IAG NEW ZEALAND LIMITED

AND SUBSIDIARIES

ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2022

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 2022 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:

S.C. Allen (Board Chair), A. D. Cornish, N.B. Hawkins, W.W. Lai, D.A. McKay and A.G. Whiting.

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 2022
	$000
Profit Before Income Tax	246,452
Income Tax Expense	(73,102)
Profit After Income Tax	173,350
Other Comprehensive Income and (Expense), net of Tax	1,467
Retained earnings as at 30 June 2021	(514,897)
Dividends paid	(48,300)
Retained earnings as at 30 June 2022	(388,380)
The state of the Consolidated entity's affairs as at 30 June 2022 was:	
Equity	899,703
Represented by:	
Assets	4,528,663
Liabilities	(3,628,960)
	899,703

REVIEW OF OPERATIONS

The net result of the Consolidated entity after applicable income tax for the financial year ended 30 June 2022 was a profit of $173.4 million. (2021: profit of $259.4 million).

DIVIDENDS AND CAPITAL REPAYMENTS

Dividends of $48.3 million were paid during the year (2021: $21.0 million).

During the year the Company repaid $435.0 million of capital to IAG (NZ) Holdings Limited (2021: $160.0 million).

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Company during the financial year.

EVENTS SUBSEQUENT TO REPORTING DATE

On 5 August 2022, the IAG NZ Board resolved to buy back and cancel 35 million $1 ordinary shares issued by IAG NZ from IAG (NZ) Holdings Limited. The capital will be repaid on or before 31 August 2022.

On 5 August 2022, the IAG NZ Board resolved to pay a dividend of $5.5 million to IAG (NZ) Holdings Limited. The dividend will be paid on or before 31 August 2022.

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 2022 in accordance with a resolution of the Directors.

Director

SCallen

Director

IAG NEW ZEALAND LIMITED AND SUBSIDIARIES
CORPORATE GOVERNANCE STATEMENT

THE BOARD

The Board's role and responsibilities

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.

Board composition

The Board's policy is to ensure that the Board comprises Directors who collectively have the relevant experience, knowledge, diversity and skills required, considering the Company's current size, market position, complexity and strategic focus.

The Board currently comprises six Directors, with a wide range of skills and experience. The roles of Chair and CEO are not exercised by the same person. The Chair is an independent non-executive director and sits on the Insurance Australia Group Limited Board. The qualification and experience of each Director are set out below:

SIMON C ALLEN - Board Chair and Independent Non-Executive Director
BSc, BCom, INFINZ (Fellow), CFInstD, AMP (INSEAD)
Board Committees: Chair of the Nomination Committee and Member of the Audit Committee, People and Remuneration Committee and Risk Committee.

Simon Allen was appointed a Non Executive Director of IAG New Zealand Limited and IAG (NZ) Holdings Limited on 1 September 2015.

Simon was appointed Board Chair of IAG New Zealand Limited and IAG (NZ) Holdings Limited and appointed a Director of Insurance Australia Group Limited in November 2019. He is also a Director of AMI Insurance Limited and Lumley General Insurance (N.Z.) Limited.

Simon has over 35 years' commercial experience in the New Zealand and Australian capital markets and was Chief Executive of investment bank BZW/ABN AMRO in New Zealand for 21 years. He has been actively involved in advising New Zealand companies, Government and investors on matters relating to their strategies and capital markets participation. He is a Trustee of the New Zealand Antarctic Heritage Trust.

Simon was the inaugural Chair of NZX Limited, Financial Markets Authority and Crown Infrastructure Partners Limited (previously known as Crown Fibre Holdings Limited). He resigned from the Board of Channel Infrastructure NZ Limited (previously known as The New Zealand Refining Company Limited) on 30 June 2022.

ANDREW D CORNISH - Independent Non-Executive Director
MBA
Board Committees: Chair of the Risk Committee and Member of the Audit Committee, Nomination Committee and People and Remuneration Committee.

Andrew Cornish was appointed a Non Executive Director of IAG New Zealand Limited and IAG (NZ) Holdings Limited on 1 June 2019.

Prior to retiring from executive life in June 2016, Andrew was Chief Operations Officer at Insurance Australia Limited and prior to that was Chief Executive Officer, Personal Insurance, Insurance Australia Limited from 2014. In that role, he was appointed Chair and President of the Insurance Council of Australia. He has also held the position of Chief Executive Officer, Direct Insurance, Insurance Australia Limited from 2009 to 2014.

Andrew has more than 40 years' experience in the insurance industry, including with the RBS Group as Managing Director, NIG Insurance (UK) and CEO of Direct Line Insurance International, and with Zurich Insurance. He has extensive experience as a Director for Green Flag Group Limited, National Westminster Insurance Services Limited, Royal Bank Insurance Service Limited, Direct Line Insurance and the Insurance Council of Australia.

Andrew holds directorships with MLC Limited, Australasian New Car Assessment Programme (ANCAP) and Larapinta Connect Pty Limited.

NICHOLAS (NICK) B HAWKINS – Executive Director
Managing Director and Chief Executive Officer, Insurance Australia Group Limited
BCom, FCA
Nick Hawkins was appointed an Executive Director of IAG New Zealand Limited and IAG (NZ) Holdings Limited on 18 November 2020.

Nick became IAG's Managing Director and Chief Executive Officer on 2 November 2020 having previously held the role of Deputy Chief Executive Officer, accountable for the management and performance of IAG's day to day operations. He previously spent 12 years as IAG's Chief Financial Officer, responsible for the financial affairs of the Group. Prior to this, Nick was the Chief Executive Officer of IAG New Zealand and also held a number of roles within finance and asset management since joining IAG in 2001.

Nick was appointed to the position of President of the Insurance Council of Australia (ICA) in December 2021 and commenced as President on 1 January 2022.

Before joining IAG, Nick was a partner with the international accounting firm KPMG. Nick is a graduate of the Harvard Advanced Management Program.

WENDY W LAI – Independent Non-Executive Director
BProp, Dip Business
Board Committees: Chair of the People and Remuneration Committee and Member of the Audit Committee and Risk Committee.
Wendy Lai was appointed a Non Executive Director of IAG New Zealand Limited and IAG (NZ) Holdings Limited on 18 November 2020.

Wendy has more than 20 years' experience in management consulting specialising in improving organisational performance such as developing and implementing strategies to increase market share, reduce costs and improve productivity. She was part of Deloitte's global and regional leadership teams based in New Zealand and Southeast Asia, involved with delivering customer, digital and innovation services for Consulting.

Wendy has served on several Boards including Deloitte (NZ), Counties Manukau Health (Deputy Chair and Chair of Audit and Finance), Te Papa-The Museum of New Zealand (Chair of Audit and Finance), Avanti Finance and Ziera (Chair).

DOUG A McKAY - Independent Non-Executive Director
ONZM, BA, AMP (Harvard), CMInstD
Board Committees: Chair of the Audit Committee and Member of the People and Remuneration Committee and Risk Committee.
Doug McKay was appointed a Non Executive Director of IAG New Zealand Limited and IAG (NZ) Holdings Limited on 10 February 2014.

Doug has over 30 years' commercial and operational experience and a deep understanding of New Zealand and Australian markets having held Managing Director and Chief Executive positions with Lion Nathan, Carter Holt Harvey, Goodman Fielder, Sealord, Independent Liquor and Procter & Gamble. He was the inaugural Chief Executive of the amalgamated Auckland Council from May 2010 to December 2013.

In 2015, Doug was made an Officer of the New Zealand Order of Merit for services to business and local government.

Doug is the Chair of Bank of New Zealand and Eden Park Trust Board. He currently holds directorships with Fletcher Building Limited, Genesis Energy Limited and National Australia Bank Limited.

Amanda G Whiting – Executive Director
Chief Executive Officer, IAG New Zealand Limited
GradCertBizMgmt, GAICD
Amanda Whiting was appointed Chief Executive Officer of IAG New Zealand and an Executive Director of IAG New Zealand Limited and IAG (NZ) Holdings Limited on 1 July 2021. She is also a Director of AMI Insurance Limited, First Rescue New Zealand Limited, IAG No. 1 Limited, IAG No. 2 Limited and Lumley General Insurance (N.Z.) Limited.

Amanda was previously Acting Group Executive Direct Insurance Australia. Prior to her appointment into the acting Direct Insurance role in November 2020, she was Executive General Manager Consumer Distribution in IAG's Australia Division with responsibility for the distribution of brands including NRMA Insurance, CGU Insurance, SGIO and SGIC across multiple distribution channels.

Amanda joined IAG from iiNet in 2008 and has more than 20 years' experience in the insurance industry in both general and health insurance, having held senior roles in these industries as well as telecommunications.

BOARD COMMITTEES

The Board has established the following four standing Committees. Each Committee is governed by a charter setting out its roles and responsibilities.

AUDIT COMMITTEE

Membership of the Audit Committee comprises Doug McKay (Chair), Simon Allen, Andrew Cornish and Wendy Lai.

The purpose of the Audit Committee is to assist the Board to discharge its responsibilities by overseeing:

- the integrity of IAG NZ's external statutory financial statement reporting, including compliance with applicable laws, regulations and other requirements in relation to external financial reporting;
- tax and financial risks;
- the provision of high quality financial and audit related non-financial information that can be relied on by the Board to make informed judgements; and
- the independence of the External Auditor, Executive General Manager Internal Audit and the IAG NZ Appointed Actuary.

The Committee will act in a manner which prioritises conduct and culture outcomes alongside its responsibilities.

RISK COMMITTEE

Membership of the Risk Committee comprises Andrew Cornish (Chair), Simon Allen, Wendy Lai and Doug McKay.

