**6,866**	**(1,112,731)**	**1,314,123**
Profit/(loss) for the year	-	-	-	**132,456**	**132,456**
Other comprehensive expense that will not be reclassified to profit or loss	-	-	-	**229**	**229**
Total comprehensive income/(expense) for the year	-	-	-	**132,685**	**132,685**
Shares repurchased	-	-	-	-	-
Share based payment	-	-	**50**	-	**50**
Dividends determined and paid	-	-	-	**(141,200)**	**(141,200)**
Balance at the end of the financial year	**2,898,433**	**(478,445)**	**6,916**	**(1,121,246)**	**1,305,658**
2017					
Balance at the beginning of the financial year	3,598,433	(478,445)	5,772	(1,154,031)	1,971,729
Profit/(loss) for the year	-	-	-	85,221	85,221
Other comprehensive expense that will not be reclassified to profit or loss	-	-	-	(471)	(471)
Total comprehensive income/(expense) for the year	-	-	-	84,750	84,750
Shares repurchased	(700,000)	-	-	-	(700,000)
Share based payment	-	-	1,094	-	1,094
Dividends determined and paid	-	-	-	(43,450)	(43,450)
Balance at the end of the financial year	2,898,433	(478,445)	6,866	(1,112,731)	1,314,123

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

IAG NEW ZEALAND LIMITED AND SUBSIDIARIES
CASH FLOW STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

	NOTE	PARENT		CONSOLIDATED	
		2018	2017	**2018**	2017
		$000	$000	**$000**	$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Premium received		**2,578,211**	2,437,303	**2,578,211**	2,437,303
Reinsurance and other recoveries received		**900,737**	791,828	**900,737**	791,828
Claims costs paid		**(2,051,366)**	(2,157,905)	**(2,051,366)**	(2,157,905)
EQC claims paid, net of recoveries		**15,690**	(39,396)	**15,690**	(39,396)
Outwards reinsurance premium expense paid		**(997,039)**	(1,170,032)	**(997,039)**	(1,170,032)
Dividends received		**865**	1,134	**865**	1,134
Interest and Trust distributions received		**64,520**	66,233	**64,520**	66,233
Income taxes paid		**(18,886)**	(19,025)	**(18,886)**	(19,025)
Other operating receipts		**213,914**	163,874	**213,914**	163,874
Other operating payments		**(529,886)**	(588,283)	**(529,886)**	(588,283)
Net cash flows from operating activities	23	**176,760**	(514,269)	**176,760**	(514,269)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from disposal of investments and plant and equipment		**1,805,158**	2,625,982	**1,805,158**	2,625,982
Outlays for investments and plant and equipment		**(1,871,152)**	(1,912,353)	**(1,871,152)**	(1,912,353)
Net cash flows from investing activities		**(65,994)**	713,629	**(65,994)**	713,629
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid		**(141,200)**	(43,450)	**(141,200)**	(43,450)
Outlays for repurchase of shares		**-**	(700,000)	**-**	(700,000)
Proceeds from loans repaid by related bodies corporate		**-**	506,345	**-**	506,345
Net cash flows from financing activities		**(141,200)**	(237,105)	**(141,200)**	(237,105)
Net movement in cash held		**(30,434)**	(37,745)	**(30,434)**	(37,745)
Effects of exchange rate changes on balances of cash held in foreign currencies		**718**	102	**718**	102
Cash and cash equivalents at the beginning of the financial year		**95,257**	132,900	**95,261**	132,904
Cash and cash equivalents at the end of the financial year	23	**65,541**	95,257	**65,545**	95,261

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

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

IAG New Zealand Limited (Company) is a company limited by shares, incorporated and domiciled in New Zealand. Its registered office and principal place of business is 1 Fanshawe Street, Auckland, New Zealand. This financial report is for the reporting year ended 30 June 2018 and includes separate financial statements for the Company as an individual entity and consolidated financial statements for the Company and its subsidiaries (referred to as Consolidated entity).

The Company is wholly owned by IAG (NZ) Holdings Limited. The ultimate parent entity is Insurance Australia Group Limited (IAG), an entity incorporated in Australia. As part of the IAG Group (Group), the Company complies with a variety of policies and procedures developed by IAG for application by all entities in the Group where applicable.

With the implementation of the Insurance (Prudential Supervision) Act 2010 all general insurance entities undertaking insurance business in New Zealand are required to be licensed by the Reserve Bank of New Zealand (RBNZ). The Company has been granted a full licence. As a result of being a licensed insurer, the Company is deemed to be a FMC reporting entity under the Financial Markets Conduct Act 2013 (FMCA).

A. STATEMENT OF COMPLIANCE

This general purpose financial report has been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). The Company has applied New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) as applicable for Tier 1 for-profit entities and complies with NZ IFRS and other applicable Financial Reporting Standards, and Interpretations as appropriate to profit-oriented entities. The financial statements also comply with International Financial Reporting Standards (IFRS). The Company is a reporting entity for the purposes of the FMCA and its financial statements comply with this Act.

The financial statements also comply, where relevant, with the Insurance (Prudential Supervision) Act 2010 and associated Regulations.

B. BASIS OF PREPARATION OF THE FINANCIAL REPORT

The significant accounting policies adopted in the preparation of this financial report are set out below. The accounting policies adopted in the preparation of this financial report have been applied consistently by all entities in the Consolidated entity and are the same as those applied for the previous reporting year unless otherwise noted. The financial statements have been prepared on the basis of historical cost principles, as modified by certain exceptions noted in the financial report, with the principal exceptions being the measurement of all investments and derivatives at fair value and the measurement of the outstanding claims liability and related reinsurance and other recoveries at present value.

The presentation currency used for the preparation of this financial report is New Zealand dollars.

The balance sheet is prepared using the liquidity format in which the assets and liabilities are presented broadly in order of liquidity.

I. New Zealand accounting standards issued but not yet effective

As at the date of this financial report, there are a number of standards, amendments to standards and interpretations for which the mandatory application dates fall after the end of this current reporting year.

None of these standards have been early adopted and applied in the current reporting period or are expected to have a significant effect on the financial statements of the Consolidated entity, except for NZ IFRS 16 Leases (effective 1 January 2019) and IFRS 17 Insurance Contracts (effective 1 January 2021).

NZ IFRS 16 will require the recognition of a lease liability reflecting the obligation of future lease payments and a corresponding 'right-of-use' asset. Based on a preliminary assessment, the resulting amount to be recognised, in effect a gross up to the balance sheet, is expected to be approximately $133 million. This standard will be adopted for the financial year ending 30 June 2020.

IFRS 17 Insurance Contracts was released on 18 May 2017, with an expected effective date of 1 January 2021. The implementation date for the Consolidated entity will be for the year ending 30 June 2022, with the comparative period the year ended 30 June 2021. A detailed impact assessment has not yet been completed.

II. Changes in accounting policies

There have been no changes in accounting policies which have resulted in a material financial impact during the current financial reporting period.

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C. PRINCIPLES OF CONSOLIDATION

Subsidiaries

Consolidation is the inclusion of the assets and liabilities of the Parent and all subsidiaries as at the reporting date and the results of the Parent and all subsidiaries for the year then ended as if they had operated as a single entity. The balances and effects of intragroup transactions are eliminated from the consolidation. Subsidiaries are those entities controlled by the Parent. An investor controls an investee if and only if the investor has power over the investee; exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of the investor's returns. Where an entity either began or ceased to be controlled during a financial reporting period, the results are included only from the date control commenced or up to the date control ceased.

The financial information of all subsidiaries are prepared for consolidation for the same reporting period as the Parent, using consistent accounting policies.

In the Company's financial statements investments in subsidiaries are recognised at cost, unless there has been an impairment.

SIGNIFICANT ACCOUNTING POLICIES RELATED TO GENERAL INSURANCE CONTRACTS

All of the general insurance products and reinsurance products on offer, or utilised, meet the definition of an insurance contract (a contract under which one party, the insurer, accepts significant insurance risk from another party, the policyholder, by agreeing to compensate the policyholder if a specified uncertain future event, the insured event, adversely affects the policyholder) and none of the contracts contain embedded derivatives or are required to be unbundled. Insurance contracts that meet the definition of a financial guarantee contract are accounted for as insurance contracts. This means that all of the general insurance products are accounted for in the same manner.

D. PREMIUM REVENUE

Premium revenue comprises amounts charged to policyholders (direct premium) and excludes fire service and earthquake levies collected on behalf of statutory bodies. Premium is recognised as earned from the date of attachment of risk (generally the date a contract is agreed to but may be earlier if persuasive evidence of an arrangement exists) over the period of the related insurance contracts in accordance with the pattern of the incidence of risk expected under the contracts. The pattern of the risks underwritten is generally matched by the passing of time. The unearned portion of premium is recognised as an unearned premium liability on the balance sheet.

Premium receivable is recognised as the amount due and is normally settled between 30 days and 12 months. The recoverability of premium receivable is assessed and provision is made for impairment based on objective evidence and having regard to past default experience. Premium receivable is presented on the balance sheet net of any provision for impairment.

E. OUTWARDS REINSURANCE

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Accordingly, a portion of outwards reinsurance premium expense is treated as a prepayment and presented as deferred outwards reinsurance expense on the balance sheet at the reporting date. The reinsurance premium payable is carried at cost, which is the fair value of the consideration to be paid in the future for reinsurance received.

F. CLAIMS

The outstanding claims liability is measured as the central estimate of the present value of expected future payments relating to claims incurred at the reporting date with an additional risk margin to allow for the inherent uncertainty in the central estimate. The expected future payments include those in relation to claims reported but not yet paid or not yet paid in full, claims incurred but not enough reported (IBNER), claims incurred but not reported (IBNR) and the anticipated direct and indirect claims handling costs. The liability is discounted to present value using a risk free rate.

Claims expense represents claim payments adjusted for the movement in the outstanding claims liability.

The estimation of the outstanding claims liability involves a number of key assumptions and is the most critical accounting estimate. All reasonable steps are taken to ensure that the information used regarding claims exposures is appropriate. However, given the uncertainty in establishing the liability, it is likely that the final outcome will be different from the original liability established. Changes in claims estimates are recognised in profit or loss in the reporting year in which the estimates are changed.

G. REINSURANCE AND OTHER RECOVERIES

Reinsurance and other recoveries received or receivable on paid claims and on outstanding claims (notified and not yet notified) are recognised as income. Reinsurance recoveries on paid claims are presented as part of trade and other receivables net of any provision for impairment based on objective evidence for individual receivables. Reinsurance and other recoveries receivable on outstanding claims are measured as the present value of the expected future receipts calculated on the same basis as the outstanding claims liability. Reinsurance does not relieve the originating insurer of its liabilities to policyholders and is presented separately on the balance sheet.

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H. ACQUISITION COSTS
Costs associated with obtaining and recording general insurance contracts are referred to as acquisition costs. These costs include advertising expenses, commissions or brokerage paid to agents or brokers, premium collection costs, risk assessment costs and other administrative costs. Such costs are capitalised where they relate to the acquisition of new business or the renewal of existing business, are presented as deferred acquisition costs, and are amortised on the same basis as the earning pattern of the premium over the period of the related insurance contracts. The balance of the deferred acquisition costs at the reporting date represents the capitalised deferred acquisition costs relating to unearned premium.

I. REINSURANCE COMMISSION REVENUE
Reinsurance commission revenue includes reimbursements by reinsurers to cover a share of IAG NZ's operating costs and, where applicable, fee income which reinsurers pay for accessing IAG's franchise. These income items are recognised broadly in line with the reference premium over the term of the reinsurance agreements. Where applicable, the reinsurance commission revenue also includes income which is based on the expected profitability of the covered business ceded to the reinsurer. This income is recognised over the term of the reinsurance contract on a systematic basis.

J. LIABILITY ADEQUACY TEST
The liability adequacy test is an assessment of the carrying amount of the unearned premium liability and is conducted at each reporting date. If current estimates of the present value of the expected future cash flows relating to future claims arising from the rights and obligations under current general insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate, exceed the unearned premium liability (net of reinsurance) less related deferred acquisition costs, then the unearned premium liability is deemed to be deficient. Any deficiency arising from the test is recognised in profit or loss with the corresponding impact on the balance sheet recognised first through the write down of deferred acquisition costs for the relevant portfolio of contracts, with any remaining balance being recognised on the balance sheet as an unexpired risk liability. The test is performed at the level of a portfolio of contracts that are subject to broadly similar risks and that are managed together as a single portfolio.