The purpose of the Risk Committee is to assist the Board to discharge its risk management and compliance responsibilities including:

- oversight of the material risks of IAG NZ;
- oversight of risk management and control systems for adequacy and effectiveness;
- oversight of IAG NZ's compliance with the IAG NZ Risk Management Programme, Insurance Australia Group Limited Risk Management Strategy, Group Reinsurance Risk Management Strategy and other governance and risk related policies;
- effective operation of compliance systems having regard to the requirements of applicable laws, regulations, industry codes, organisational policies and frameworks;
- oversight of the implementation and operation of the Group and IAG NZ's risk management and governance frameworks; and
- safeguarding the independence of IAG NZ's Chief Risk Officer and IAG NZ's Appointed Actuary and the risk management and compliance functions.

The Committee will act in a manner which prioritises conduct and culture outcomes alongside its responsibilities.

PEOPLE AND REMUNERATION COMMITTEE

Membership of the People and Remuneration Committee comprises Wendy Lai (Chair), Simon Allen, Andrew Cornish and Doug McKay.

The purpose of the People and Remuneration Committee is to assist the Board to discharge its responsibilities on matters relating to:

- the Remuneration Policy;
- IAG NZ remuneration disclosures where required;
- the remuneration levels for IAG NZ Non-Executive Directors and Non-Executive Directors of certain other IAG NZ Subsidiaries, where required;
- the individual remuneration arrangements and outcomes of the IAG NZ Chief Executive Officer (CEO), employees who report directly to the CEO (New Zealand Leadership Team (NZLT)), Senior Risk and Financial Control employees and Material Risk Takers as defined in the Remuneration Policy, Responsible Persons of IAG NZ and other persons whose activities may affect the financial soundness of IAG NZ;
- the Group's equity plans where required; and
- the suitability of Group People and Culture strategies and frameworks, including the workplace health and safety framework and workplace diversity and inclusion strategies.

The Committee will act in a manner which prioritises conduct and culture outcomes alongside its responsibilities.

NOMINATION COMMITTEE

Membership of the Nomination Committee comprises Simon Allen (Chair), Andrew Cornish, Wendy Lai and Doug McKay.

The purpose of the Nomination Committee is to assist the Board to discharge its responsibilities by ensuring that the Board comprises individuals with an appropriate mix of skills, knowledge, experience and diversity, and who are best able to discharge the responsibilities of Directors having regard to the present and likely future needs of IAG NZ.

MANAGEMENT COMMITTEES

LEADERSHIP TEAM RISK COMMITTEE (LTRC)

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

- strategic;
- insurance;
- reinsurance;
- financial; and
- operational.

The LTRC is chaired by Amanda Whiting, Chief Executive Officer.

LEADERSHIP TEAM AUDIT COMMITTEE (LTAC)

The role 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.

The LTAC is chaired by Alistair Smith, Chief Financial Officer.

INSURANCE RISK COMMITTEE (IRC)

The role of the IRC is to oversee compliance with the NZ Business Division Licence, the Insurance Risk Framework, Group Product Governance Framework, and Group Pricing and Underwriting Principles where applicable.

The IRC is chaired by Alistair Smith, Chief Financial Officer.

RESERVING COMMITTEE

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

The Reserving Committee is chaired by Alistair Smith, Chief Financial Officer.

REGULATORY CHANGE AND ENGAGEMENT COMMITTEE (RCEC)

The role of the RCEC is to oversee and advise actions by IAG NZ to protect and advance its purpose and commercial interests in response to the changing regulatory environment and to ensure that associated risks are effectively managed.

The RCEC is chaired by Martin Hunter, Chief Risk Officer.

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. The CEO 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

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IAG NEW ZEALAND LIMITED AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2022

	NOTE	PARENT		CONSOLIDATED	
		2022	2021	**2022**	2021
		$000	$000	**$000**	$000
Premium revenue	4	**3,039,422**	2,930,508	**3,039,422**	2,930,508
Outwards reinsurance premium expense	11B	**(1,266,475)**	(1,250,074)	**(1,266,475)**	(1,250,074)
Net premium revenue (i)		**1,772,947**	1,680,434	**1,772,947**	1,680,434
Claims expense	9	**(1,849,200)**	(1,632,015)	**(1,849,200)**	(1,632,015)
Reinsurance and other recoveries revenue	4	**758,011**	634,907	**758,011**	634,907
Net claims expense (ii)	9	**(1,091,189)**	(997,108)	**(1,091,189)**	(997,108)
Acquisition costs	5	**(529,363)**	(517,698)	**(529,363)**	(517,698)
Reinsurance commission revenue	4	**298,655**	285,719	**298,655**	285,719
Net acquisition costs		**(230,708)**	(231,979)	**(230,708)**	(231,979)
Other underwriting expenses	5	**(180,110)**	(165,574)	**(180,110)**	(165,574)
Underwriting expenses (iii)		**(410,818)**	(397,553)	**(410,818)**	(397,553)
Underwriting profit (i) + (ii) + (iii)		**270,940**	285,773	**270,940**	285,773
Investment income/(loss) on assets backing insurance liabilities	4	**(15,269)**	8,087	**(15,269)**	8,087
Investment expenses on assets backing insurance liabilities		**(1,914)**	(1,933)	**(1,914)**	(1,933)
Insurance profit		**253,757**	291,927	**253,757**	291,927
Investment Income/(loss) on shareholder's funds	4	**(4,537)**	56,972	**(4,031)**	56,987
Finance costs	15	**(1,891)**	(2,585)	**(1,891)**	(2,585)
Fee based, corporate and other expenses	5	**(1,383)**	(1,740)	**(1,383)**	(1,740)
Profit before income tax		**245,946**	344,574	**246,452**	344,589
Income tax expense	8	**(73,102)**	(85,217)	**(73,102)**	(85,217)
Profit for the year		**172,844**	259,357	**173,350**	259,372
OTHER COMPREHENSIVE INCOME, NET OF TAX					
Items that will not be reclassified to profit or loss:					
Remeasurements of defined benefit plans		**2,023**	2,021	**2,023**	2,021
Income tax expense on other comprehensive income		**(556)**	(501)	**(556)**	(501)
Other comprehensive income, net of tax		**1,467**	1,520	**1,467**	1,520
Total comprehensive income for the year, net of tax		**174,311**	260,877	**174,817**	260,892

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

KPMG

IAG NEW ZEALAND LIMITED AND SUBSIDIARIES
BALANCE SHEETS AS AT 30 JUNE 2022

	NOTE	PARENT		CONSOLIDATED	
		2022	2021	**2022**	2021
		$000	$000	**$000**	$000
ASSETS					
Cash held for operational purposes	25	**74,629**	105,214	**74,633**	105,218
Investments	13	**1,458,096**	1,717,923	**1,459,978**	1,719,462
Premium receivable	14	**972,366**	886,133	**972,366**	886,133
Trade and other receivables	14	**109,355**	74,321	**109,355**	74,321
Receivables from related bodies corporate	23	**5,103**	104	**5,091**	92
Deferred outwards reinsurance expense	11	**619,332**	607,209	**619,332**	607,209
Deferred acquisition costs	11	**247,948**	231,526	**247,948**	231,526
Reinsurance and other recoveries on outstanding claims	10	**684,034**	674,067	**684,034**	674,067
Deferred tax assets	8	**56,082**	126,268	**56,082**	126,268
Right-of-use assets	15	**43,764**	63,292	**43,764**	63,292
Plant and equipment		**22,899**	24,443	**22,899**	24,443
Intangible assets	16	**12,479**	11,599	**12,479**	11,599
Investment in subsidiaries and associates	18	**1,004**	1,204	**1,000**	-
Goodwill	17	**206,813**	206,813	**206,813**	207,473
Other assets		**13,075**	13,786	**12,889**	13,601
Total assets		**4,526,979**	4,743,902	**4,528,663**	4,744,704
LIABILITIES					
Trade and other payables	19	**230,904**	237,462	**232,892**	239,066
Reinsurance premium payable		**404,623**	425,588	**404,623**	425,588
Payables to related bodies corporate	23	**22,959**	85,658	**22,959**	85,658
Unearned premium liability	12	**1,495,243**	1,374,924	**1,495,243**	1,374,924
Employee benefits provision	21	**43,951**	45,591	**43,951**	45,591
Outstanding claims liability	9	**1,238,090**	1,180,482	**1,238,090**	1,180,482
Lease liabilities	15	**55,200**	67,883	**55,200**	67,883
Other liabilities		**136,002**	116,915	**136,002**	116,915
Total liabilities		**3,626,972**	3,534,503	**3,628,960**	3,536,107
Net assets		**900,007**	1,209,399	**899,703**	1,208,597
EQUITY					
Ordinary share capital	24	**1,763,433**	2,198,433	**1,763,433**	2,198,433
General reserve	24	**(478,445)**	(478,445)	**(478,445)**	(478,445)
Equity reserve	24	**3,404**	3,807	**3,095**	3,506
Retained earnings		**(388,385)**	(514,396)	**(388,380)**	(514,897)
Total equity		**900,007**	1,209,399	**899,703**	1,208,597

Signed in Auckland this 8th day of August 2022 in accordance with a resolution of the Directors.