SIGNIFICANT ACCOUNTING POLICIES APPLICABLE TO OTHER ACTIVITIES
K. FEE AND OTHER INCOME
Fee based revenue is brought to account on an accruals basis being recognised as revenue on a straight line basis in accordance with the passage of time as the services are provided. Other income is recognised on an accruals basis.

L. LEASES
With the exception of one lease, all the leases entered into are operating leases, where the lessor retains substantially all the risks and benefits of ownership of the leased items. The majority of the lease arrangements are entered into as lessee for which the lease payments are recognised as an expense on a straight line basis over the term of the lease. Certain sublease arrangements are entered into as the lessor for which the lease payments are recognised as revenue on a straight line basis over the term of the lease.

Lease incentives relating to the agreement of a new or renewed operating lease are recognised as an integral part of the net consideration agreed for the use of the leased asset. Operating lease incentives received are initially recognised as a liability, are presented as trade and other payables, and are subsequently reduced through recognition in profit or loss as an integral part of the total lease expense (lease payments are allocated between rental expense and reduction of the liability) on a straight line basis over the period of the lease.

M. TAXATION
I. Income tax
Income tax expense for a reporting period comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous financial periods. Deferred tax expense/credit is the change in deferred tax assets and liabilities between the reporting periods.

Deferred tax assets and liabilities are recognised using the balance sheet method for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except in the following circumstances when no deferred tax asset or liability is recognised:

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

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at reporting date. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

II. Goods and services tax
Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable. In these circumstances GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

Receivables and payables are stated inclusive of GST. The net amount of the GST recoverable from, or payable to, the Inland Revenue Department is included as part of other receivables and payables on the balance sheet.

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N. INVESTMENTS
Investments comprise assets held to back insurance liabilities (also referred to as technical reserves) and assets that represent shareholder's funds. All investments are managed and performance evaluated on a fair value basis for both external and internal reporting purposes in accordance with a documented risk management strategy.

All investments are designated as fair value through profit or loss upon initial recognition. They are initially recorded at fair value (being the cost of acquisition excluding transaction costs) and are 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. 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.

For securities traded in an active market, fair value is determined by reference to quoted mid-market prices at the current reporting date. For securities traded in a market that is not active, valuation techniques are used based on market observable inputs. In a limited number of instances, valuation techniques are based on non-market observable inputs.

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

O. INVESTMENT IN SUBSIDIARIES
Investment in subsidiaries is initially recognised at cost (fair value of consideration provided plus directly attributable costs) and is subsequently carried at the lower of cost and recoverable amount by the Company. Costs incurred in investigating and evaluating an acquisition up to the point of formal commitment to an acquisition are expensed as incurred. Where the carrying value exceeds the recoverable amount, an impairment charge is recognised in profit or loss which can subsequently be reversed in certain conditions.

Where an additional interest is purchased in an existing subsidiary, the acquisition is treated as a transaction between owners and has no impact on the statement of comprehensive income.

Dividend income from these investments is brought to account on an accruals basis. Dividend revenue is accrued on the date the dividends are declared.

P. DERIVATIVES
The Consolidated entity uses a variety of derivatives to manage various risks. Derivatives are used solely to manage risk exposure and are not used for trading or speculation.

Derivatives are initially recognised at fair value (generally the transaction price; the fair value of the consideration given or received) on the date a derivative contract is entered into and are subsequently remeasured to fair value at each reporting date. The fair value is determined by reference to current market quotes (current bid price for derivatives presented as assets and the current ask price for derivatives presented as liabilities) or generally accepted valuation principles. The derivatives become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates relative to their terms. Transaction costs for purchases of derivatives are expensed as incurred and presented in the statement of comprehensive income as investment expenses on assets backing insurance liabilities and fee based, corporate and other expenses for assets representing shareholder's funds.

I. Investment operations
All of the derivatives managed in conjunction with the investment operations are recognised on the balance sheet (presented together with the underlying investments) at fair value with movements in fair value being recognised as part of investment income in profit or loss. None of the derivatives are designated for hedge accounting. This matches the accounting for the derivatives with the accounting for the underlying investments.

II. Corporate treasury operations
Derivatives are used to hedge exposure to foreign currency and interest rate movements in relation to corporate treasury transactions, including interest bearing liabilities with the derivative being recognised on the balance sheet at fair value and movements in fair value being recognised in profit or loss. The derivatives are classified as assets when the fair value is positive, or as liabilities when the fair value is negative.

Q. TRADE AND OTHER RECEIVABLES
Trade and other receivables are stated at the amounts to be received in the future and are presented net of any provision for impairment. Due to their short tail nature trade and other receivables have not been stated at a discounted value. The recoverability of debts is assessed on an ongoing basis and provision for impairment is made based on objective evidence and having regard to past default experience. The impairment charge is recognised in profit or loss. Debts which are known to be uncollectible are written off.

R. PLANT AND EQUIPMENT
Plant and equipment is initially recorded at cost which is the fair value of consideration provided plus incidental costs directly attributable to the acquisition.

All items of plant and equipment are carried at cost less accumulated depreciation and accumulated impairment charges. Depreciation is calculated using the straight line method to allocate the cost of assets less any residual value over the estimated useful economic life. The useful economic lives for each class of property and equipment are as follows: 3 to 5 years for motor vehicles; and 3 to 15 years for office and other equipment.

The carrying amount of each class of plant and equipment is reviewed each reporting date by determining whether there is an indication that the carrying value of a class may be impaired. If any impairment is indicated or exists, the item is tested for impairment

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by comparing the recoverable amount of the asset or its cash generating unit to the carrying value. An impairment charge is recognised whenever the carrying value exceeds the recoverable amount. Impairment charges are recognised in profit or loss and may be reversed where there has been an indication that the loss may no longer exist and/or there is a change in the estimates used to determine the recoverable amount.

The net gain or loss on disposal of plant and equipment is recognised in profit or loss and is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds.

S. BUSINESS COMBINATIONS

Business combinations are accounted for using the acquisition method. The consideration transferred for the acquisition is the fair value of the assets transferred, the equity instruments issued and the liabilities incurred or assumed at the date of exchange. The consideration includes the fair value of any asset or liability resulting from a contingent consideration arrangement.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at fair value on the acquisition date. Any non-controlling interest is measured, on a transaction-by-transaction basis, either at fair value or at the non-controlling interest's proportionate share of the fair value of the identifiable assets and liabilities.

Acquisition related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Where settlement of any part of cash consideration is contingent upon some future event or circumstance, the estimated amounts payable in the future are discounted to their present value at the date of exchange. When the contingent consideration is classified as a liability, the impact on any subsequent changes in fair value is recognised as profit or loss in the statement of comprehensive income.

Where the initial accounting for a business combination is determined only provisionally by the first reporting date after acquisition date, the business combination is accounted for using those provisional values. Any subsequent adjustments to those provisional values are recognised within 12 months of the acquisition date and are applied effective from the acquisition date.

Acquisitions and disposals of non-controlling interests, where the Company retains control, are treated as transactions between equity holders. Therefore, any difference between the acquisition cost of the non-controlling interests and the carrying amount of the non-controlling interests is recognised as an increase or decrease in equity.

T. INTANGIBLE ASSETS

I. Acquired intangible assets

Acquired intangible assets are initially recorded at their cost at the date of acquisition being the fair value of the consideration provided and, for assets acquired separately, incidental costs directly attributable to the acquisition. Intangible assets with finite useful lives are amortised on a straight line basis (unless the pattern of usage of the benefits is significantly different) over the estimated useful lives of the assets being the period in which the related benefits are expected to be realised (shorter of legal duration and expected economic life). Amortisation rates and residual values are reviewed annually and any changes are accounted for prospectively.

The carrying amount of intangible assets with finite useful lives is reviewed each reporting date by determining whether there is an indication that the carrying value may be impaired. If any such indication exists, the item is tested for impairment by comparing the recoverable amount of the asset or its cash generating unit to the carrying value. Where the recoverable amount is determined by the value in use, the projected net cash flows are discounted using a pre-tax discount rate. For assets with indefinite useful lives, the recoverability of the carrying value of the assets is reviewed for impairment at each reporting date, or more frequently if events or changes in circumstances indicate that it might be impaired. An impairment charge is recognised when the carrying value exceeds the calculated recoverable amount. Impairment charges are recognised in profit or loss and may be reversed where there has been a change in the estimates used to determine the recoverable amount.

II. Software development expenditure

Software development expenditure that meets the criteria for recognition as an intangible asset is capitalised on the balance sheet and amortised over its expected useful life, subject to impairment testing. Costs incurred in researching and evaluating a project up to the point of formal commitment to a project are treated as research costs and are expensed as incurred.

The capitalised costs are amortised on a straight line basis over the period following completion of a project or implementation of part of a project. The recoverability of the carrying amount of the asset is assessed in the same manner as for acquired intangible assets with finite useful lives.

U. GOODWILL

Goodwill is initially measured as the excess of the purchase consideration over the fair value of the net identifiable assets and contingent liabilities acquired and subsequently presented net of any impairment charges. Goodwill arising on acquisitions prior to 1 July 2004 has been carried forward on the basis of its deemed cost being the net carrying amount as at that date.

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For the purpose of impairment testing, goodwill is allocated to Cash Generating Units (CGUs). The carrying value of goodwill is tested for impairment at each reporting date.

Where the carrying value exceeds the recoverable amount, an impairment charge is recognised in profit or loss and cannot subsequently be reversed. The recoverable amount of goodwill is determined by the present value of the estimated future cash flows by using a pre-tax discount rate that reflects current market assessment of the risks specific to the CGUs.

At the date of disposal of a business, attributed goodwill is used to calculate the gain or loss on disposal.

V. TRADE AND OTHER PAYABLES
Trade and other payables are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received. The amounts are not discounted because the effect of the time value of money is not material.

W. ONEROUS CONTRACTS PROVISION
A provision is recognised for onerous contracts when the expected benefits to be derived from a contract are lower than the unavoidable cost of meeting the obligations under the contract.

X. EMPLOYEE BENEFITS

I. Wages and salaries and annual leave
Liabilities for wages and salaries (including bonuses) and annual leave are recognised at the nominal amounts unpaid at the reporting date using remuneration rates that are expected to be paid when these liabilities are settled.

II. Share based incentive arrangements
Share based remuneration is provided in different forms to eligible employees. All of the arrangements are equity settled share based payments.

The fair value at grant date (the date at which the employer and the employee have a shared understanding of the terms and conditions of the arrangement) is determined for each equity settled share based payment using a valuation model which excludes the impact of any non-market vesting conditions. This fair value does not change over the life of the instrument. At each reporting date during the vesting period (the period during which related employment services are provided), and upon the final vesting or expiry of the equity instruments, the total accumulated expense is revised based on the fair value at grant date and the latest estimate of the number of equity instruments that are expected to vest based on non-market vesting conditions only, and taking into account the expired portion of the vesting period. Changes in the total accumulated expense from the previous reporting date are recognised in profit or loss with a corresponding movement in an equity reserve. Upon exercise of the relevant instruments, the balance of the share based remuneration reserve relating to those instruments is transferred within equity.

The different treatment of market and non market vesting conditions means that if an equity instrument does not vest because a participant ceases relevant employment then the accumulated expense charged in relation to that participant is reversed, but if an equity instrument does not vest only because a market condition is not met, the expense is not reversed.

To satisfy obligations under the various share based remuneration plans, shares are generally bought on market at or near grant date of the relevant arrangement and held in trust. This cost is initially recognised as a prepayment and then amortised through an equity reserve over the vesting period of the related instruments to match against the recognition of the related expense.

III. Superannuation
For defined contribution superannuation plans, obligations for contributions are recognised in profit or loss as they become payable. For defined benefit superannuation plans, the net financial position of the plans is recognised on the balance sheet and the movement in the net financial position is recognised in profit or loss, except for remeasurements of defined benefit plans (experience adjustments and changes in actuarial assumptions), which are recognised in other comprehensive income and (expense). An appropriate provision is made for the unfunded defined benefit plan. Pensions paid are charged against this provision.

Y. FOREIGN CURRENCY

I. Functional and presentation currency
Items included in the financial records are measured using the currency of the primary economic environment in which the entity operates (functional currency). The financial statements are presented in New Zealand dollars, which is the presentation currency of the Consolidated entity.

II. Translation of foreign currency transactions
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at reporting date are translated to the functional currency using reporting date exchange rates. Resulting exchange differences are recognised in profit or loss.

NOTE 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying the significant accounting policies, certain critical accounting estimates and assumptions are used, and certain judgements are made.

The estimates and related assumptions are based on experience and other factors that are considered to be reasonable, the results of which form the basis for judgements about the carrying values of assets and liabilities. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised, and future periods if relevant. The approach to key estimates and judgements for this reporting period are the same as the 2017 financial year, unless otherwise stated.

The areas where the estimates and assumptions involve a high degree of judgement or complexity and are considered significant to the financial statements, listed together with reference to the notes to the financial statements where more information is provided, are:

- insurance contracts related:
  - claims, refer to note 8;
  - reinsurance and other recoveries on outstanding claims, refer to note 9; and
  - liability adequacy test, refer to note 11.B.

  There are other amounts relating to insurance contracts that are based on allocation methodologies supported by assumptions (e.g. deferred acquisition costs). The estimates relate to past events, do not incorporate forward looking considerations, and the methodology supporting them generally do not change from year to year.

- other:
  - intangible assets and goodwill impairment testing, refer to notes 14 and 15;
  - acquired intangible assets initial measurement and determination of useful life, refer to note 14; and
  - income tax and related assets and liabilities, refer to note 7;

NOTE 3. RISK MANAGEMENT

RISK MANAGEMENT CATEGORIES AND RISK MITIGATION

I. Strategic risk

Strategic risk is managed by the Leadership Team Risk Committee with Board oversight. Key elements in the management of strategy and strategic risk include the strategic planning programme and associated oversight arrangements. Progress against strategic priorities is regularly considered. Strategic risks are included in IAG's enterprise risk profile as appropriate.

II. Insurance risk

A key risk from operating in the general insurance industry is the exposure to insurance risk arising from underwriting general insurance contracts. The insurance contracts transfer risk to the insurer by indemnifying the policyholders against adverse effects arising from the occurrence of specified uncertain future events. There is a risk that the actual amount of claims to be paid in relation to contracts will be different to the amount estimated at the time a product was designed and priced. The Company is exposed to this risk as the price for a contract must be set before the losses relating to the product are known. As such, the insurance business involves inherent uncertainty. The Company also faces other risks relating to the conduct of the general insurance business including financial risks and capital risks.

A fundamental part of the Group's overall risk management approach is the effective governance and management of the risks that impact the amount, timing and certainty of cash flows arising from insurance contracts.

Insurance activities primarily involve the underwriting of risks and the management of claims as well as the product design, product pricing, reserving and concentration risk (refer below). A disciplined approach to risk management is adopted rather than a premium volume or market share orientated approach. It is believed that this approach provides the greatest long term likelihood of being able to meet the objectives of all stakeholders.

a. INSURANCE PROCESSES

The key processes to mitigate insurance risk include the following:

i. Acceptance and pricing of risk

The underwriting of large numbers of less than fully correlated individual risks across a range of classes of insurance business reduces the variability in overall claims experience over time. Maximum limits are set for the acceptance of risk both on an individual contract basis and for classes of business and specific risk groupings. Management information systems are maintained and provide up-to-date, reliable data on the risks to which the business is exposed at any point in time. Efforts are made, including plain language policy terms, to ensure there is no misalignment between what policyholders perceive will be paid when a policy is initially sold and what is actually paid when a claim is made.

Statistical models that combine historical and projected data are used to calculate premiums and monitor claims patterns for each class of business. The data used includes historical pricing and claims analysis for each class of business as well as current developments in the respective markets and classes of business. All data used is subject to rigorous verification and reconciliation processes. The models incorporate consideration of prevailing market conditions.

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ii. Claims management and provisioning
Initial claims determination is managed by claims officers with the requisite degree of experience and competence with the assistance, where appropriate, of a loss adjustor or other party with specialist knowledge. It is the Company's policy to respond to and settle all claims quickly whenever possible and to pay claims fairly, based on policyholders' full entitlements.

Claims provisions are established using actuarial valuation models and include a risk margin for uncertainty (refer to the claims note 8).

iii. Reinsurance
Refer to reinsurance risk section III below for further details.

b. CONCENTRATIONS OF INSURANCE RISK
Concentration risk is particularly relevant in the case of catastrophes, usually natural disasters, which generally result in a concentration of affected policyholders over and above the norm and which constitutes the largest individual potential financial loss. Catastrophe losses are an inherent risk of the general insurance industry that have contributed, and will continue to contribute, to potentially material year-to-year fluctuations in the results of operations and financial position. Catastrophes are caused by various natural events including earthquakes, hailstorms, storms and high winds. The Company is also exposed to certain human-made catastrophic events such as industrial accidents and building collapses. The nature and level of catastrophes in any period cannot be predicted accurately but can be estimated through the utilisation of predictive models. The Company actively limits the aggregate insurance exposure to catastrophe losses in regions that are subject to high levels of natural catastrophes.

Each year, the Company sets its tolerance for concentration risk and purchases reinsurance in excess of these tolerances. Various models are used to estimate the impact of different potential natural disasters and other catastrophes. The tolerance for concentration risk is used to determine the Maximum Event Retention (MER) which is the maximum net exposure to insurance risk determined appropriate for any single event with a given probability. The selected MER is also determined based on the cost of purchasing the reinsurance and capital efficiency.

Specific processes for monitoring identified key concentrations are set out below.

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

III. Reinsurance Risk
Reinsurance is used to limit exposure to large single claims as well as accumulation of claims that arise from the same or similar events.

Risks underwritten are reinsured in order to limit exposure to losses, stabilise earnings, protect capital resources and ensure efficient control and spread of the risks underwritten.

The use of reinsurance introduces credit risk. The management of reinsurance includes the monitoring of reinsurers' credit risk and controls the exposure to reinsurance counterparty default. Refer to note IV below for further details.

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

IV. Financial Risk
The Consolidated entity is exposed to a variety of financial risks in the normal course of business; market risk (including foreign exchange risk, interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Board and senior management of the Group have developed, implemented and maintain a Risk Management Strategy (RMS) across the Group. The Consolidated entity complies with the risk management policies of the Group. The policies form the Consolidated entity's procedures, processes and controls that manage material risks, financial and non-financial, likely to be faced by the Consolidated entity.

MARKET RISK
Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in foreign currency exchange rates, interest rates, and equity prices. All non-New Zealand dollar denominated securities are hedged back to NZ dollars, therefore the relevant market risks are interest rate risk and price risk.

a. INTEREST RATE RISK
i. Nature of the risks and how managed
Interest rate risk is the risk of loss arising from an unfavourable movement in market interest rates. Fixed interest rate assets and liabilities are exposed to changes in carrying value derived from mark-to-market revaluations. Financial assets and liabilities with floating interest rates create exposure to cash flow volatility.

The underwriting of general insurance contracts creates exposure to the risk that interest rate movements may materially impact the value of the insurance liabilities. Movements in interest rates should have minimal impact on the insurance profit due to the Consolidated entity's policy of investing in assets backing insurance liabilities principally in fixed interest securities broadly matched to the expected payment pattern of the insurance liabilities. Movements in investment income on assets backing insurance liabilities broadly offset the impact of movements in discount rates on the insurance liabilities other than the changes in credit spreads on the fixed interest securities which are expected to reverse on maturity.

ii. Sensitivity
The sensitivity analysis provided in the following table demonstrates the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. The sensitivities do not include interdependencies among variables, but rather show isolated interest rate movements.

The investments in interest bearing securities are recognised on the balance sheet at fair value. Movements in market interest rates impact the price of the securities (and hence their fair value measurement) and so would impact profit or loss. The impact from the measurement of the interest bearing securities held at reporting date of a change in interest rates at reporting date by +1% or -1% (e.g. a move from 4% to 5% or to 3%) on profit before tax, net of related derivatives, is shown in the following table:

		CONSOLIDATED	
		2018	2017
		$000	$000
		Impact to profit	Impact to profit
Investments - interest bearing securities and related interest rate derivatives	+1%	**(16,818)**	(15,723)
	-1%	**17,433**	16,332

The majority of the interest bearing securities are expected to be held to maturity and so movements in the fair value are expected to reverse upon maturity of the instruments.

b. PRICE RISK
i. Nature of the risk and how managed
Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices (other than those arising from interest rate or foreign exchange risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded on the market. The Consolidated entity has exposure to equity price risk through its investment in equities (through certain trusts) and the use of equity related derivative contracts.

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

		CONSOLIDATED	
		2018	2017
		$000	$000
Investments - Trust securities and equity derivatives	+10%	**3,783**	4,856
	- 10%	**(3,201)**	(4,247)

CREDIT RISK

a. NATURE OF THE RISK AND HOW MANAGED
Credit risk is the risk of loss from a counterparty failing to meet their financial obligations. The Consolidated entity's credit risk arises predominantly from investment activities, reinsurance activities and dealings with intermediaries. The Group's credit risk appetite is approved by the IAG Board and the Group has a Credit Risk Policy which is consistent with the IAG Board's risk appetite and also approved by the IAG Board. The policy outlines the framework and procedures in place to ensure an adequate and appropriate level of monitoring and management of credit quality throughout the Group.

Group Treasury is responsible for ensuring that the policies governing the management of credit quality risk are properly implemented. All new, changed and continuing credit risk exposures must be approved in accordance with the Group's approval authority framework.

Concentrations of credit risk exist if a number of counterparties have similar economic characteristics. At the reporting date, with the exception of the reinsurance recoverable from the Group captive reinsurers, there are no material concentrations of credit risk in the investment portfolios as the Consolidated entity transacts with a large number of counterparties without any individual counterparty having a material outstanding balance except for possible exposure to the major banks in New Zealand. With regard to the Group captive reinsurers, ultimately, the Consolidated entity's exposure is to the external reinsurer with whom the captives have placed the Group's reinsurance programme.

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b. CREDIT RISK EXPOSURE

i. Premium and reinsurance recoveries on paid claims receivable

The maximum exposure to credit risk as at reporting date is the carrying amount of the receivables on the balance sheet.

An ageing analysis for premium receivable and reinsurance recoveries receivable is provided here. The amounts are aged according to their original due date.

	NOT OVERDUE			OVERDUE	CONSOLIDATED TOTAL
		<30 days	30-120 days	>120 days	
	$000	$000	$000	$000	$000
2018					
Premium receivable	**814,372**	**11,019**	**2,535**	**1,667**	**829,593**
Provision for lapses	**(3,294)**	**(843)**	**(823)**	**(503)**	**(5,463)**
Net balance	**811,078**	**10,176**	**1,712**	**1,164**	**824,130**
Reinsurance recoveries on paid claims	**125,000**	-	-	-	**125,000**
Net balance	**125,000**	-	-	-	**125,000**
Other trade debtors	**37,773**	-	-	-	**37,773**
Net balance	**37,773**	-	-	-	**37,773**
2017					
Premium receivable	691,361	15,169	4,654	2,543	713,727
Provision for lapses	(4,831)	(878)	(883)	(1,014)	(7,606)
Net balance	686,530	14,291	3,771	1,529	706,121
Reinsurance recoveries on paid claims	44,182	-	-	-	44,182
Net balance	44,182	-	-	-	44,182
Other trade debtors	161,486	-	-	-	161,486
Net balance	161,486	-	-	-	161,486

A significant portion of the premium receivable balance relates to policies which are paid on a monthly instalment basis. It is important to note that the non-payment of amounts due under such arrangements allows for the cancellation of the related insurance contract eliminating both the credit risk and insurance risk for the unpaid amounts. Upon cancellation of a policy the outstanding premium receivable and revenue is reversed.

The provision for lapses at reporting date for receivables balances totalled $5.5 million (2017 - $7.6 million). The net movement in the aggregated provision for the current period was $2.1 million (2017 - $1.3 million).

ii. Reinsurance recoveries receivable on outstanding claims

Reinsurance arrangements mitigate insurance risk but expose the Consolidated entity to credit risk. Reinsurance is placed with companies based on an evaluation of the financial strength of the reinsurers, terms of coverage, and price. Group's captive reinsurer has clearly defined credit policies for the approval and management of credit risk in relation to reinsurers. Group's captive reinsurer monitors the financial condition of its reinsurers on an ongoing basis and periodically reviews the reinsurers' ability to fulfil their obligations to the captive under respective existing and future reinsurance contracts. Some of the reinsurers are domiciled outside of the jurisdictions in which the Consolidated entity operates and so there is the potential for additional risk such as country risk and transfer risk.

The level and quality of reinsurance protection is an important element in understanding the financial strength of an insurer. The financial condition of a reinsurer is a critical deciding factor when entering into a reinsurance agreement. The longer the tail of the direct insurance, the more important is the credit rating of the reinsurer.

It is the Group's policy to deal only with reinsurers with credit ratings of at least Standard & Poor's BBB+ (or other rating agency equivalent) without collateralisation. Having reinsurance protection with strong reinsurers also benefits the Consolidated entity in its regulatory capital calculations. The capital risk charges vary with the grade of the reinsurers such that higher credit quality reinsurance counterparties incur lower regulatory capital charges.