D M Kay .... Director

SC Allen .... Director

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

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IAG NEW ZEALAND LIMITED AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2022

CONSOLIDATED	SHARE CAPITAL $000	GENERAL RESERVE $000	EQUITY RESERVE $000	RETAINED EARNINGS $000	TOTAL EQUITY $000
2022					
Balance at the beginning of the financial year	**2,198,433**	**(478,445)**	**3,506**	**(514,897)**	**1,208,597**
Profit for the year	-	-	-	**173,350**	**173,350**
Other comprehensive expense that will not be reclassified to profit or loss	-	-	-	**1,467**	**1,467**
Total comprehensive income for the year	-	-	-	**174,817**	**174,817**
Shares repurchased	**(435,000)**	-	-	-	**(435,000)**
Share based payment	-	-	**(411)**	-	**(411)**
Dividends determined and paid	-	-	-	**(48,300)**	**(48,300)**
Balance at the end of the financial year	**1,763,433**	**(478,445)**	**3,095**	**(388,380)**	**899,703**
2021					
Balance at the beginning of the financial year	2,358,433	(478,445)	4,140	(754,789)	1,129,339
Profit for the year	-	-	-	259,372	259,372
Other comprehensive expense that will not be reclassified to profit or loss	-	-	-	1,520	1,520
Total comprehensive income for the year	-	-	-	260,892	260,892
Shares repurchased	(160,000)	-	-	-	(160,000)
Share based payment	-	-	(634)	-	(634)
Dividends determined and paid	-	-	-	(21,000)	(21,000)
Balance at the end of the financial year	2,198,433	(478,445)	3,506	(514,897)	1,208,597

PARENT	SHARE CAPITAL $000	GENERAL RESERVE $000	EQUITY RESERVE $000	RETAINED EARNINGS $000	TOTAL EQUITY $000
2022					
Balance at the beginning of the financial year	**2,198,433**	**(478,445)**	**3,807**	**(514,396)**	**1,209,399**
Profit for the year	-	-	-	**172,844**	**172,844**
Other comprehensive expense that will not be reclassified to profit or loss	-	-	-	**1,467**	**1,467**
Total comprehensive income for the year	-	-	-	**174,311**	**174,311**
Shares repurchased	**(435,000)**	-	-	-	**(435,000)**
Share based payment	-	-	**(403)**	-	**(403)**
Dividends determined and paid	-	-	-	**(48,300)**	**(48,300)**
Balance at the end of the financial year	**1,763,433**	**(478,445)**	**3,404**	**(388,385)**	**900,007**
2021					
Balance at the beginning of the financial year	2,358,433	(478,445)	4,402	(754,273)	1,130,117
Profit for the year	-	-	-	259,357	259,357
Other comprehensive expense that will not be reclassified to profit or loss	-	-	-	1,520	1,520
Total comprehensive income for the year	-	-	-	260,877	260,877
Shares repurchased	(160,000)	-	-	-	(160,000)
Share based payment	-	-	(595)	-	(595)
Dividends determined and paid	-	-	-	(21,000)	(21,000)
Balance at the end of the financial year	2,198,433	(478,445)	3,807	(514,396)	1,209,399

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

KPMG

IAG NEW ZEALAND LIMITED AND SUBSIDIARIES
CASH FLOW STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

	NOTE	PARENT		CONSOLIDATED	
		2022	2021	**2022**	2021
		$000	$000	**$000**	$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Premium received		**3,072,824**	2,973,669	**3,072,824**	2,973,669
Reinsurance and other recoveries received		**729,777**	579,568	**729,777**	579,568
Claims costs paid		**(1,791,593)**	(1,599,389)	**(1,791,593)**	(1,599,389)
EQC claims costs paid/received, net of recoveries		**(2,827)**	1,637	**(2,827)**	1,637
Outwards reinsurance premium expense paid		**(1,288,853)**	(1,186,724)	**(1,288,853)**	(1,186,724)
Dividends received		**885**	825	**885**	825
Interest and Trust distributions received		**29,447**	52,991	**29,447**	52,991
Income taxes paid		**(3,472)**	(3)	**(3,472)**	(3)
Other operating receipts		**285,825**	289,864	**285,825**	289,864
Other operating payments		**(757,368)**	(598,016)	**(757,368)**	(598,016)
Finance costs paid		**(1,882)**	(2,585)	**(1,882)**	(2,585)
Net cash flows from operating activities	25	**272,763**	511,837	**272,763**	511,837
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from disposal of investments and plant and equipment		**1,830,272**	963,585	**1,830,272**	963,585
Outlays for investments and plant and equipment		**(1,599,054)**	(1,210,999)	**(1,599,054)**	(1,210,999)
Net cash flows from investing activities		**231,218**	(247,414)	**231,218**	(247,414)
CASH FLOWS FROM FINANCING ACTIVITIES					
Principal element of lease payments		**(12,736)**	(17,877)	**(12,736)**	(17,877)
Dividends paid		**(48,300)**	(21,000)	**(48,300)**	(21,000)
Outlays for repurchase of shares		**(435,000)**	(160,000)	**(435,000)**	(160,000)
Principal element of sub lease receipts		**399**	-	**399**	-
Net cash flows from financing activities		**(495,637)**	(198,877)	**(495,637)**	(198,877)
Net movement in cash held		**8,344**	65,546	**8,344**	65,546
Effects of exchange rate changes on balances of cash held in foreign currencies		**595**	31	**595**	31
Cash and cash equivalents at the beginning of the financial year		**192,041**	126,464	**192,045**	126,468
Cash and cash equivalents at the end of the financial year	25	**200,980**	192,041	**200,984**	192,045

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 2022 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

NZ IFRS 17

As at the date of this financial report, the only significant standard for which the mandatory application date falls after the end of this current reporting year is NZ IFRS 17.

IFRS 17, the new accounting standard for insurance contracts, was issued by the International Accounting Standards Board (IASB) in May 2017. NZ IFRS 17 is the equivalent IFRS Standard as issued by the New Zealand Accounting Standards Board of the External Reporting Board under the Financial Reporting Act 2013. It aims to establish consistent principles for the recognition, measurement, presentation and disclosure of all insurance and reinsurance contracts. Since the standard was first issued, various implementation matters have been raised by stakeholders. Subsequently, the IASB issued further amendments to the standard, including delaying its effective date to reporting periods beginning on or after 1 January 2023.

NZ IFRS 17 will supersede NZ IFRS 4 Insurance Contracts when applied. The first applicable reporting period for IAG NZ is for the year ending 30 June 2024, with a restated comparative period for the year ending 30 June 2023. IAG NZ does not intend to early adopt NZ IFRS 17.

IAG NZ continues to assess the impact of the application of NZ IFRS 17, with the relevant key areas of consideration set out below.

- Measurement models – NZ IFRS 17 introduces the general measurement model, also known as the building block approach, which consists of fulfilment cash flows and a contractual service margin. The fulfilment cash flows represent the risk adjusted present value of an entity's rights and obligations to the policyholders, comprising estimates of expected cash flows, discounting, and an explicit risk adjustment for non financial risk. The contractual service margin represents the unearned profit from in force contracts that an entity will recognise as it provides services over the coverage period. The contractual service margin is earned based on a pattern of coverage units, reflecting the quantity of benefits provided, which may differ from the pattern of incidence of risk used to earn gross written premium applying NZ IFRS 4. For contracts measured under the general measurement model, NZ IFRS 17 is expected to have a significant impact on actuarial modelling as more granular cash flow projections and regular updates of assumptions will be required.

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The premium allocation approach is a simplified approach an entity may choose to adopt when certain criteria are met, either where the liability for remaining coverage under the premium allocation approach is not expected to differ materially from that under the general measurement model or the coverage period of contracts are less than one year. However, the general measurement model remains applicable for the measurement of the liability for incurred claims, whereby all incurred claims are subject to discounting and risk adjustment.

In determining the cash flows used in the measurement of the liability for incurred claims, IAG NZ intends to consistently maintain the reserving approach currently adopted under NZ IFRS 4. The simplification relates to the measurement of the liability for remaining coverage, which is not disaggregated into fulfillment cash flows and a contractual service margin, but rather is largely based on premium received. In this regard, the premium allocation approach has similarities to the current accounting requirements for general insurance contracts under NZ IFRS 4.

IAG NZ intends to use, to the extent permissible by NZ IFRS 17, the premium allocation approach for both insurance and reinsurance contracts. IAG NZ has completed a detailed impact assessment and has determined that the Group is expected to be eligible to apply the premium allocation approach to insurance contracts issued and to its non proportional reinsurance contracts held. This indicative outcome is based on the latest assessment undertaken and current portfolio mix. A full eligibility assessment of the remaining contracts is in progress, with primary focus on determining the measurement model applicable to IAG NZ's multi year whole of account reinsurance contracts.

For groups of contracts that apply the premium allocation approach and have a coverage period of one year or less, NZ IFRS 17 provides an option to recognise any insurance acquisition costs as expenses when incurred. IAG NZ does not plan to apply this option and expects to continue to amortise acquisition costs over the coverage period of the related insurance contracts, consistent with current accounting treatment under NZ IFRS 4.

- Level of aggregation and onerous contract losses (loss component) – Under NZ IFRS 17, measurement is not considered at the individual contract level, but on the basis of portfolios which comprise contracts subject to similar risk and managed together. These portfolios are further subdivided into specified measurement groups based on contracts concluded in annual cohorts and on their profitability.

  To determine if the contracts are onerous, the standard permits measurement of a group of contracts. All fulfilment cash flows resulting from the rights and obligations under the insurance contracts must be considered and determined on a gross basis, excluding the effect of reinsurance. As onerous contract testing will be performed at a more granular level than the current Liability Adequacy Test (LAT) under NZ IFRS 4, which is at the IAG NZ level, it will likely result in a higher transparency of loss making groups of contracts. This has the potential for earlier recognition of onerous contract losses in the profit or loss, with partial mitigation afforded from recoveries on relevant reinsurance contracts.

  For contracts issued to which the premium allocation approach applies, it is assumed no contracts in the portfolio are onerous at initial recognition, unless facts and circumstances indicate otherwise. IAG NZ is currently developing an appropriate framework for identifying relevant facts and circumstances that may be indicators of onerousness, along with the models that will be utilised to measure potential onerous contract losses.