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The following table provides information regarding the credit risk relating to the reinsurance recoveries receivable on the outstanding claims balance, excluding other recoveries, based on Standard & Poor's counterparty credit ratings. These rating allocations relate to balances accumulated from reinsurance programmes in place over a number of years and so will not necessarily align with the rating allocations noted above for the current programme.

	PARENT AND CONSOLIDATED	
CREDIT RATING	**2018**	2017
	% of total	% of total
AA	**98**	97
A	**2**	3
Total	**100**	100

No separate provision for impairment has been recognised for the reinsurance recoveries on outstanding claims balance. The actuarial estimates include a credit risk component in the underlying balance and therefore no separate provision is required.

iii. Investments

The Consolidated entity is exposed to credit risk from investments in third parties where the Consolidated entity holds debt and similar securities issued by those entities.

The credit risk relating to investments is monitored and assessed, and maximum exposures are limited. The maximum exposure to credit risk loss as at reporting date is the carrying amount of the investments on the balance sheet as they are measured at fair value. The investments comprising assets backing insurance liabilities are restricted to investment grade securities.

The following table provides information regarding the credit risk relating to the interest bearing investments based on Standard & Poor's counterparty credit ratings.

CREDIT RATING	PARENT AND CONSOLIDATED	
	2018	2017
	% of total	% of total
AAA	**22**	22
AA	**59**	73
A	**19**	5
Total	**100**	100

LIQUIDITY RISK

a. NATURE OF THE RISK AND HOW MANAGED

Liquidity risk is concerned with the risk of there being insufficient cash resources to meet payment obligations without affecting the daily operations or the financial condition of the Consolidated entity. Liquidity facilitates the ability to meet expected and unexpected requirements for cash. The liquidity position is derived from operating cash flows, investment portfolios and access to outside sources of liquidity such as bank lines of credit, reinsurance arrangements and other sources.

The Consolidated entity complies with Group liquidity risk management practices, which include a Group policy, and has the framework and procedures in place to ensure an adequate and appropriate level of monitoring and management of liquidity.

Underwriting insurance contracts exposes the Consolidated entity to liquidity risk through the obligation to make payments of unknown amounts on unknown dates. The assets backing insurance liabilities consist predominantly of government securities (the most liquid of securities) and other very high quality securities which can generally be readily sold or exchanged for cash. The assets are managed so as to effectively match the maturity profile of the assets with the expected pattern of claims payments. The debt securities are restricted to investment grade securities with concentrations of investments managed by various criteria including: issuer, industry, geography and credit rating.

b. LIQUIDITY RISK EXPOSURE

The breakdown of the fixed term investments is provided by expected maturity. Actual maturities may differ from expected maturities because certain counterparties have the right to call or prepay certain obligations with or without call or prepayment penalties.

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A maturity analysis of the estimated net discounted outstanding claims liability based on the remaining term to payment at the reporting date and the investments that have a fixed term is provided in the table below.

				PARENT AND CONSOLIDATED
MATURITY ANALYSIS	NET DISCOUNTED OUTSTANDING CLAIMS LIABILITY		INVESTMENTS	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
Floating interest rate (at call)	**-**	-	**12,455**	41,347
Within 1 year or less	**339,804**	378,745	**278,798**	423,997
Within 1 to 2 years	**58,436**	22,493	**205,059**	231,785
Within 2 to 3 years	**22,055**	24,242	**117,926**	40,415
Within 3 to 4 years	**14,231**	12,779	**224,259**	30,417
Within 4 to 5 years	**9,804**	9,312	**130,757**	79,030
Over 5 years	**14,164**	18,995	**21,513**	126,195
Total	**458,494**	466,566	**990,767**	973,186

Timing of future claim payments is inherently uncertain. The table above represents estimated timing.

V. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk can impact other risk categories. When controls fail, an operational risk incident can cause injury, damage to reputation, have legal or regulatory implications or can lead to financial loss. The Company does not aim to eliminate all operational risks, but manages these by initiating an appropriate control framework and by monitoring and managing the potential risks.

The Group Risk Management Strategy (RMS) includes consideration of operational risk. Operational risk is identified and assessed on an ongoing basis and the capital management strategy includes consideration of operational risk. Management and staff are responsible for identifying, assessing and managing operational risks in accordance with their roles and responsibilities. The Group has an internal audit function which monitors processes and procedures surrounding operational risk.

VI. Regulatory Risk and Compliance

Regulatory and Compliance risk is defined as the failure or inability to comply with the applicable laws, regulations or codes excluding the failure of staff to adhere to internal policies/procedures and meeting contractual obligations. The Regulatory Risk and Compliance Framework, Regulatory Risk and Compliance Policy and the IAG NZ Regulatory Risk and Compliance Programme set out the principles and framework components to achieve compliance as well as the roles and responsibilities in risk governance. Regulatory Risk and Compliance is managed through the active monitoring and identification of regulatory and compliance risks and obligations, regular assessment of the impact of those risks and obligations to IAG and the implementation of appropriate controls, assurance activity and reporting to mitigate regulatory and compliance risk.

Regulatory Risk and Compliance is the responsibility of all staff, including service providers and partners and all staff including the Board and Executive Management must comply with the spirit as well as the letter of legislative and regulatory requirements and act with high standards of honesty and integrity.

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NOTE 4. ANALYSIS OF INCOME

	PARENT 2018 $000	PARENT 2017 $000	CONSOLIDATED 2018 $000	CONSOLIDATED 2017 $000
A. GENERAL INSURANCE REVENUE				
Gross written premium	**2,696,219**	2,475,150	**2,696,219**	2,475,150
Movement in unearned premium liability	**(120,984)**	(55,431)	**(120,984)**	(55,431)
Premium revenue	**2,575,235**	2,419,719	**2,575,235**	2,419,719
Reinsurance and other recoveries revenue	**746,420**	1,018,904	**746,420**	1,018,904
Reinsurance commission revenue	**213,314**	154,846	**213,314**	154,846
Total general insurance revenue	**3,534,969**	3,593,469	**3,534,969**	3,593,469
B. INVESTMENT INCOME				
Dividend revenue	**865**	1,134	**865**	1,134
Interest revenue	**33,461**	45,859	**33,461**	45,859
Trust revenue	**12,417**	19,501	**12,417**	19,501
Total investment revenue	**46,743**	66,494	**46,743**	66,494
Realised net gains and (losses)	**(15,630)**	34,522	**(15,630)**	34,522
Unrealised net gains and (losses)	**12,545**	(15,040)	**13,119**	(14,689)
Total investment income	**43,658**	85,976	**44,232**	86,327
Represented by				
Investment income on assets backing insurance liabilities	**16,028**	22,576	**16,028**	22,576
Investment income on shareholder's funds	**27,630**	63,400	**28,204**	63,751
	43,658	85,976	**44,232**	86,327
Total income	**3,578,627**	3,679,445	**3,579,201**	3,679,796

NOTE 5. ANALYSIS OF EXPENSES

	PARENT 2018 $000	PARENT 2017 $000	CONSOLIDATED 2018 $000	CONSOLIDATED 2017 $000
Underwriting, fee based, corporate and other expenses include the following:				
Amortisation of intangible assets	**21,851**	17,936	**21,851**	17,936
Bad debts written off	**161**	88	**161**	88
Commissions	**265,587**	254,026	**265,587**	254,026
Depreciation - plant and equipment	**13,283**	13,294	**13,283**	13,294
Directors' fees	**498**	502	**498**	502
Operating lease costs	**28,073**	29,307	**28,073**	29,307
Software costs	**2,532**	2,127	**2,532**	2,127
(Gain)/Loss on sale of plant and equipment	**6**	41	**6**	41
Restructuring costs	**4,300**	4,256	**4,300**	4,256
Share based remuneration expense	**3,044**	3,059	**3,044**	3,059
Defined contribution superannuation expense	**6,570**	6,415	**6,570**	6,415
Employee benefit expense	**307,259**	332,909	**307,259**	332,909

NOTE 6. REMUNERATION OF AUDITOR

	PARENT 2018 $000	PARENT 2017 $000	CONSOLIDATED 2018 $000	CONSOLIDATED 2017 $000
Audit of the financial statements	**1,622**	1,530	**1,622**	1,530
Assurance of regulatory returns in accordance with regulatory requirements	**113**	113	**113**	113
Other assurance services	**215**	145	**215**	145
Total remuneration of auditor	**1,950**	1,788	**1,950**	1,372

Other assurance services relate to controls assurance, limited assurance and agreed upon procedures engagements.

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NOTE 7. INCOME TAX

	PARENT		CONSOLIDATED	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
A. INCOME TAX EXPENSE				
Current tax	**444**	1,358	**444**	1,358
Deferred tax	**46,212**	26,095	**46,212**	26,095
(Over)/under provided in prior year	**(5)**	3,767	**(5)**	3,767
Income tax expense	**46,651**	31,220	**46,651**	31,220
B. INCOME TAX RECONCILIATION				
The income tax for the financial year differs from the amount calculated on the profit before income tax. The differences are reconciled as follows:				
Profit for the year before income tax	**179,107**	116,441	**179,681**	116,791
Income tax calculated at 28% (2017-28%)	**50,150**	32,603	**50,311**	32,701
Amounts which are not deductible/(taxable) in calculating taxable income				
Effect of overseas investment tax regime	**(3,965)**	(6,461)	**(3,965)**	(6,461)
Foreign withholding tax	**444**	1,358	**444**	1,358
Non-deductible expenses	**363**	393	**363**	393
Other	**(336)**	(440)	**(497)**	(538)
Income tax expense applicable to current year	**46,656**	27,453	**46,656**	27,453
Adjustment relating to prior year	**(5)**	3,767	**(5)**	3,767
Income tax expense attributable to profit for the year	**46,651**	31,220	**46,651**	31,220
C. DEFERRED TAX ASSETS				
Depreciation	**3,854**	10,409	**3,854**	10,409
Deferred acquisition costs	**(58,009)**	(58,317)	**(58,009)**	(58,317)
Tax losses	**444,557**	464,783	**444,557**	464,783
Other	**13,870**	15,265	**13,870**	15,265
	404,272	432,140	**404,272**	432,140
D. IMPUTATION CREDITS				
Imputation credits at the beginning of the financial year	**3,665**	3,224	**3,665**	3,224
Imputation credits attached to dividends received	**336**	441	**336**	441
Imputation credits at the end of the financial year	**4,001**	3,665	**4,001**	3,665
The imputation credits are available to shareholders of the Company:				
Through the Company	**4,001**	3,665	**4,001**	3,665
	4,001	3,665	**4,001**	3,665

Tax losses have been recognised as a deferred tax asset since it is considered probable, based on profit forecasts, that the losses will be offset against future taxable income.

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NOTE 8. CLAIMS

A. NET CLAIMS EXPENSE IN THE STATEMENT OF COMPREHENSIVE INCOME

Current year claims relate to claim events that occurred in the current financial year. Prior year claims relate to a reassessment of the claim events that occurred in all previous financial periods.

						PARENT AND CONSOLIDATED
			2018			2017
	Current year	**Prior years**	**Total**	Current year	Prior years	Total
	$000	**$000**	**$000**	$000	$000	$000
Gross claims - undiscounted	**1,534,458**	**239,333**	**1,773,791**	1,893,049	233,236	2,126,285
Discount	**(5,432)**	**16,241**	**10,809**	(18,979)	12,609	(6,370)
Gross claims - discounted	**1,529,026**	**255,574**	**1,784,600**	1,874,070	245,845	2,119,915
Reinsurance and other recoveries - undiscounted	**(493,336)**	**(243,260)**	**(736,596)**	(756,292)	(273,089)	(1,029,381)
Discount	**2,019**	**(11,843)**	**(9,824)**	14,747	(4,270)	10,477
Reinsurance and other recoveries - discounted	**(491,317)**	**(255,103)**	**(746,420)**	(741,545)	(277,359)	(1,018,904)
Net claims expense	**1,037,709**	**471**	**1,038,180**	1,132,525	(31,514)	1,101,011

The prior years' net claims expense substantially pertains to a revision of the expected cost of the Canterbury earthquakes that occurred in the year ended 30 June 2011.

B. OUTSTANDING CLAIMS LIABILITY RECOGNISED ON THE BALANCE SHEET

		PARENT AND CONSOLIDATED
	2018	2017
	$000	$000
I. Composition of gross outstanding claims liability		
Gross central estimate - undiscounted	**1,187,362**	1,483,217
Claims handling costs	**28,242**	29,054
Risk margin	**99,419**	85,510
	1,315,023	1,597,781
Discount to present value	**(24,590)**	(40,583)
Gross outstanding claims liability - discounted	**1,290,433**	1,557,198

The outstanding claims liability includes $465.7 million (2017 - $594.4 million) which is expected to be settled more than 12 months from the reporting date.