- Risk adjustment – under NZ IFRS 17, the measurement of insurance contract liabilities will include a risk adjustment for non financial risk to reflect the compensation that the entity requires for bearing the uncertainty relating to the amount and timing of future cash flows. For insurance contracts, this is the compensation required to be indifferent between either fulfilling a liability that has a range of possible outcomes arising from non financial risk and fulfilling a liability that will generate fixed cash flows with the same expected present value as the insurance contracts. The risk adjustment replaces the concept of a risk margin under NZ IFRS 4, which reflects the inherent uncertainty in the central estimate of the present value of the expected future payments. Similar to the risk margin, the risk adjustment includes the benefit of diversification.

  The Standard does not prescribe techniques for estimating the risk adjustment but does offer guidance. The technique used, and the corresponding confidence level associated with the methodology selected, will need to be disclosed. The risk adjustment is currently expected to be determined by IAG NZ using a cost of capital approach to measure insurance contract liabilities. Given the fundamental differences in the definition between risk margin and risk adjustment, at this stage, IAG NZ anticipates there is the potential for the recognition of the risk adjustment at a lower confidence level than that currently adopted to determine the risk margin under NZ IFRS 4. The finalisation of the methodology for determining the risk adjustment, and the corresponding confidence level, is ongoing and subject to further refinement and review. In addition, IAG NZ continues to give due consideration to evolving industry interpretation.

- Discount rates – NZ IFRS 17 requires that the estimates of expected cash flows that are used to measure either the liability for remaining coverage, for contracts measured under the general measurement model, or the liability for incurred claims are to be discounted to reflect the time value of money and the financial risks related to those cash flows. This aligns to the requirements under the existing standard, NZ IFRS 4, as the cash flows underpinning the outstanding claims liability are currently discounted using the risk free rate. In addition, the standard also requires the discount rate to reflect the liquidity characters of the underlying insurance contracts. The standard does not prescribe a methodology to determine either the discount rate or illiquidity premium. The recognition of an illiquidity premium over and above the risk free rate is likely to result in higher overall discount rates relative to current requirements. Whilst the methodology and impact of reflecting illiquidity within discount rates is currently being determined, at this stage, the potential financial effects from this change are not anticipated to be significant.

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- Presentation and disclosure – NZ IFRS 17 will significantly impact IAG NZ's consolidated financial statements compared with existing reporting requirements, introducing substantial changes in both presentation of the statement of comprehensive income and balance sheet, as well as more granular disclosure requirements. In the statement of comprehensive income, NZ IFRS 17 will require the presentation of the insurance revenue and insurance service expenses gross of reinsurance. For IAG NZ, insurance revenue replaces gross earned premium and insurance service expenses largely reflects the combination of claims expense, non reinsurance related recoveries, commission expense and underwriting expenses. Additionally, all changes in value because of either the effect of or change in the time value of money or financial risk, will no longer form part of the insurance service result but will be recognised separately as either insurance finance income or expense.

  On balance sheet, as all cash flows resulting from the rights and obligations under insurance and reinsurance contracts must be taken into account under NZ IFRS 17, the related existing balance sheet items will no longer be presented separately. Alternatively, the standard requires these associated balances to be combined into single line items for portfolios of insurance or reinsurance contracts that are either in an asset or liability position.

  In order to reconcile the movement in these insurance contract liabilities and reinsurance contract assets, the standard requires detailed disclosures that presents the changes to each of the individual measurement components. The notes covering the risks from insurance contracts are expected to remain broadly similar.

  NZ IFRS 17 contains an option regarding recognition of a component of insurance finance income or expense either in profit or loss or other comprehensive income. IAG NZ currently does not intend to apply the latter option and expects to recognise all elements of insurance finance income or expense in profit or loss. This aligns to the current approach under NZ IFRS 4 and would continue to ensure the most effective matching with valuation changes in the investment portfolio, which is measured at fair value through profit or loss.

- Transition – On transition, IAG NZ expects to apply the full retrospective approach to all insurance contracts, except to the extent that it is impracticable to do so, in which case either a modified retrospective or fair value approach may be applied under NZ IFRS 17. In practical terms, IAG NZ currently anticipates adopting a full retrospective approach to contracts measured using the premium allocation approach and the modified retrospective approach to contracts potentially measured using the general measurement model. This position is dependent on the final outcome of the assessment to determine the applicable measurement model for IAG NZ's multi year whole of account reinsurance contracts.

IAG NZ has committed appropriate resources and effort into the implementation of NZ IFRS 17 since its issuance. A Group-wide programme of work remains ongoing, comprising a multi disciplinary team. The implementation of the standard involves changes and enhancements in technology, systems, and processes, particularly across IT, finance and actuarial. The programme is responsible for setting Group-wide accounting policies and developing application methodologies, establishing appropriate processes and controls, sourcing required data and implementing actuarial and finance system changes. A Group-wide Steering Committee provides governance oversight and strategic direction to the implementation programme. A number of sub committees are also in place to provide governance over technical interpretation and accounting policy selection, design, and delivery of the programme.

The requirements of NZ IFRS 17 are complex and IAG NZ's expectations noted above are subject to change as it continues to assess the impact of the standard and interpretation developments. However, ultimately NZ IFRS 17 is not expected to change the underlying economics or cash flows of IAG NZ's business but has the potential to impact profit emergence profiles. Alongside the qualitative effects outlined above, IAG NZ continues to assess the quantitative impact of the application of NZ IFRS 17, with the opening balances at 1 July 2022 currently being compiled in accordance with NZ IFRS 17. The indicative net financial impact on transition to NZ IFRS 17 is expected to have effects that may increase IAG NZ's consolidated total equity, above all from the potential net effect of recognition of the risk adjustment for non financial risk (as outlined above) and loss component. These potential changes to both insurance contract liabilities and reinsurance contract assets will be reflected as an adjustment to retained earnings at the transition date of 1 July 2022. The final outcome, amongst other things, will also depend on the application of the transition approaches. Although IAG's NZ IFRS 17 implementation project has made significant progress, as some material judgements are still under consideration and global interpretations remain pending, at this time it is not practicable to reliably quantify the effects on IAG NZ's consolidated financial statements.

Climate-Related Disclosures

In October 2021, the New Zealand Government passed the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act, which requires listed and licensed entities to report on their climate-related financial risk. The XRB (External Reporting Board) are broadly aligned with the Taskforce for Climate-related Financial Disclosures (TCFD) however they go further in some areas, especially around potential and actual financial impacts.

A voluntary climate-related disclosure is designed to commence IAG NZ's journey towards compliance with the External Reporting Board's (XRB's) requirements for mandatory climate disclosures. It also draws on the guidance provided by the Taskforce on Climate-Related Financial Disclosures (TCFD), and on IAG NZ's Climate-related Disclosures. Note 3 describes how IAG NZ is managing the Climate risk. IAG NZ will be required to release its first disclosure in accordance with the XRB requirements for the year ending 30 June 2024.

II. Solvency Standard Review

The Reserve Bank of New Zealand (RBNZ) is conducting a 10 year post implementation review of the Insurance (Prudential) Supervision Act, which includes a general review of the Solvency Standards and incorporates initial proposals at integrating the New Zealand equivalent of IFRS 17 into the Solvency Standards.

A final draft of the new Interim Solvency Standard (ISS) was published on 31 May 2022. The RBNZ have clarified that whilst its intention is for the ISS to come into effect from 1 January 2023, it will only come into effect for individual insurers from the date that they implement IFRS 17, which is 1 July 2023 for IAG NZ.

III. 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.

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 becomes 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 an estimate of the 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 the Company'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. LEASES

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

Previously, leases of property, motor vehicles and equipment were classified as either finance leases or operating leases. From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding lease liability from the date the Company has the right to use the asset.

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

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

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

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

To determine the incremental borrowing rate, the Company:

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

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

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

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

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

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

L. 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.

M. 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.

N. 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.

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O. 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. None of the derivatives are designated for hedge accounting.

P. TRADE AND OTHER RECEIVABLES

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

On initial recognition of trade and other receivables an assessment of expected credit losses is performed and amounts provided for where required with the impairment charge recognised in profit or loss. These expected credit losses are then assessed on an ongoing basis. Receivables from insurance and reinsurance contracts are not required to be assessed for lifetime expected credit losses under NZ IFRS 9, however amounts are provided for where credit risks are present.

Q. 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 life for office and other equipment is 3 to 15 years.

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 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.

R. 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.

S. 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.

T. 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.

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.

U. 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.

V. 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.

W. 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.

X. 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 2021 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 9;
  - reinsurance and other recoveries on outstanding claims, refer to note 10; and
  - liability adequacy test, refer to note 12.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 16 and 17;
  - acquired intangible assets initial measurement and determination of useful life, refer to note 16; and
  - income tax and related assets and liabilities, refer to note 8;
- Customer refunds (remediation) provision:
  A provision is recognised in Note 20 for the expected costs associated with customer refunds/remediation. In establishing this provision, assumptions have been made around the impact to the premiums charged for the affected customers, the compound interest attributable to the base premium amount, the costs associated with operating the associated remediation programme and related matters.

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- Coronavirus (COVID-19) pandemic:
As the economy emerges from the COVID-19 pandemic, together with the occurrence of other global events, there are various factors that are impacting the operating environment. This includes effects that the Company is experiencing such as increasing interest rates and the emergence of higher inflation, which is increasing the estimation uncertainty in the preparation of these financial statements. The Company has developed various accounting estimates in these financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 30 June 2022 about future events that the Directors believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing these forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of the Company. Accordingly, actual economic conditions may be different from those forecast since anticipated events may not occur as expected, and the effect of those differences may significantly impact accounting estimates included in these financial statements.