II. Reconciliation of movements in discounted outstanding claims liability

						PARENT AND CONSOLIDATED
			2018			2017
	Gross	**Reinsurance and other recoveries**	**Net**	Gross	Reinsurance and other recoveries	Net
	$000	**$000**	**$000**	$000	$000	$000
Balance at the beginning of the financial year	**1,557,198**	**(1,090,632)**	**466,566**	1,595,189	(491,006)	1,104,183
Movement in the prior year central estimate	**274,661**	**(251,580)**	**23,081**	266,697	(268,925)	(2,228)
Current year claims incurred	**1,488,558**	**(478,985)**	**1,009,573**	1,852,841	(749,986)	1,102,855
Claims paid/recoveries received	**(2,051,366)**	**1,005,113**	**(1,046,253)**	(2,157,905)	419,276	(1,738,629)
Movement in discounting	**24,892**	**(18,189)**	**6,703**	(7,433)	14,292	6,859
Movement in risk margin	**(3,510)**	**2,334**	**(1,176)**	7,809	(14,283)	(6,474)
Addition through business acquisition	**-**	**-**	**-**	-	-	-
Balance at the end of the financial year	**1,290,433**	**(831,939)**	**458,494**	1,557,198	(1,090,632)	466,566

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III. Central estimate and risk margin

a. REPORTING DATE VALUES

	PARENT AND CONSOLIDATED	
	2018	2017
	%	%
The percentage risk margin applied to the net outstanding claims liability (excluding Canterbury earthquake claims)	**11.3**	11.7
The probability of adequacy of the risk margin	**87.5**	87.5

b. PROCESS

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

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

i. Future cash flows

The estimation of the outstanding claims liability is based on a variety of actuarial techniques that analyse experience, trends and other relevant factors. The expected future payments include those in relation to claims reported but not yet paid or not yet paid in full, claims incurred but not enough reported (IBNER), claims incurred but not reported (IBNR) and the anticipated direct and indirect claims handling costs.

The estimation process involves using the Consolidated entity's specific data, relevant industry data and more general economic data. Each class of business is usually examined separately and the process involves consideration of a large number of factors. These factors may include the risks to which the business is exposed at a point in time, claim frequencies and average claim sizes, historical trends in the incidence and development of claims reported and finalised, legal, social and economic factors that may impact upon each class of business, the key actuarial assumtions set out in section IV and the impact of reinsurance and other recoveries.

Different actuarial valuation models are used for different claims types and lines of business. The selection of the appropriate actuarial model takes into account the characteristics of a claim type and class of business and the extent of the development of each accident period.

The estimation of the outstanding claims liability for the Canterbury earthquake events has been determined using a number of techniques. Reported claims are grouped together by various factors such as claimant, risk class, land damage zone and repair or rebuild status. Estimates of IBNR and IBNER are made based on observed average costs and development of similar claimants. The estimation of these claims has a greater degree of uncertainty than non earthquake claims, including the ultimate contribution to the cost of these events by the Earthquake Commission (EQC) in terms of its statutory liability under the provisions of the Earthquake Commission Act 1993.

The outstanding claims estimates make a specific allowance for the apportionment of the ultimate cost of commercial and residential claims across the three main Canterbury earthquake events. The apportionment methodology takes into consideration land damage information and specific engineering advice

The estimation of the outstanding claims liability for the Kaikoura earthquake event has been determined based on the exposure of the Consolidated entity to claims in the areas affected by the event. There is a level of uncertainty as reported claim costs continue to develope but the current estimate is well within the Consolidated entity's 2017/18 catastrophe reinsurance programme at the balance date.

ii. Discounting

Projected future claims payments, both gross and net of reinsurance and other recoveries, and associated claims handling costs are discounted to a present value using appropriate risk free discount rates.

iii. Risk margin

The central estimate of the outstanding claims liability is an estimate which is intended to contain no deliberate or conscious over or under estimation and is commonly described as providing the mean of the distribution of future cash flows. It is considered appropriate to add a risk margin to the central estimate in order for the claims liability to have an increased probability of adequacy. The risk margin refers to the amount by which the liability recognised in the financial statements is greater than the actuarial central estimate of the liability.

As at 30 June 2018, the central estimates of the outstanding claims liability for IAG NZ was reviewed by Christian Barrington (Fellow of the New Zealand Society of Actuaries) of IAG New Zealand Limited. The methodology used was peer reviewed by Ernst & Young.

There were no qualifications contained in the actuarial report although the actuary has emphasised the level of uncertainty in the earthquake claims cost estimates. The actuary was satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability.

Uncertainties surrounding the outstanding claims liability estimation process include those relating to the data, actuarial models and assumptions, the statistical uncertainty associated with a general insurance claims runoff process, and risks external to the Consolidated entity, for example, the continued number of claims going over-cap from the EQC, the impact of future legislative reform and legal judgements arising out of the Canterbury earthquake events. 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 stochastic modelling and benchmarking to industry analysis. 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.

The measure of the volatility is referred to as the coefficients of variation (CoV). The CoV is defined as the standard deviation of the distribution of future cash flows divided by the mean.

Short tail classes of business have relatively lower levels of volatility.

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 the risk margins for the individual classes. This reflects the benefit of diversification in general insurance.

The measure of the diversification benefit is referred to as correlation. The higher the correlation between two classes of business, the more likely it is that a negative outcome in one class will correspond to a negative outcome in the other class. The correlations adopted are normally derived from industry analysis, historical experience and the judgement of experienced and qualified actuaries.

The determination of the overall risk margin takes into account the volatility of each class of business and the correlations between the lines of business. The current risk margin, which has been determined after assessing the inherent uncertainty in the central estimate and the prevailing market environment, results in an overall probability of adequacy for the outstanding claims liability of 87.5%. For determining the gross risk margin for the Canterbury earthquake events the risks of further deterioration in claim costs, the continued number of claims going over-cap from the EQC and the impact of apportionment has been considered across the 4 September 2010, 22 February 2011 and 13 June 2011 earthquakes. The net risk margin has taken into consideration the impact of the adverse development cover, Wesfarmer's Indemnity and latent claims for the Company.

For determining the gross risk margin for the 14 November 2016 Kaikoura earthquake event the potential for an increase in costs due to claims deterioration, new over caps and model uncertainty has been considered. The net risk margin has taken into consideration the reinsurance coverage available on this event.

IV. Actuarial assumptions

The following ranges of key actuarial assumptions were used in the measurement of outstanding claims and recoveries, where appropriate, at the reporting date. Specific monetary reserves have been allocated to the earthquake events for inflation and claims handling.

ASSUMPTION	CANTERBURY EARTHQUAKE CLAIMS	KAIKOURA EARTHQUAKE CLAIMS	EXCLUDING EARTHQUAKE CLAIMS
2018			
Discounted average term to settlement	**0.1 years**	**0.1 years**	**0.9 years**
Inflation rate	**1.91%**	**1.91%**	**1.91%**
Discount rate	**1.75%-3.56%**	**1.75%-3.56%**	**1.75%-3.56%**
Claims handling costs ratio	**n/a**	**n/a**	**5.10%**
2017			
Discounted average term to settlement	0.1 years	0.1 years	1.0 years
Inflation rate	2.00%	0.00%	2.00%
Discount rate	1.75%-3.50%	1.75%-3.50%	1.75%-3.50%
Claims handling costs ratio	n/a	n/a	5.10%

PROCESS USED TO DETERMINE ASSUMPTIONS

A description of the key assumptions and the processes used to determine those assumptions is provided below.

i. Discounted average term to settlement

The discounted average term to settlement relates to the expected payment pattern for claims (inflated and discounted). It is calculated by class of business and is generally based on historical settlement patterns. The discounted average term to settlement, while not itself an assumption, provides a summary indication of the future cash flow pattern.

ii. Inflation rate

Insurance costs are subject to inflationary pressures. Economic inflation assumptions are set by reference to current economic indicators.

iii. Discount rate

The discount rate is derived from market yields on government securities.

iv. Claims handling costs ratio

The future claims handling costs ratio is generally calculated with reference to the historical experience of claims handling costs as a percentage of past payments. Claims handling costs in relation to Canterbury earthquake events have been estimated separately, taking into account the best information available at the reporting date.

V. The effect of changes in assumptions

a. GENERAL IMPACT OF CHANGES

i. Discounted average term to settlement

A decrease in the discounted average term to settlement would reflect claims being paid sooner than anticipated and so would increase the claims expense. Note that this sensitivity test only extends or shortens the term of the payments assumed in the valuation, without changing the total nominal amount of the payments.

ii. Inflation rates

Expected future payments are inflated to take account of inflationary increases. An increase or decrease in the assumed levels of economic inflation will have a corresponding decrease or increase on profit and loss.

iii. Discount rate

The outstanding claims liability is calculated with reference to expected future payments. These payments are discounted to adjust for the time value of money. An increase or decrease in the assumed discount rate will have a corresponding increase or decrease on profit and loss.

iv. Claims handling costs ratio

An increase in the ratio reflects an increase in the estimate for the internal costs of administering claims. An increase or decrease in the ratio assumption will have a corresponding decrease or increase on profit and loss.

b. SENSITIVITY ANALYSIS OF CHANGES

The impact on the profit and loss before income tax to changes in key actuarial assumptions is summarised below. Each change has been calculated in isolation of the other changes and is stated net of reinsurance recoveries. The movements are stated in absolute terms where the base assumption is a percentage, for example, if the base inflation rate assumption was 3.5%, a 1% increase would mean assuming a 4.5% inflation rate.

The impact on comprehensive income is disclosed for each of the key assumptions:

ASSUMPTION	MOVEMENT IN ASSUMPTION	CANTERBURY EARTHQUAKE CLAIMS $000	KAIKOURA EARTHQUAKE CLAIMS $000	PARENT AND CONSOLIDATED EXCLUDING EARTHQUAKE CLAIMS $000
2018				
Discounted average term to settlement	**+1 Month**	-	-	**(612)**
	-1 Month	-	-	**612**
Inflation rate	**+1%**	**3**	-	**3,880**
	-1%	**(3)**	-	**(3,711)**
Discount rate	**+1%**	**(3)**	-	**(3,711)**
	-1%	**3**	-	**3,880**
Claims handling costs ratio	**+1%**	**n/a**	-	**5,328**
	-1%	**n/a**	-	**(5,328)**
2017				
Discounted average term to settlement	+1 Month	(33)	(2)	(570)
	-1 Month	33	2	570
Inflation rate	+1%	(283)	1	3,966
	-1%	276	(1)	(3,722)
Discount rate	+1%	276	(1)	(3,722)
	-1%	(283)	1	3,966
Claims handling costs ratio	+1%	n/a	-	4,888
	-1%	n/a	-	(4,888)

NOTE 9. REINSURANCE AND OTHER RECOVERIES ON OUTSTANDING CLAIMS

	PARENT AND CONSOLIDATED	
	2018	2017
	$000	$000
A. REINSURANCE AND OTHER RECOVERIES RECEIVABLE ON OUTSTANDING CLAIMS		
Expected reinsurance and other recoveries receivable on outstanding claims - undiscounted	**844,391**	1,120,228
Discount to present value	**(12,452)**	(29,596)
Expected reinsurance and other recoveries receivable on outstanding claims - discounted	**831,939**	1,090,632

The carrying value of reinsurance recoveries and other recoveries includes $347.0 million (2017 - $506.6 million) which is expected to be settled more than 12 months from the reporting date.

The reinsurance recoveries receivable on outstanding claims includes $1.5 million (2017 - $2.7 million) recoverable from IAG Re Labuan (L) Berhad and $478.9 million (2017 - $715.5 million) from IAG Re Singapore Pte Limited.

Wesfarmers Limited has provided an indemnity in favour of the Company in respect of escalation of the ultimate earthquake claims costs arising from the February 2011 event. This indemnity is only in relation to historical Lumley earthquake claims. The Canterbury earthquake reserves are subject to a number of uncertainties explained in Note 8. The indemnity immunises the Company against any subsequent adverse development of Lumley's 22 February 2011 Canterbury earthquake claims costs.

B. ACTUARIAL ASSUMPTIONS

The measurement of reinsurance and other recoveries on outstanding claims is an inherently uncertain process involving estimates. The amounts are generally calculated using actuarial assumptions and methods similar to those used for the outstanding claims liability (refer to section IV of the claims note).