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

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

– Outstanding claims liability

IAG NZ's insurance portfolio has experienced multiple impacts as a result of COVID-19 predominantly through the motor portfolios, home portfolios and business interruption cover. Management have estimated the expected losses within these portfolios in the outstanding claims liability, including an appropriate risk margin. The loss estimates are based upon recent claims paid, updated costings, actuarial methods (refer to Note 9 b(i)) and additional allowances specific to portfolios at risk of additional cost escalation on settlement. There is a high degree of uncertainty related to the economic effects of COVID-19 which over time may lead to the development of costs higher or lower than the outstanding claims liability reported. Refer to Note 9 for further details on outstanding claims liability.

– Fair value measurement of investments

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

Where readily available market data is not available to determine fair value, then a mark to model approach is adopted. Judgement is required in both the selection of the model and inputs used. The investments which are subject to valuation using unobservable inputs are disclosed in the Consolidated entity's fair value hierarchy. Refer to Note 13 for further details on investments.

– Expected credit losses

The impact of COVID-19 and other economic factors on the recoverability of receivables from (re)insurance and non insurance contracts have been considered. The methodologies and assumptions applied in the base expected credit loss (ECL) calculations remained unchanged from those applied in the prior financial years as no material recoverability issues have been identified. However, there is a risk that the economic impacts could be deeper or more prolonged than anticipated, which could result in higher credit losses than those modelled under the base case. Refer to Note 14 for further details.

– Deferred Tax Asset

The reported deferred tax asset substantially comprises a historically incurred tax loss attributable to the Canterbury earthquake events in 2010/11.This reported tax loss asset has been decreasing as taxable income has been generated in subsequent years. The recoverability of the asset is continually assessed based on the latest forecasts of future profitability, which have taken into consideration the potential ongoing financial impacts of COVID-19. It is anticipated that the tax loss will be fully absorbed within the foreseeable future. Refer to Note 8 for further details on deferred tax asset.

– Liability Adequacy Test

Liability adequacy test calculation includes an allowance for uncertainty of future claims following COVID-19. Refer to Note 12B for further details on liability adequacy test.

NOTE 3. RISK MANAGEMENT

RISK MANAGEMENT CATEGORIES AND RISK MITIGATION

The Board and senior management of the Group have developed, implemented and maintain a Risk Management Strategy (RMS). The Consolidated entity maintains a specific Risk Management Programme and a number of local policies which align to 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.

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

- Strategic
- Insurance
- Reinsurance
- Market
- Credit
- Liquidity
- Capital
- Operational
- Regulatory and compliance
- Organisational conduct and customer
- Climate change and environmental risk

COVID-19

- COVID-19's impacts on the broader economy continue to be monitored and their impacts on the Consolidated entity managed. The New Zealand economy has proven to be resilient, however there are several influences that may continue to cause uncertainty. Risks associated with this will remain for the foreseeable future although these have been well managed to date.

- Regulatory risk - Regulators have been closely engaged on the Consolidated entity's response to COVID-19. Sector-wide regulatory engagement has also increased, particularly around operational resilience, capital management and customer impacts, including supply chain and service related issues. The Consolidated entity is engaging with its regulators regularly and will continue with its aligned and proactive approach to supporting customers, business resilience and continuity measures.

- Operational risk - Employees of the Consolidated entity continue to operate in a hybrid model of working from an office based work environment and working from home which has heightened some risks. These include technology and cyber related risk as well as fraud and employee safety and wellbeing. While a level of heightened risk in these areas was inevitable in these times, the attendant risks are well understood and policies are in place to manage and mitigate them.

The definitions of the risk categories and related mitigation strategies are set out below. Some of the key specific risks and the Consolidated entity's response to them are as follows:

I. Strategic Risk

Strategic risk is defined as the risk that internal or external factors disrupt the assumptions underpinning the Consolidated entity's strategy or compromise the ability to set and execute an appropriate strategy.

Strategic risk is managed by the New Zealand Leadership Team with Board oversight. Key elements that support the management of strategic risk include the strategy development and strategic planning processes and associated oversight arrangements. Market trends and changes in the Consolidated entity's operating environment are regularly reviewed against the strategy and strategic priorities. The risk appetite position and outlook of strategic risk are reported regularly and include consideration of the strategic risks contained within the Enterprise Risk Profile.

II. Insurance Risk

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

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

A fundamental part of the Consolidated entity'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 the underwriting, pricing and design of insurance contracts. The level of insurance risk accepted by the Consolidated entity is formally documented in a Business Division Licence, which is prepared by the business in consultation with the Group Chief Underwriting Officer and is approved by the Chief Executive Officer. The Business Division Licence is reviewed annually or more frequently if required. In addition to the Business Division Licence, insurance risk is also managed through the Insurance Risk Framework and supporting policies.

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a. INSURANCE PROCESSES
The key processes to mitigate insurance risk include, but are not limited to, 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 aides to reduce the variability in overall claims experience over time. Maximum limits and risk appetite criteria 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.

ii. Claims management and provisioning
Initial claims determination is managed by claims staff 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 9).

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

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

The reinsurance programme is an important part of the Consolidated Entity's overall approach to risk and capital management. It 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.

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.

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 capital risk.

IV. Market Risk

Market risk is the risk of adverse movements in market prices (equities, derivatives, interest rate, foreign exchange, etc.) or inappropriate concentration within the investment funds. 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	
		2022	2021
		$000	$000
		Impact to profit	Impact to profit
Investments - interest bearing securities and related interest rate derivatives	+1%	**(12,469)**	(18,821)
	-1%	**12,915**	19,396

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	
		2022	2021
		$000	$000
Investments - Trust securities and equity derivatives	+10%	**9,582**	11,333
	- 10%	**(9,340)**	(11,060)

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V. Credit Risk

a. NATURE OF THE RISK AND HOW MANAGED

Credit risk is the risk arising from a counterparty's failure to meet its obligations in accordance with the agreed terms. These include investments and derivative counterparties, reinsurers and premium debtors. The Consolidated entity's credit risk arises predominantly from investment activities, reinsurance activities and dealings with intermediaries. The Consolidated entity's credit risk appetite is approved by the IAG NZ Board and the Consolidated entity has a Credit Risk Policy which is consistent with the IAG NZ Board's risk appetite and also approved by the IAG NZ 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.

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
2022					
Premium receivable	**960,982**	**13,390**	**2,303**	**1,986**	**978,661**
Provision for lapses	**(3,655)**	**(960)**	**(753)**	**(927)**	**(6,295)**
Net balance	**957,327**	**12,430**	**1,550**	**1,059**	**972,366**
Reinsurance recoveries on paid claims	**75,453**	**-**	**-**	**-**	**75,453**
Net balance	**75,453**	**-**	**-**	**-**	**75,453**
Other trade debtors	**33,902**	**-**	**-**	**-**	**33,902**
Net balance	**33,902**	**-**	**-**	**-**	**33,902**
2021					
Premium receivable	880,852	10,578	1,332	1,590	894,352
Provision for lapses	(4,915)	(1,396)	(808)	(1,100)	(8,219)
Net balance	875,937	9,182	524	490	886,133
Reinsurance recoveries on paid claims	60,449	-	-	-	60,449
Net balance	60,449	-	-	-	60,449
Other trade debtors	13,872	-	-	-	13,872
Net balance	13,872	-	-	-	13,872

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 $6.3 million (2021: $8.2 million). The net movement in the aggregated provision for the current period was a $1.9 million decrease (2021: $1.3 million increase).

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. The Group has clearly defined credit policies for the approval and management of credit risk in relation to reinsurers. The financial condition of reinsurers is monitored on an ongoing basis and periodic reviews are undertaken of the reinsurers' ability to fulfil their obligations 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 Consolidated entity's policy to deal only with reinsurers with credit ratings of at least Standard & Poor's A- (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.

The following table provides information regarding the credit risk relating to the reinsurance recoveries 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	**2022**	2021
	% of total	% of total
AA	**100**	99
A	**-**	1
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	
	2022	2021
	% of total	% of total
AAA	**49**	15
AA	**51**	85
Total	**100**	100

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VI. Liquidity Risk

a. NATURE OF THE RISK AND HOW MANAGED

Liquidity risk arises where there are inadequate funds or illiquid asset portfolios to meet liabilities as they fall due. Liquidity risk arises from loss of access to funding and liquid assets including investments, reinsurance and trade assets. 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.

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	
	2022	2021	**2022**	2021
	$000	$000	**$000**	$000
Floating interest rate (at call)	**-**	-	**126,351**	86,827
Within 1 year or less	**427,625**	396,859	**430,121**	467,677
Within 1 to 2 years	**62,710**	48,397	**397,350**	521,254
Within 2 to 3 years	**25,506**	22,704	**155,646**	297,391
Within 3 to 4 years	**15,296**	13,195	**41,239**	44,895
Within 4 to 5 years	**8,508**	9,744	**-**	22,442
Over 5 years	**14,411**	15,516	**32,195**	4,948
Total	**554,056**	506,415	**1,182,902**	1,445,434

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

VII. Capital Risk

Capital risk is defined as the risk that capital is insufficient or excessive given the nature, strategies and objectives of the Group, or comprised of a mix of equity, debt, reinsurance or other expiring sources of capital that is unsuitable or unsustainable due to its cost, structure, flexibility, or ability to renew or replace on acceptable terms. IAG's capital management strategy plays a central role in managing risk to create shareholder value whilst meeting the objective of maintaining an appropriate level of capital to protect policyholders' and lenders' interests, and meet regulatory requirements.

The Consolidated entity has a Capital Management Plan which references the Board's targeted Capital Buffer and the trigger points for Management's actions.

The Capital Buffer is determined with reference to the Board Capital Risk Appetite Statement. Capital is continually monitored and stressed annually in the Board's annual review.

VIII. Operational Risk

Operational risk is defined as the failure to achieve objectives due to inadequate or failed internal processes, people and systems, or from external events. Operational risk can impact other risk categories. When controls are inadequate or fail, an operational risk event 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 operating an appropriate control framework to manage and monitor risks.

The Group Risk Management Strategy (RMS) and the IAG NZ Risk Management Programme include 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 applies a three lines of defence approach to the management of operational risk, which includes an internal audit function that independently assesses key processes and controls.

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IX. Regulatory and Compliance Risk
Regulatory and Compliance risk is defined as the risk of legal, regulatory impacts or reputational loss arising from failure to manage compliance obligations or failure to anticipate and prepare for changes in the regulatory environment. The Group Regulatory Risk and Compliance Policy sets 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 the Consolidated entity and the implementation of appropriate controls, assurance activity and reporting to mitigate regulatory and compliance risk.

X. Organisational Conduct and Customer Risk
Organisational Conduct and Customer risk is defined as the risk of behaviour or action taken by entities and employees associated with the Consolidated entity that may have negative outcomes for our customers, staff, communities and markets in which we operate. It includes the risk that products are designed, priced, distributed and managed in a way that does not meet the reasonable needs of customers.

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

The Consolidated entity manages organisational conduct and customer risk by applying a customer lens to all processes and maintaining customers at the heart of everything we do. Dedicated customer forums are in place to capture, analyse and use customer feedback to enhance products, services and propositions.

Conduct and culture of New Zealand financial services entities continues to be a focus of the Financial Markets Authority (FMA). In July 2021, the FMA released its report on the evaluation of the Conduct and Culture self-assessments requested of all General Insurers in October 2019, noting the Consolidated Entity as having 'fully met the FMA's expectations'. The report outlined an expectation from the regulator that firms will report matters to the FMA that require customer remediation. The Consolidated Entity has since notified the regulator of a number of pricing and non-pricing customer remediation issues. A dedicated Executive Manager of Customer Remediation has been established to lead the Customer Refund and Remediation Programme to ensure appropriate governance and management oversight for all customer remediation issues for the Consolidated Entity.

XI. Climate Change and Environmental Risk
As New Zealand's largest general insurer, IAG NZ's core business and value chain are exposed to a broad range of interconnected environmental, social, and governance (ESG) risks and opportunities. These are managed via IAG's enterprise-wide Sustainability and Safer Communities Business Plan, which has a priority focus on climate and disaster resilience. A full review and update on the Sustainability and Safer Communities Business Plan can be found in the Annual Review and Sustainability Report for the year ending 30 June 2022 at www.iag.com.au. The summary disclosure is aligned to the guidance of the Task Force on Climate related Financial Disclosures (TCFD) and considers the draft requirements from the External Reporting Board, the final version of which IAG NZ will need to comply with for the year ending 30 June 2024 as part of mandatory disclosure legislation. A detailed review of IAG NZ's progress in managing climate related risks and opportunities can be found in IAG NZ's Climate related disclosure for the year ending 30 June 2022 at www.iag.co.nz.

Collaboration
IAG NZ is a founding member of the Climate Leaders Coalition, the requirements of which state that members must 'assess and disclose their climate risks'. In June 2022, IAG NZ also became a member of the Net Zero Insurance Alliance (NZIA). Membership of the NZIA will enable IAG NZ to contribute to developing the methodologies needed to assess financed and insured emissions, whilst also providing access to emerging best practice.

Governance
IAG has a clear governance structure across Board and Group Leadership to support identification, understanding and management of ESG risks and opportunities, including climate change. The IAG NZ Board and Executive are also responsible for managing climate-related risks in New Zealand, including overseeing the identification or climate-related risk and opportunities, the development of our strategic and operational response, and the development of supporting frameworks and methods.

IAG NZ has established a Climate Working Group (CWG) to interpret the latest information on climate risks and opportunities, identify the additional work needed to further develop IAG NZ's understanding of these risks and opportunities, and to identify the implications for IAG NZ's strategy, budgets, risks and targets. The CWG is made up of senior climate, insurance, strategy, risk, operational and reputation experts from the business. The CWG meets at least quarterly, and its outputs form the basis of reporting to the Leadership Team Risk Committee and Board Risk Committee.

Strategy and execution

IAG's Climate & Disaster Resilience Action Plan

IAG's Climate & Disaster Resilience Action Plan (Action Plan) sets out the framework, commitments, and activity for IAG to mitigate and adapt to the impacts of climate change and deliver on its strategy.

This Action Plan has been designed to respond to material short, medium, and long term risks and opportunities across three focus areas:

- Rethinking Risk: Keeping people insured by enabling customers and IAG to manage risks and opportunities more effectively in a changing climate;
- Transforming the System: Building community climate and disaster resilience by delivering and collaborating on preparedness initiatives, research, adaptation, and policy; and
- Driving to Zero: Reducing IAG's emissions footprint and achieving net zero by 2050 to limit climate change.

The Action Plan has two high level outcomes that contribute to IAG's broader strategic goals:

- Net zero emissions by 2050, with a 50% emissions reduction by 2030; and
- 1 million Australian and New Zealanders have taken action to reduce their risk from natural hazards by 2025.

The Action Plan focuses on managing climate and disaster risk across IAG's core insurance business and improving the safety of communities and customers most exposed to nature related hazards.

Risk Management

IAG NZ recognises that the changing climate and its response to it brings risks that could manifest at many points across the value chain. As an insurer, IAG NZ naturally considers the impact of growing climate-related claims on its insurance portfolios, but also the exacerbating impact of climate change on other strategic, market, customer, regulatory and operational risks considered within current risk management practices. Climate-related risks are captured within current risk management practices. These include:

- IAG NZ Risk Management Programme (RMP)

- IAG NZ Risk Appetite Statement (RAS)

- IAG NZ Enterprise Risk Profile (ERP)

- IAG NZ Risk Culture

IAG NZ's primary consideration of the physical impacts of climate change is the effect of more frequent and intense weather-related events on its insurance portfolios. The performance of insurance portfolios is monitored through monthly reviews and deeper quarterly reviews, through the Portfolio Performance Committee (PPC). Emerging risks, including climate change, are monitored by the Portfolio Assurance Committee (PAC). The Natural Perils team also undertakes research and stays abreast of the latest science on climate-related risks to ensure that this is reflected in IAG NZ's modelling of climate perils such as floods and storms. The team also models future climate impacts on insurance portfolios under a range of scenarios to understand potential future losses.

NOTE 4. ANALYSIS OF INCOME

	PARENT 2022 $000	PARENT 2021 $000	CONSOLIDATED 2022 $000	CONSOLIDATED 2021 $000
A. GENERAL INSURANCE REVENUE				
Gross written premium	**3,159,741**	2,981,335	**3,159,741**	2,981,335
Movement in unearned premium liability	**(120,319)**	(50,827)	**(120,319)**	(50,827)
Premium revenue	**3,039,422**	2,930,508	**3,039,422**	2,930,508
Reinsurance and other recoveries revenue	**758,011**	634,907	**758,011**	634,907
Reinsurance commission revenue	**298,655**	285,719	**298,655**	285,719
Total general insurance revenue	**4,096,088**	3,851,134	**4,096,088**	3,851,134
B. INVESTMENT INCOME				
Dividend revenue	**885**	825	**885**	825
Interest revenue	**25,386**	25,599	**25,386**	25,599
Trust revenue	**5,007**	29,170	**5,007**	29,170
Total investment revenue	**31,278**	55,594	**31,278**	55,594
Realised losses	**(45,460)**	(9,587)	**(44,921)**	(9,587)
Unrealised net gains and (losses)	**(5,624)**	19,052	**(5,657)**	19,067
Total investment income	**(19,806)**	65,059	**(19,300)**	65,074
Represented by				
Investment income on assets backing insurance liabilities	**(15,269)**	8,087	**(15,269)**	8,087
Investment income on shareholder's funds	**(4,537)**	56,972	**(4,031)**	56,987
	(19,806)	65,059	**(19,300)**	65,074
Total income	**4,076,282**	3,916,193	**4,076,788**	3,916,208

NOTE 5. ANALYSIS OF EXPENSES

	PARENT 2022 $000	PARENT 2021 $000	CONSOLIDATED 2022 $000	CONSOLIDATED 2021 $000
Acquisition costs, other underwriting expenses, fee based, corporate and other expenses include the following:				
Amortisation of intangible assets	**1,571**	1,571	**1,571**	1,571
Bad debts written off	**1**	655	**1**	655
Commissions	**314,754**	304,716	**314,754**	304,716
Depreciation - plant and equipment and right of use assets	**20,794**	30,134	**20,794**	30,134
Directors' fees	**519**	477	**519**	477
Operating lease costs	**3,084**	5,797	**3,084**	5,797
(Gain)/loss on disposal of plant and equipment	**(38)**	890	**(38)**	890
Restructuring costs	**(253)**	(4,523)	**(253)**	(4,523)
Share based remuneration expense	**1,532**	1,950	**1,532**	1,950
Defined contribution superannuation expense	**8,333**	7,040	**8,333**	7,040
Employee benefit expense	**344,735**	324,756	**344,735**	324,756
Impairment - plant and equipment and right of use assets*	**3,752**	-	**3,752**	-
Gain on right of use assets (refer to Note 15)	**(1,476)**	(4,652)	**(1,476)**	(4,652)

*These items are mainly attributable to the costs and asset impairments pertaining to the continuing negotiations for early surrender of one of the Company's current lease arrangements.