Where possible, the valuation of reinsurance recoveries is linked directly to the valuation of the gross outstanding claims liability. Accordingly, the valuation of outstanding reinsurance recoveries is subject to similar risks and uncertainties as the valuation of the outstanding claims liability. Significant individual losses (for example those relating to catastrophe events) are analysed on a case by case basis for reinsurance purposes.

C. THE EFFECT OF CHANGES IN ASSUMPTIONS

The effect of changes in assumptions on the net outstanding claims liability, which incorporates the reinsurance recoveries on outstanding claims and other recoveries receivable, is disclosed in the claims note.

D. RISK MANAGEMENT

The Group has in place a dedicated risk management function responsible for the development and maintenance of the risk management framework. The framework includes a written Reinsurance Management Strategy (REMS) which sets out key elements of the reinsurance management framework, processes for setting and monitoring the Maximum Event Retention (MER), processes for selecting, implementing, monitoring and reviewing reinsurance arrangements and identification, roles and responsibilities of those charged with managerial responsibility for the reinsurance management framework. The REMS is updated annually and approved by the IAG Group Board.

E. REINSURANCE PROGRAMME

Risks underwritten are reinsured in order to limit exposure to losses, stabilise earnings, protect capital resources and ensure efficient control and spread of the risks underwritten. The Company has its own reinsurance programme and determines its own risk limits. To facilitate the reinsurance process, manage counterparty exposure and create economies of scale, the IAG Group has established a captive reinsurance operation. This operation acts as the reinsurer for the Group by being the main buyer of the Group's outwards reinsurance programme. The reinsurance operation is intended to manage reinsurance and earnings volatility and the IAG Group's exposure to catastrophe risk. The operation retains a portion of the intercompany business it assumes and retrocedes (passes on) the remainder to external reinsurers.

While a large portion of the business ceded by the Company is reinsured with the Group's captive reinsurance operation, the Company purchases additional reinsurance protection outside the Group. This generally relates to facultative reinsurance covers.

The reinsurance operation purchases reinsurance on behalf of the Company to cover a maximum return period of the Reserve Bank of New Zealand's (RBNZ) requirement of 1:1000 year event. Dynamic financial analysis modelling is used to determine the optimal level to which reinsurance should be purchased for capital efficiency, compared with the cost and benefits of covers available in the market.

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The reinsurance programmes consist of a combination of the following reinsurance protection:

- A Group Catastrophe cover which is placed in line with the strategy of buying to at least the level of a 1:1000 year event on a modified whole of portfolio basis. Covers purchased are dynamic, the maximum event retention (MER) changes as total requirements change and as the reinsurance purchase strategy evolves.
- A Surplus cover, which provides "per risk" protection for the commercial property and engineering businesses.
- Excess of loss reinsurance for casualty, marine, motor and property portfolios.
- The Company has entered into a whole of account 20% quota share agreement effective 1 July 2015 with Berkshire Hathaway. The Company cedes 20% of Gross Written Premium and recovers 20% of all claims. The Company is also reimbursed for 20% of its share of operating costs and receives a percentage based fee of the premium ceded.
- From 1 January 2018 the Company entered into further quota share arrangements with Munich Re, Swiss Re and Hannover Re. The Company cedes 12.5% of Gross Written Premium and recovers 12.5% of all claims. The Company is also reimbursed for 12.5% of its share of operating costs and receives a percentage based fee of the premium ceded.
- The Company has also purchased adverse development cover (ADC) which provides $900 million of additional protection against the Canterbury Earthquakes effective 1 January 2016.
- The Company has a high hazard property "per risk" quota share. The Company cedes 66.67% of this portfolio gross of any quota share arrangements.
- The Company has a cyber liability quota share. The Company cedes 75% of this portfolio gross of any quota share arrangements.

NOTE 10. DEFERRED INSURANCE ASSETS

	PARENT AND CONSOLIDATED	
	2018	2017
	$000	$000
A. DEFERRED ACQUISITION COSTS		
Reconciliation of movements		
Deferred acquisition costs at the beginning of the financial year	**208,275**	199,337
Acquisition costs deferred	**207,176**	208,275
Amortisation charged to profit	**(208,275)**	(199,337)
Deferred acquisition costs at the end of the financial year	**207,176**	208,275
B. DEFERRED OUTWARDS REINSURANCE EXPENSE		
Reconciliation of movements		
Deferred outwards reinsurance expense at the beginning of the financial year	**545,080**	526,510
Reinsurance expenses deferred	**679,702**	545,080
Amortisation charged to profit	**(545,080)**	(526,510)
Deferred outwards reinsurance expense at the end of the financial year	**679,702**	545,080

NOTE 11. UNEARNED PREMIUM LIABILITY

	PARENT AND CONSOLIDATED	
	2018	2017
	$000	$000
A. RECONCILIATION OF MOVEMENTS		
Unearned premium liability at the beginning of the financial year	**1,121,160**	1,067,044
Deferral of premiums on contracts written	**1,242,144**	1,121,160
Earning of premiums written in previous financial years	**(1,121,160)**	(1,067,044)
Unearned premium liability at the end of the financial year	**1,242,144**	1,121,160

B. LIABILITY ADEQUACY TEST

The liability adequacy test has been conducted using the central estimate of the premium liabilities, together with an appropriate margin for uncertainty. The test is based on prospective information and so is heavily dependent on assumptions and judgements.

The liability adequacy test at reporting date resulted in a surplus for the Company for which additional information is provided in the table below (2017 - surplus).

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	PARENT AND CONSOLIDATED	
	2018	2017
	$000	$000
Net central estimate of present value of expected future cash flows from future claims	**480,798**	532,767
Risk margin of the present value of expected future cash flows	**13,022**	14,432
	493,820	547,199
Risk margin percentage	**2.7%**	2.7%
Probability of adequacy	**60.0%**	60.0%

The probability of adequacy applied for the purposes of the liability adequacy test differs from the probability of adequacy determined for the outstanding claims liability. The reason for this difference is that the former is in effect an impairment test used only to test the sufficiency of net premium liabilities whereas the latter is a measurement accounting policy used in determining the carrying value of the outstanding claims liability carried on the balance sheet.

NOTE 12. INVESTMENTS

	PARENT		CONSOLIDATED	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
A. COMPOSITION				
I. Interest bearing investments				
Cash and short term money held in investment	**12,454**	41,347	**12,454**	41,347
Government and semi-government bonds	**260,119**	204,115	**260,119**	204,115
Corporate bonds and notes	**718,194**	727,724	**718,194**	727,724
	990,767	973,186	**990,767**	973,186
II. Equity investments				
Listed	**-**	-	**2,508**	2,142
Unlisted	**248,308**	271,006	**248,308**	271,006
	248,308	271,006	**250,816**	273,148
	1,239,075	1,244,192	**1,241,583**	1,246,334

B. DETERMINATION OF FAIR VALUE

The table below separates the total investments balance based on a hierarchy that reflects the significance of the inputs used in the determination of fair value. The fair value hierarchy has the following levels:

I. Level 1 quoted prices

Quoted prices (unadjusted) in active markets for identical assets and liabilities are used.

II. Level 2 other observable inputs

Valued using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices), including: quoted prices in active markets for similar assets or liabilities, quoted prices in markets in which there are few transactions for identical or similar assets or liabilities, and other inputs that are not quoted prices but are observable for the asset or liability, for example interest rate yield curves observable at commonly quoted intervals.

III. Level 3 unobservable inputs

Inputs for the asset or liability that are not based on observable market data (unobservable inputs) are used.

Where the determination of fair value for an instrument involves inputs from more than one category, the level within which the instrument is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

				CONSOLIDATED
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	$000	$000	$000	$000
2018				
Interest bearing investments	**284,257**	**706,510**	**-**	**990,767**
Equity investments	**2,508**	**248,308**	**-**	**250,816**
	286,765	**954,818**	**-**	**1,241,583**
2017				
Interest bearing investments	177,775	795,411	-	973,186
Equity investments	2,142	271,006	-	273,148
	179,917	1,066,417	-	1,246,334

The Company has same investments as the Consolidated entity with the exception of Equity Investments of $2.5 million (2017 - $2.1 million).

NOTE 13. RECEIVABLES

	PARENT		CONSOLIDATED	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
COMPOSITION				
I. Premium receivable				
Premium receivable	**829,593**	713,727	**829,593**	713,727
Provision for lapses	**(5,463)**	(7,606)	**(5,463)**	(7,606)
Premium receivable	**824,130**	706,121	**824,130**	706,121
II. Trade and other receivables				
Reinsurance recoveries on paid claims	**125,000**	44,182	**125,000**	44,182
Investment income receivable	**6,945**	7,205	**6,945**	7,205
Investment transactions not yet settled at reporting date	**7**	103,704	**7**	103,704
Other debtors	**30,821**	50,577	**30,821**	50,577
Trade and other receivables	**162,773**	205,668	**162,773**	205,668
	986,903	911,789	**986,903**	911,789

Reinsurance and other recoveries on paid claims includes $113.0 million (2017 - $16.9 million) recoverable from IAG Re Singapore Pte Limited and $0.0 million (2017 - $0.1 million) recoverable from IAG Re Labuan (L) Berhad.

Under the quota share agreement with National Indemnity Company, Munich Re, Swiss Re and Hannover Re, the Company has a right of offset, and settles on a net basis. At 30 June 2018, the Company has offset receivables due under the contracts of $201.3 million (2017 - $136.6 million) with the reinsurance premium payable of $420.8 million (2017 - $232.3 million). The net payable is included within the reinsurance premium payable balance. The relevant cash flows pertaining to the contracts have been presented on a gross basis within the cash flow statement.

NOTE 14. INTANGIBLE ASSETS

	CONSOLIDATED
	Total
	$000
2018	
A. COMPOSITION	
Cost	**180,701**
Accumulated amortisation and impairment	**(150,637)**
Balance at the end of the financial year	**30,064**
B. RECONCILIATION OF MOVEMENTS	
Balance at the beginning of the financial year	**43,858**
Additions acquired and developed	**8,057**
Amortisation*	**(21,851)**
Balance at the end of the financial year	**30,064**

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	CONSOLIDATED Total $000
2017	
C. COMPOSITION	
Cost	176,434
Accumulated amortisation and impairment	(132,576)
Balance at the end of the financial year	43,858
D. RECONCILIATION OF MOVEMENTS	
Balance at the beginning of the financial year	48,945
Additions acquired and developed	12,849
Amortisation*	(17,936)
Balance at the end of the financial year	43,858

* Amortisation of software development is included under other underwriting expenses in the Statement of Comprehensive Income.

The only intangible asset of the parent is software development expenditure.

E. AMORTISATION RATE (% per annum) 33.33%-43.00%

F. EXPLANATORY NOTES FOR INTANGIBLE ASSETS
i. Software development expenditure
The software development expenditure asset comprises internally generated assets.

G. IMPAIRMENT TESTING
An impairment test was conducted for software under development. For software deployed, an impairment trigger review was conducted.

NOTE 15. GOODWILL

	PARENT		CONSOLIDATED	
	2018 $000	2017 $000	**2018 $000**	2017 $000
A. COMPOSITION				
Goodwill	**206,813**	206,813	**207,473**	207,473
Accumulated impairment charges	**-**	-	**-**	-
Balance at the end of the financial year	**206,813**	206,813	**207,473**	207,473

The goodwill reported by the Company substantially arises from the purchase of New Zealand Insurance Limited (NZI) in 2003.

B. IMPAIRMENT ASSESSMENT
The impairment testing of goodwill involves the use of accounting estimates and assumptions. The recoverable amount of each cash generating unit is determined on the basis of value in use calculations. The value in use is calculated using a discounted cash flow methodology covering a ten year period with an appropriate terminal value at the end of year ten for each cash generating unit. The carrying value of identified intangible assets is deducted from the value generated from the cash flow projections to arrive at a recoverable value for goodwill which is then compared with the carrying value of goodwill.

There was no impairment charge recognised during the current or prior year.

Assumptions used
The following describes the key assumptions on which management has based its cash flow projections to undertake impairment testing of goodwill. There is no reasonably possible change in key assumptions that could cause the carrying value of goodwill to exceed the recoverable amount.

a. CASH FLOW FORECASTS
Cash flow forecasts are based on ten year business plans.

b. TERMINAL VALUE
Terminal value is calculated using a perpetuity growth formula based on the cash flow forecast for year ten, terminal growth rate in profit or premium and, where appropriate, terminal insurance margin. Terminal growth rates and insurance margins are based on past performance and management's expectations for future performance in each segment. The terminal growth rate assumptions used in the impairment assessment as at 30 June 2018 was 3.75% (2017 - 3.5%).

c. DISCOUNT RATE
Discount rates reflect a beta and equity risk premium appropriate to the Consolidated entity, risk adjusted where applicable. The post-tax discount rate used was 10.1% (2017 - 10.3%).