NOTE 6. DISPOSALS OF BUSINESS

A. DISPOSAL OF JOINT VENTURE

On 31 March 2022, the Company sold its 50% shareholding in First Rescue and Emergency (NZ) Limited to the other remaining shareholders for $9.3 million. The net gain on disposal of $7.8 million, for the Company ($8.4 million for the Consolidated Entity) has been included in Investment income on Shareholder's funds in the statement of comprehensive income.

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NOTE 7. REMUNERATION OF AUDITOR

	PARENT		CONSOLIDATED	
	2022	2021	**2022**	2021
	$000	$000	**$000**	$000
Audit and Review of the financial statements	**1,526**	1,536	**1,526**	1,536
Assurance of regulatory returns in accordance with regulatory requirements	**113**	113	**113**	113
Other assurance services	**60**	45	**60**	45
Total remuneration of auditor	**1,699**	1,694	**1,699**	1,694

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

NOTE 8. INCOME TAX

	PARENT		CONSOLIDATED	
	2022	2021	**2022**	2021
	$000	$000	**$000**	$000
A. INCOME TAX EXPENSE				
Current tax	**52**	3	**52**	3
Deferred tax	**69,951**	85,286	**69,951**	85,286
(Over)/under provided in prior year	**3,099**	(72)	**3,099**	(72)
Income tax expense	**73,102**	85,217	**73,102**	85,217
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	**245,946**	344,574	**246,452**	344,589
Income tax calculated at 28% (2021: 28%)	**68,865**	96,481	**69,007**	96,485
Amounts which are not deductible/(taxable) in calculating taxable income				
Capital profits/(losses) not subject to income tax	**(2,194)**	-	**(2,345)**	-
Effect of overseas investment tax regime	**3,093**	(11,191)	**3,093**	(11,191)
Foreign withholding tax	**52**	3	**52**	3
Non-deductible expenses	**528**	669	**528**	669
Other	**(341)**	(673)	**(332)**	(677)
Income tax expense applicable to current year	**70,003**	85,289	**70,003**	85,289
Adjustment relating to prior year	**3,099**	(72)	**3,099**	(72)
Income tax expense attributable to profit for the year	**73,102**	85,217	**73,102**	85,217
C. DEFERRED TAX ASSETS				
Depreciation	**7,479**	7,214	**7,479**	7,214
Deferred acquisition costs	**(69,425)**	(64,827)	**(69,425)**	(64,827)
Tax losses	**90,022**	159,562	**90,022**	159,562
Other	**28,006**	24,319	**28,006**	24,319
	56,082	126,268	**56,082**	126,268
D. IMPUTATION CREDITS				
Imputation credits at the beginning of the financial year	**5,414**	5,097	**5,414**	5,097
Imputation credits attached to dividends received	**340**	317	**340**	317
Imputation credits at the end of the financial year	**5,754**	5,414	**5,754**	5,414
The imputation credits are available to shareholders of the Company:				
Through the Company	**5,754**	5,414	**5,754**	5,414
	5,754	5,414	**5,754**	5,414

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 9. 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
			2022			2021
	Current year $000	**Prior years $000**	**Total $000**	Current year $000	Prior years $000	Total $000
Gross claims - undiscounted	**1,967,433**	**(83,982)**	**1,883,451**	1,733,724	(98,236)	1,635,488
Discount	**(18,512)**	**(15,739)**	**(34,251)**	(2,604)	(869)	(3,473)
Gross claims - discounted	**1,948,921**	**(99,721)**	**1,849,200**	1,731,120	(99,105)	1,632,015
Reinsurance and other recoveries - undiscounted	**(804,453)**	**26,202**	**(778,251)**	(685,983)	49,640	(636,343)
Discount	**9,369**	**10,871**	**20,240**	1,129	307	1,436
Reinsurance and other recoveries - discounted	**(795,084)**	**37,073**	**(758,011)**	(684,854)	49,947	(634,907)
Net claims expense	**1,153,837**	**(62,648)**	**1,091,189**	1,046,266	(49,158)	997,108

The prior years' net claims expense for the year ended 30 June 2022 substantially pertains to the settlement of claims in particular those that occurred in the year ended 30 Jun 2021 and an increase in discount rates. 2021: the prior years' net claims expense substantially pertains to the favourable settlement of claims in particular those that occurred in the year ended 30 June 2020.

B. OUTSTANDING CLAIMS LIABILITY RECOGNISED ON THE BALANCE SHEET

		PARENT AND CONSOLIDATED
	2022 $000	2021 $000
I. Composition of gross outstanding claims liability		
Gross central estimate - undiscounted	**1,105,108**	1,019,646
Claims handling costs	**42,500**	34,152
Risk margin	**131,192**	133,143
	1,278,800	1,186,941
Discount to present value	**(40,710)**	(6,459)
Gross outstanding claims liability - discounted	**1,238,090**	1,180,482

The outstanding claims liability includes $356.7 million (2021: $203.6 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
			2022			2021
	Gross $000	**Reinsurance and other recoveries $000**	**Net $000**	Gross $000	Reinsurance and other recoveries $000	Net $000
Balance at the beginning of the financial year	**1,180,482**	**(674,067)**	**506,415**	1,147,856	(684,548)	463,308
Movement in the prior year central estimate	**4,066**	**(6,413)**	**(2,347)**	(64,318)	45,919	(18,399)
Current year claims incurred	**1,877,683**	**(762,209)**	**1,115,474**	1,661,350	(652,830)	1,008,520
Claims paid/recoveries received	**(1,791,593)**	**748,043**	**(1,043,550)**	(1,599,389)	645,388	(954,001)
Movement in discounting	**(30,076)**	**17,760**	**(12,316)**	(1,392)	612	(780)
Movement in risk margin	**(2,472)**	**(7,148)**	**(9,620)**	36,375	(28,608)	7,767
Balance at the end of the financial year	**1,238,090**	**(684,034)**	**554,056**	1,180,482	(674,067)	506,415

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III. Central estimate and risk margin

a. REPORTING DATE VALUES

	PARENT AND CONSOLIDATED	
	2022	2021
	%	%
The percentage risk margin applied to the net outstanding claims liability (excluding Canterbury earthquake claims)	**12.4**	17.1
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 assumptions set out in section IV and the impact of reinsurance and other recoveries. In respect of portfolios with higher levels of unsettled claims there is the risk of unanticipated inflation escalating incurred claim costs. A range of additional factors are being monitored in these portfolios such as the mix of claim types, the level of unsettled claims, the levels of claims payments and claims revisions, and the average costs of settled and unsettled claims. Additional allowances specific to portfolios at higher risk of additional cost escalation on settlement have been allowed for.

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.

In the prior year, the Earthquake Commission (EQC) settled claims by the Company in relation to Land Recoveries and Financial Wash up. This had minimal impact on profit and loss in the prior year.

Land Recoveries refer to claims against the EQC for the extra costs incurred by the Company in rebuilding and repairing homes as a result of damage caused to the land. The EQC is responsible for rectifying land damage. Financial Wash up refers to claims against the EQC for the additional recovery of money where analysis has identified that the EQC did not initially contribute enough funds to the rebuild or repair of homes. The Canterbury earthquakes comprised a number of separate natural disaster events, and EQC was liable to homeowners for up to a maximum of $100,000 for each of these.

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 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 develop but the current estimate is well within the Consolidated entity's 2016/17 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 2022, the outstanding claims liability for IAG NZ was valued by Heathcliff Neels (Fellow of the New Zealand Society of Actuaries). There were no qualifications contained in the actuarial valuation 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. The valuation 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.

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.

Volatility levels are related to the general levels of uncertainty of various classes of business.

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
2022			
Discounted average term to settlement	**0.9 years**	**0.5 years**	**0.9 years**
Inflation rate	**3.74%**	**3.74%**	**3.74%**
Discount rate	**3.25-4.50%**	**3.25-4.50%**	**3.25-4.50%**
Claims handling costs ratio	**n/a**	**n/a**	**n/a**
2021			
Discounted average term to settlement	1.0 years	0.5 years	0.9 years
Inflation rate	1.99%	1.99	1.99%
Discount rate	0.00%-2.46%	0.00%-2.46%	0.00%-2.46%
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.

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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 and Kaikoura 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	PARENT AND CONSOLIDATED EXCLUDING EARTHQUAKE CLAIMS $000
2022			
Discounted average term to settlement	**+1 Month**	**(47)**	**(1,469)**
	-1 Month	**47**	**1,473**
Inflation rate	**+1%**	**155**	**4,910**
	-1%	**(151)**	**(4,713)**
Discount rate	**+1%**	**(151)**	**(4,713)**
	-1%	**155**	**4,910**
Claims handling costs ratio	**+1%**	**n/a**	**9,125**
	-1%	**n/a**	**(9,125)**
2021			
Discounted average term to settlement	+1 Month	(18)	(985)
	-1 Month	18	992
Inflation rate	+1%	79	4,441
	-1%	(78)	(4,240)
Discount rate	+1%	(78)	(4,240)
	-1%	79	4,441
Claims handling costs ratio	+1%	n/a	7,538
	-1%	n/a	(7,538)

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NOTE 10. REINSURANCE AND OTHER RECOVERIES ON OUTSTANDING CLAIMS

	PARENT AND CONSOLIDATED	
	2022	2021
	$000	$000
A. REINSURANCE AND OTHER RECOVERIES ON OUTSTANDING CLAIMS		
Expected reinsurance and other recoveries on outstanding claims - undiscounted	**707,191**	676,980
Discount to present value	**(23,157)**	(2,913)
Expected reinsurance and other recoveries on outstanding claims - discounted	**684,034**	674,067

The carrying value of reinsurance recoveries and other recoveries includes $230.3 million (2021: $94.0 million) which is expected to be settled more than 12 months from the reporting date.