NOTE 16. DETAILS OF SUBSIDIARIES

	PRINCIPAL ACTIVITY	OWNERSHIP INTEREST		BALANCE DATE
		2018	2017	
		%	%	
State Insurance Limited	Non-operating	**100.00**	100.00	30 June
Direct Insurance Services Limited	Non-operating	**100.00**	100.00	30 June
IAG (NZ) Share Plan Nominee Limited	Trustee of Staff Share Plan	**100.00**	100.00	30 June
The IAG New Zealand Limited Employee Share Plan	Share Plan Trust	**100.00**	100.00	30 June
NZI Staff Superannuation Fund Nominees Limited	Investment Nominee	**100.00**	100.00	30 June

NOTE 17. TRADE AND OTHER PAYABLES

	PARENT		CONSOLIDATED	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
COMPOSITION				
I. Trade creditors				
Commissions payable	**19,454**	13,050	**19,454**	13,050
Levies payable	**89,913**	65,396	**89,913**	65,396
Other	**59,997**	55,975	**59,997**	55,975
	169,364	134,421	**169,364**	134,421
II. Other payables				
Other creditors and accruals	**32,921**	26,856	**34,588**	28,686
Investment creditors	**-**	108,927	**-**	108,927
	202,285	270,204	**203,952**	272,034

Trade and other payables are unsecured and non interest-bearing. Amounts have not been discounted because the effect of the time value of money is not material. The carrying amount of payables is a reasonable approximation of the fair value of the liabilities because of the short-term nature of the liabilities.

Trade and other payables include $7.8 million (2017- $0.0 million) payable to IAG Re Labuan (L) Berhad.

NOTE 18. EMPLOYEE BENEFITS

	PARENT		CONSOLIDATED	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
A. EMPLOYEE BENEFITS PROVISION				
Annual leave	**15,725**	15,719	**15,725**	15,719
Cash based incentive arrangements	**19,012**	20,541	**19,012**	20,541
Defined benefit superannuation plans	**2,400**	2,666	**2,400**	2,666
Defined benefit pension arrangement - unfunded	**1,457**	1,655	**1,457**	1,655
	38,594	40,581	**38,594**	40,581

The employee benefits provision includes $3.9 million (2017 - $4.3 million) which is expected to be settled after more than 12 months from reporting date.

B. CASH BASED INCENTIVE ARRANGEMENTS

Short term incentive plan

The short term incentive plan continued in operation during the current reporting year. Eligible employees have the capacity to earn a proportion of their base pay as a cash incentive annually. The incentive opportunity is set depending on an employee's role and responsibilities. The majority of employees are eligible for a 10% or 20% cash incentive. The incentive payments are determined based on an assessment of individual performance and achievement of a range of business unit and individual goals.

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NOTE 19. SHARE BASED REMUNERATION

The provision of share based remuneration creates a link between shareholder value creation and rewarding employees. Share based remuneration encourages employee share ownership, links employee reward to the performance of the Consolidated entity and assists with retention of key personnel. This type of remuneration encourages employees to focus on creating shareholder value over the longer term.

The obligations under share based payment arrangements are covered by the on market purchase of IAG ordinary shares which are held in trust. The shares are purchased on or near grant date at the prevailing market price. The arrangements are managed using in-house trusts. The trusts are administered by an external company.

The number of shares purchased to cover each allocation of shares or rights is determined by the trustee based on independent actuarial advice. The trusts allow for excess shares purchased in relation to one plan to be used to meet obligations of the other plans at the trustee's discretion.

Share based remuneration is provided through a range of different plans each of which has different purposes and different rules.

A. SENIOR MANAGEMENT AND EXECUTIVE SHARE PLANS

The senior management and executive share plan arrangements consist of two separate arrangements working together. These two arrangements are the Deferred Award Rights Plan and the Executive Performance Rights Plan which are detailed below.

I. Deferred Award Rights Plan

The Deferred Awards Rights Plan (DAR Plan) is the deferred portion of the short term incentive issued as rights over IAG ordinary shares.

Key terms and conditions:

- The rights are granted for nil consideration, are non-transferable, and can be settled only with existing IAG ordinary shares. Holders do not receive dividends and do not have voting rights until the rights are exercised.
- The vesting condition is not market related and requires the participant to continue in relevant employment.
- Where the rights vest (the holder becomes entitled to exercise the right), the plan entitles participating employees to acquire one IAG ordinary share for each right. The exercise price of all vested rights is a nominal value of $1 per tranche of rights exercised.
- The rights vest after a maximum two year period as determined by the IAG Group Board subject to the participants continuing in relevant employment for the full period. If there is a change of control of IAG, the IAG Group Board has discretion to determine if and when rights should vest.
- If the vesting condition is not met, then the rights lapse. The rights also lapse where the holder chooses to forgo the rights, and all rights expire seven years from grant date where they have not previously lapsed or been exercised.

II. Executive Performance Rights Plan

The Executive Performance Rights Plan (EPR Plan) is the Group's long term incentive plan issued as rights over IAG ordinary shares.

Key terms and conditions:

- The rights are granted for nil consideration, are non transferable, and for Series 1 to 5 can be settled only with IAG ordinary shares. From Series 6 onwards, the rights may be settled in cash or IAG ordinary shares, subject to IAG Group Board discretion. Holders do not receive dividends and do not have voting rights until the rights are exercised.
- Where the rights vest (the holder becomes entitled to exercise the right), the EPR Plan entitles participating employees to acquire either one IAG ordinary share or its equivalent cash value as determined by the IAG Group Board for each right. There is no exercise price.
- Each allocation is split equally into two portions and is subject to different performance hurdles. The first vesting condition is not market related and requires the participant to continue relevant employment. The second set of vesting conditions is as follows:
  - 50% is subject to a return on equity hurdle (ROE allocation); and
  - 50% is subject to a total shareholder return hurdle (TSR allocation).

If a participant ceases employment with IAG before the performance conditions are tested, their unvested rights will generally lapse.

- Under the TSR allocation, IAG's TSR is assessed against the TSR of a peer group of entities. For allocations made prior to 30 June 2009, the peer group consists of entities in the S&P/ASX 100 Index and for allocations made after 30 June 2009, the peer group consists of entities in the top 50 industrials within the S&P/ASX 100 Index. The performance hurdle is set with a tiered vesting scale:
  - Maximum vesting of 100% if IAG's relative TSR is equal or larger than the 75th percentile of the peer group;
  - Minimum vesting of 0% if IAG's TSR is below the 50th percentile of the peer group.

- The ROE hurdle compares IAG's performance with IAG's weighted average cost of capital (WACC), where the IAG Group Board determines the WACC. The tiered vesting scale is:
  - Maximum vesting of 100% if ROE is larger than 1.6 x WACC (1.8 x WACC for rights granted between 1 July 2008 to 30 June 2010);
  - Minimum vesting at 0% if ROE is below 1.2 x WACC (1.5 x WACC for rights granted between 1 July 2008 to 30 June 2010, 1.3 x WACC for rights granted before 30 June 2008).

- If there is a change of control of IAG, the IAG Group Board has discretion to determine if and when rights should vest.

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B. EMPLOYEE SHARE PLANS

The Company has established an employee share plan to assist employees to become shareholders of IAG. The Plan operates within the terms of a Trust Deed dated 24 July 2002. Shares subscribed under the Plan are held in Trust for a vesting period of three years on behalf of the respective staff member. Under certain circumstances such as retirement, death or permanent disability, the vesting period may be waived. Dividends are payable during the vesting period. Staff who leave the Group before completion of the vesting period forfeit any rights to the shares. Such forfeited shares may then be reallocated as part of a future approved offer or disposed of at the discretion of the Trustees. Dividends received on forfeited shares may, at the Trustees' discretion, be used to defray the costs of administering the Plan. Shares held in the Trust have full voting rights and these rights may be exercised by the staff member on whose behalf the shares are held.

2010 to 2018 IAG NZ Employee Share Awards:

In terms of each of these awards staff can subscribe for a $1,000 parcel of shares. Shares are purchased by way of salary sacrifice and IAG NZ contributes 10% towards the cost of the share purchase. IAG shares taken up through the Plan do not incur any brokerage. Participation in the awards is optional.

The Trustee of the Plan is IAG Share Plan Nominee (Pty) Limited. The Company has the power to appoint and remove the Trustees at its discretion.

At balance date the Trust held the following Ordinary Shares in IAG:

	PARENT AND CONSOLIDATED	
	2018	2017
Forfeited shares	**44,741**	42,169
Shares held on behalf of eligible staff	**226,552**	261,700
Total shares held	**271,293**	303,869

The total number of shares held represents 0.011% (June 2017 - 0.013%) of the Ordinary Shares issued by IAG.

NOTE 20. COMMITMENTS

	PARENT AND CONSOLIDATED	
	2018	2017
	$000	$000
OPERATING AND FINANCE LEASE COMMITMENTS		
I. Property		
Due within 1 year	**21,201**	21,955
Due within 1 to 2 years	**21,135**	21,784
Due within 2 to 5 years	**50,929**	54,260
Due after 5 years	**62,240**	81,470
II. Equipment		
Due within 1 year	**2,024**	1,903
Due within 1 to 2 years	**1,498**	1,490
Due within 2 to 5 years	**1,020**	1,142
	160,047	184,004

Certain property and motor vehicles are leased under non-cancellable operating leases. Most leases are subject to annual reviews with increases subject to a set percentage or based on either movements in consumer price indices or operating criteria. Where appropriate, a right of renewal has been incorporated into the lease agreements at which time all terms and conditions may be renegotiated. There are no options to purchase the relevant assets on expiry of the lease.

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NOTE 21. RELATED PARTY DISCLOSURES

A. RELATED PARTY BALANCES

At the end of the reporting period the Company had the following related party balances:

Related Party	Description	30 June 2018 $000	Closing Balance 30 June 2017 $000
IAG Re Singapore	Fee for Services	**(736)**	(736)
Insurance Australia Limited	Forward exchange contracts	**(12,262)**	(2,670)
NRMA Information Services Pty Limited	Technology costs recharged	**(3,861)**	(4,214)
Insurance Australia Limited	Fee for services	**(17,976)**	(4,139)
IAG Asset Management Limited	Investment management fees	**(199)**	(160)
Direct Insurance Services Limited	Current account with subsidiary company	**12**	12
		(35,022)	(11,907)

The Consolidated entity had the same related party balances with the exception of Direct Insurance Services, eliminated on consolidation.

	30 June 2018 $000	30 June 2017 $000
Reported within Reinsurance and other recoveries on outstanding claims (refer to note 9):		
IAG Re Singapore Pte Limited	**478,917**	715,473
IAG Re Labuan (L) Berhad	**1,468**	2,682
Reported within Receivables (refer to note 13):		
IAG Re Singapore Pte Limited	**113,009**	16,907
IAG Re Labuan (L) Berhad	-	111
Reported within Reinsurance premium payable:		
IAG Re Singapore Pte Limited	**261,524**	313,595
IAG Re Australia Limited	**25**	(6)
Reported within Trade and other payables (refer to note 17)		
IAG Re Labuan (L) Berhad	**7,755**	-

B. RELATED PARTY TRANSACTIONS

Impact of transactions with related parties on the Company's Financial Statements was as follows:

Related Party	Transaction	30 June 2018 $000	Transaction Amount 30 June 2017 $000
IAG Finance (NZ) Limited NZ Branch	Fee for services	**63**	63
Insurance Australia Limited	Forward exchange contracts	**38,367**	25,494
IAG Re Australia Limited	Reinsurance recoveries	**(812)**	(359)
IAG Re Australia Limited	Reinsurance expense	**1,229**	877
NRMA Information Services Pty Limited	Technology costs recharged	**11,917**	14,053
Insurance Australia Limited	Fee for services	**32,886**	21,311
IAG Asset Management Limited	Investment management fees	**2,252**	2,619
First Rescue and Emergency (NZ) Limited	Claims expenditure	**9,333**	8,411
First Rescue and Emergency (NZ) Limited	Fee for services	**1,256**	1,387
Loyalty New Zealand Limited	Issue of Fly Buys points	**5,126**	4,974
IAG (NZ) Holdings Limited*	Dividend paid	**141,200**	43,450
IAG (NZ) Holdings Limited*	Repurchase of ordinary shares	-	700,000
IAG Re Singapore Pte Limited	Reinsurance expense	**316,637**	451,758
IAG Re Singapore Pte Limited	Reinsurance recoveries	**(214,968)**	(590,779)
IAG Re Labuan (L) Berhad	Reinsurance recoveries	**8,904**	3,319
CGU Insurance Limited	Technology costs recharged	-	(1)
Insurance Australia Group Limited**	Interest received	-	(1,898)
Insurance Australia Group Limited**	Repayment of Loan	-	(517,327)
Insurance Australia Group Limited**	FX movement on Loan	-	10,329
IAG Re Singapore Pte Limited	Reinsurance commission revenue	**(29,016)**	(21,967)
IAG Re Australia Limited	Reinsurance commission revenue	**(155)**	(213)

The Consolidated entity had the same related party transactions.

The above related party transactions highlighted as * and **were with the parent entity and the ultimate parent entity respectively,

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and the rest of the related party transactions were with the respective associated companies.

The foreign exchange movement on investments and the foreign exchange movement on the related currency hedges have been offset within investment income in Note 4.B.

C. KEY MANAGEMENT PERSONNEL

Details of compensation

Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the Consolidated entity, directly or indirectly, including any Director (whether executive or otherwise) of that entity.

The aggregate compensation of the KMP is set out below:

	PARENT AND CONSOLIDATED	
	2018	2017
	$000	$000
Short term employee benefits	**4,396**	6,211
Post employment benefits	**4**	11
Other long term benefits	**2**	5
Share based payments	**1,980**	1,423
	6,382	7,650

The compensation disclosed in the table above represents the KMP's estimated compensation received from the IAG Group in relation to their involvement in the activities with the Consolidated entity.

NOTE 22. NOTES TO THE STATEMENTS OF CHANGES IN EQUITY

A. CAPITAL

At 30 June 2018, Share Capital comprised 2,898,433,488 ordinary shares of $1 each (2017 -2,898,433,488)

On 29 August 2016, the Company bought back and cancelled 500,000,000 ordinary shares of $1 each that were issued to IAG (NZ) Holdings Limited.

On 22 March 2017, the Company bought back and cancelled 200,000,000 ordinary shares of $1 each that were issued to IAG (NZ) Holdings Limited.

During the year the Company paid dividends totalling $141.2 million which represented 5 cents per share.

All ordinary shares participate equally in both dividends and any surplus remaining on winding up the Company. All ordinary shares are fully paid and have the right to one vote.

B. NATURE AND PURPOSE OF EQUITY RESERVE

The equity reserve is used to recognise the fair value at grant date of equity settled share based remuneration provided to employees over the vesting period.

To satisfy the obligations under the various share based remuneration plans, shares are generally bought on market at or near grant date of the relevant arrangement and held in trust. The purchase consideration of the shares purchased is amortised to the equity reserve over the vesting period.

C. NATURE AND PURPOSE OF GENERAL RESERVE

The general reserve is used to recognise the difference between the consideration paid for the insurance operations of AMI and Lumley and the value of the net assets transferred on sale.

NOTE 23. NOTES TO THE CASH FLOW STATEMENTS

	PARENT		CONSOLIDATED	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
A. COMPOSITION				
Cash held for operational purposes	**53,087**	53,910	**53,091**	53,914
Cash and short term money held in investments	**12,454**	41,347	**12,454**	41,347
Cash and cash equivalents	**65,541**	95,257	**65,545**	95,261

Cash and cash equivalents represent cash on hand and held with banks, deposits at call and short term money held in investment readily convertible to cash within two working days, net of any bank overdraft.

The carrying amount of the cash and cash equivalents presented on the balance sheets is the same as that used for the purposes of the cash flow statements as there are no bank overdrafts used which are repayable upon demand.

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B. SIGNIFICANT RISKS

The net carrying amount of cash and cash equivalents represents the maximum exposure to credit risk at reporting date and is equivalent to the fair value of the assets because of the negligible credit risk and frequent repricing.

The majority of the amounts bear variable rates of interest. Those balances bearing a fixed rate of interest mature in less than one year. A small portion of the amounts bear no interest.

	PARENT		CONSOLIDATED	
	2018	2017	**2018**	2017
	$000	$000	**$000**	$000
C. RECONCILIATION OF PROFIT/(LOSS) FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES				
Profit/(loss) for the year	**132,456**	85,221	**133,030**	85,571
I. Non-cash items				
Depreciation of property and equipment	**13,283**	13,294	**13,283**	13,294
Amortisation of intangible assets and goodwill	**21,851**	17,936	**21,851**	17,936
Net realised (gains) and losses on disposal of investments	**15,630**	(34,522)	**15,630**	(34,522)
Net unrealised (gains) and losses on revaluation of investments	**(12,545)**	15,040	**(13,119)**	14,689
Other	**18,618**	(4,277)	**18,618**	(4,276)
II. Movement in operating assets and liabilities				
DECREASE/(INCREASE) IN OPERATING ASSETS				
Premium and other receivables	**(105,748)**	(74,855)	**(105,748)**	(74,855)
Prepayments, deferred levies and charges	**(134,807)**	(33,140)	**(134,807)**	(33,140)
Deferred tax assets	**27,867**	11,969	**27,867**	11,969
Reinsurance and other recoveries	**185,631**	(208,054)	**185,631**	(208,054)
Current tax asset	**(18)**	24	**(18)**	24
INCREASE/(DECREASE) IN OPERATING LIABILITIES				
Trade and other payables	**162,310**	(311,592)	**162,310**	(311,592)
Provisions	**(1,987)**	(7,439)	**(1,987)**	(7,439)
Outstanding claims liability	**(266,765)**	(37,990)	**(266,765)**	(37,990)
Unearned premium liability	**120,984**	54,116	**120,984**	54,116
Net cash flows from operating activities	**176,760**	(514,269)	**176,760**	(514,269)

NOTE 24. CAPITAL MANAGEMENT

A. CAPITAL MANAGEMENT STRATEGY

The capital management strategy plays a central role in managing risk to create shareholder value whilst meeting the important objective of providing an appropriate level of capital to protect policyholders and lenders and satisfy regulators and stakeholders.

The target level of capitalisation is assessed by considering a number of factors, including:

- protecting the interests of current and future policyholders;
- the probability of falling below the prescribed regulatory capital amount;
- other stakeholder perspectives, including rating agency capital models and associated ratings.

Internal policies, governance structures and regular reporting of capital are in place to ensure deviations from target capitalisation will result in senior management and the Board considering how any shortfall should be made good or any surplus utilised.

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Regulatory capital
IAG NZ is regulated by the RBNZ in terms of the Insurance (Prudential Supervision) Act 2010 (the Act).

The Act and associated Solvency Standards prescribe how the minimum solvency capital (MSC) required by the regulator and how the actual solvency capital (ASC) held by the licensed insurer are calculated. The solvency margin is determined by comparing the ASC with the MSC, which are required to be reported to RBNZ half-yearly. As at 30 June 2018, the ASC, MSC, solvency margins and solvency ratios held were:

2018	**Non-Life $m**	**Life* $m**	**Total $m**
ASC	**556.4**	**0.1**	**556.5**
MSC	**337.1**	**0.1**	**337.2**
Solvency margin	**219.3**	**0.0**	**219.3**
Solvency Ratio (percent)	**165.1%**	**121.8%**	**165.1%**

2017	Non-Life $m	Life* $m	Total $m
ASC	631.2	0.1	631.3
MSC	359.2	0.1	359.3
Solvency margin	272.0	0.0	272.0
Solvency Ratio (percent)	175.7%	121.8%	175.7%

*Life ASC is $106,000 and MSC is $87,000. Due to rounding, the figures above are shown in $m.

The policy or approach to managing capital has not changed during the period.

The ASC, solvency margin and solvency ratios presented above are after allowing for the $8 million dividend and $100 million capital repayment. Refer Note 26.

B. CREDIT RATING
In terms of the Insurance (Prudential Supervision) Act 2010, the Company undergoes an annual claims paying ability rating. The rating review is performed by Standard and Poor's Pty (Australia) Limited. As at the date of this report, the rating assigned to IAG NZ was "AA-" (2017 - "AA-"). The AA- rating represents 'very strong' claims paying ability and the "A+" rating represents 'strong' claims paying ability.

NOTE 25. CONTINGENCIES

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

The Consolidated entity has no known material contingent liabilities as at the date of this report.

NOTE 26. EVENTS SUBSEQUENT TO REPORTING DATE

On the 8th of August 2018, the Board determined to pay a dividend of $8 million to IAG (NZ) Holdings Limited. The dividend will be paid on or before 15 September 2018.

On the 8th of August 2018, the Board also resolved to buy back and cancel 100 million $1 ordinary shares issued by the Company from IAG (NZ) Holdings Limited.

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AUDIT REPORT

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Independent Auditor's Report

To the shareholder of IAG New Zealand Limited

Report on the Company and Group financial statements

Opinion

In our opinion, the accompanying Company and Group financial statements of IAG New Zealand Limited (the Company) and its subsidiaries (the Group) on pages 8 to 41:

i. present fairly in all material respects the Company's and Group's financial position as at 30 June 2018 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying Company and Group financial statements which comprise:

— the Company and Group balance sheet as at 30 June 2018;

— the Company and Group statements of comprehensive income, changes in equity and cash flows for the year then ended; and

— notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Company and Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the Company and Group financial statements section of our report.

Our firm has also provided assurance on regulatory returns, agreed upon procedures engagements and other assurance services to the Company and Group. Subject to certain restrictions, partners and employees of our firm may also deal with the Company and Group on normal terms within the ordinary course of trading activities of the Company and Group. These matters have not impaired our independence as auditor of the Company and Group. The firm has no other relationship with, or interest in, the Company and Group.

Emphasis of matter

We draw attention to Notes 8 and 9 of the Company and Group financial statements, which describe the significant uncertainties that exist in measuring the Gross Outstanding Claims Liabilities and associated Reinsurance Recoveries from the Canterbury and Kaikoura earthquakes. Our opinion is not modified in respect of this matter.

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Other information

The Directors, on behalf of the Company and Group, are responsible for the other information included in the Company and Group financial statements. Other information includes the Directors' Report and Corporate Governance Statement. Our opinion on the Company and Group financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Company and Group financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Company and Group financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Use of this independent auditor's report

This independent auditor's report is made solely to the shareholder. Our audit work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholder for our audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of the Directors for the Company and Group financial statements

The Directors, on behalf of the Company and Group, are responsible for:

- the preparation and fair presentation of the Company and Group financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a Company and Group set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Company and Group financial statements

Our objective is:

- to obtain reasonable assurance about whether the Company and Group financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Company and Group financial statements.

A further description of our responsibilities for the audit of these Company and Group financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-5/

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Kay Baldock.

For and on behalf of

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Auckland

9 August 2018

IAG New Zealand Limited - Section 78 Appointed Actuaries Report as at 30 June 2018

This report has been prepared in accordance with section 78 of the Insurance Prudential Supervision Act 2010 ("Act") and details the review of the actuarial information, as defined in section 77(4), used in the preparation of IAG NZ Limited's ("IAG") 30 June 2018 financial statements as required under section 77 of the Act ("review"). It states the following:

a. The review was carried out by Christian Barrington, IAG's Appointed Actuary.

b. The Appointed Actuary reviewed the actuarial information used in the financial statements.

c. The review covers actuarial information in, or used in the preparation of, financial statements. There was no limitation to the review of actuarial information carried out by the Appointed Actuary.

d. The relationships (other than that of actuary) and interests that the actuary has in IAG (or any of its subsidiaries) are as follows:
(i) An annual short term incentive payment is a portion of the Appointed Actuary's remuneration. This payment relies partly on the financial performance of IAG.
(ii)The Appointed Actuary holds an insurance policy with IAG.

e. All the information and explanations required by the Appointed Actuary were provided.

f. In the opinion of the Appointed Actuary and from an actuarial perspective:
(i) the actuarial information contained in the financial statements has been appropriately included in those statements; and
(ii) the actuarial information used in the preparation of the financial statements has been used appropriately.

g. In the opinion of the Appointed Actuary IAG is maintaining the solvency margin that applies under a condition imposed under section 21 (2) (b) of the Act at 30 June 2018.

h. At 30 June 2018 IAG was not required to have a Statutory Fund in relation to its life business. As such no opinion under section 78 (h) of the Act is required.

IAG New Zealand Limited - Section 78 Appointed Actuaries Report as at 30 June 2018

This report is not required to be prepared in accordance with professional standard 90: Communication of Professional Advice of the New Zealand Society of Actuaries. All matters that are required under this standard are contained within the 30 June 2018 Financial Condition Report.

Signed

Christian Barrington
Appointed Actuary
IAG NZ Limited
Fellow of the New Zealand Society of Actuaries

Date 8 August 2018