The reinsurance recoveries on outstanding claims includes $nil (2021: $82.5 million) from IAG Re Singapore Pte Limited and $274.1 million (2021: $230.8 million) recoverable from Insurance Australia Limited (IAL).

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 9. 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 Company 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 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 reinsurance operation. The reinsurance operation is intended to manage reinsurance and earnings volatility and the IAG Group's exposure to catastrophe risk.

The Company purchases reinsurance to cover a 1:1000 year event, as required by the Reserve Bank of New Zealand (RBNZ). 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.

Prior to 1 January 2021 a large portion of the business ceded by the Company was reinsured with the Group's captive reinsurance operation, with some additional reinsurance protection purchased outside the Group (such as facultative reinsurance covers and quota share arrangements).

From 1 January 2021, the majority of the business ceded by the Company is reinsured directly with the external market, although a small portion is ceded to IAL.

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 cyber liability quota share. The Company cedes 75% of this portfolio gross of any quota share arrangements.

NOTE 11. DEFERRED INSURANCE ASSETS

	PARENT AND CONSOLIDATED	
	2022	2021
	$000	$000
A. DEFERRED ACQUISITION COSTS		
Reconciliation of movements		
Deferred acquisition costs at the beginning of the financial year	**231,526**	224,920
Acquisition costs deferred	**247,948**	231,526
Amortisation charged to profit	**(231,526)**	(224,920)
Deferred acquisition costs at the end of the financial year	**247,948**	231,526
B. DEFERRED OUTWARDS REINSURANCE EXPENSE		
Reconciliation of movements		
Deferred outwards reinsurance expense at the beginning of the financial year	**607,209**	735,232
Reinsurance expenses deferred	**1,344,452**	1,231,038
Amortisation charged to profit	**(1,266,475)**	(1,250,074)
Reinsurance contracts cancelled*	**(65,854)**	(108,987)
Deferred outwards reinsurance expense at the end of the financial year	**619,332**	607,209

* Previously, the Reinsurance programme was purchased to a 30 June renewal cycle. On 1 January 2021 key elements of the Reinsurance programme were aligned to a 31 December renewal cycle resulting in the mid-term cancellation of Reinsurance contracts in-force at that time. During the current year all other elements of the Reinsurance programme were aligned to a 31 December renewal cycle.

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NOTE 12. UNEARNED PREMIUM LIABILITY

	PARENT AND CONSOLIDATED	
	2022	2021
	$000	$000
A. RECONCILIATION OF MOVEMENTS		
Unearned premium liability at the beginning of the financial year	**1,374,924**	1,324,097
Deferral of premiums on contracts written	**1,495,243**	1,374,924
Earning of premiums written in previous financial years	**(1,374,924)**	(1,324,097)
Unearned premium liability at the end of the financial year	**1,495,243**	1,374,924

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 (2021 - surplus).

		PARENT AND CONSOLIDATED
	2022	2021
	$000	$000
Net central estimate of present value of expected future cash flows from future claims	**610,976**	561,368
Risk margin of the present value of expected future cash flows	**18,020**	16,517
	628,996	577,885
Risk margin percentage	**2.9%**	2.9%
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 13. INVESTMENTS

		PARENT		CONSOLIDATED
	2022	2021	**2022**	2021
	$000	$000	**$000**	$000
A. COMPOSITION				
I. Interest bearing investments				
Cash and short term money held in investment	**126,351**	86,827	**126,351**	86,827
Government and semi-government bonds	**562,813**	157,534	**562,813**	157,534
Corporate bonds and notes	**493,738**	1,201,073	**493,738**	1,201,073
	1,182,902	1,445,434	**1,182,902**	1,445,434
II. Equity investments				
Listed	**-**	-	**1,882**	1,539
Unlisted	**275,194**	272,489	**275,194**	272,489
	275,194	272,489	**277,076**	274,028
	1,458,096	1,717,923	**1,459,978**	1,719,462

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.

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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.

	LEVEL 1 $000	LEVEL 2 $000	LEVEL 3 $000	CONSOLIDATED TOTAL $000
2022				
Interest bearing investments	**572,548**	**610,354**	**-**	**1,182,902**
Equity investments	**1,882**	**275,194**	**-**	**277,076**
	574,430	**885,548**	**-**	**1,459,978**
2021				
Interest bearing investments	211,087	1,234,347	-	1,445,434
Equity investments	1,539	272,489	-	274,028
	212,626	1,506,836	-	1,719,462

The Company holds the same investments as the Consolidated entity with the exception of Equity Investments of $1.9 million (2021: $1.5 million).

NOTE 14. RECEIVABLES

	PARENT 2022 $000	PARENT 2021 $000	CONSOLIDATED 2022 $000	CONSOLIDATED 2021 $000
COMPOSITION				
I. Premium receivable				
Gross premium receivable	**978,661**	894,352	**978,661**	894,351
Provision for lapses	**(6,295)**	(8,219)	**(6,295)**	(8,218)
Premium receivable	**972,366**	886,133	**972,366**	886,133
II. Trade and other receivables				
Reinsurance recoveries on paid claims	**75,453**	60,449	**75,453**	60,449
Investment income receivable	**5,989**	5,628	**5,989**	5,628
Investment transactions not yet settled at reporting date	**193**	48	**193**	48
Other debtors	**27,720**	8,196	**27,720**	8,196
Trade and other receivables	**109,355**	74,321	**109,355**	74,321
	1,081,721	960,454	**1,081,721**	960,454

Reinsurance recoveries on paid claims includes $nil (2021: $18.0 million) recoverable from IAG Re Singapore Pte Limited and $74.2 million (2021: $37.9 million) recoverable from Insurance Australia Limited.

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 2022, the Company has offset receivables due under the contracts of $250.0 million (2021: $239.3 million) with the reinsurance premium payable of $491.0 million (2021: $458.4 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.

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NOTE 15. LEASES

A. AMOUNTS RECOGNISED IN THE BALANCE SHEET

I. Right-of-use assets

				PARENT AND CONSOLIDATED
	PROPERTIES $000	MOTOR VEHICLES $000	EQUIPMENT $000	Total $000
2022				
Balance at the beginning of the financial year	**61,267**	**1,735**	**290**	**63,292**
Additions to right-of-use assets	**95**	**940**	**-**	**1,035**
Depreciation charge for the year	**(10,085)**	**(986)**	**(268)**	**(11,339)**
Impairment of right-of-use-asset	**(2,759)**	**-**	**-**	**(2,759)**
Derecognition of right-of-use assets	**(6,465)**	**-**	**-**	**(6,465)**
Balance at the end of the financial year	**42,053**	**1,689**	**22**	**43,764**
2021				
Balance at the beginning of the financial year	85,603	2,201	558	88,362
Additions to right-of-use assets	11,782	628	-	12,410
Depreciation charge for the year	(13,393)	(1,094)	(268)	(14,755)
Impairment of right-of-use-asset	-	-	-	-
Derecognition of right-of-use assets	(22,725)	-	-	(22,725)
Balance at the end of the financial year	61,267	1,735	290	63,292

The current year impairment expense pertains to the continuing negotiations for early surrender of one of the Company's current lease arrangements. No corresponding lease liabilities have been derecognised in the current year.

The current year de-recognition of the right-of-use asset mainly pertains to lease surrenders undertaken during the year. There was also a derecognition of the corresponding lease liabilities.

II. Lease liabilities

	2022 $000	2021 $000
Current	**11,247**	12,843
Non-current	**43,953**	55,040
Carrying value of lease liabilities	**55,200**	67,883
Due within 1 year	**12,706**	14,727
Due within 1 to 2 years	**11,532**	12,807
Due within 2 to 5 years	**16,809**	23,460
Due after 5 years	**20,966**	25,557
Total undiscounted lease liabilities	**62,013**	76,551

III. Net investment in sub-lease

The Company has leased out a portion of one of its leased properties, which it has classified as a finance sub-lease. At the reporting date, the Company recognised net investment in sub-lease of $6.5 million which is presented within trade and other receivables in the parent and consolidated balance sheet.

B. AMOUNTS RECOGNISED IN THE STATEMENT OF COMPREHENSIVE INCOME

	2022 $000	2021 $000
Depreciation (included in underwriting expense)	**11,339**	14,755
Impairment (included in underwriting expense)	**2,759**	-
Interest income from sub-leasing right-of-use assets (included in fee and other income)	**(185)**	-
Interest expense (included in finance costs)	**1,882**	2,585
Gain on right of use assets (included in underwriting expense)	**(1,476)**	(4,652)

The current and prior year gain on right of use assets mainly pertains to the derecognition of lease liabilities upon early surrender or legal assignment of AMI and State retail store leases.

C. AMOUNTS RECOGNISED IN THE CASH FLOW STATEMENT

	2022 $000	2021 $000
Total cash outflow for leases	**(14,618)**	(20,462)

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NOTE 16. INTANGIBLE ASSETS

	PARENT AND CONSOLIDATED
	Software development $000
2022	
A. COMPOSITION	
Cost	**192,212**
Accumulated amortisation and impairment	**(179,733)**
Balance at the end of the financial year	**12,479**
B. RECONCILIATION OF MOVEMENTS	
Balance at the beginning of the financial year	**11,599**
Additions acquired and developed	**2,451**
Amortisation*	**(1,571)**
Balance at the end of the financial year	**12,479**

	PARENT AND CONSOLIDATED
	Total $000
2021	
C. COMPOSITION	
Cost	189,761
Accumulated amortisation and impairment	(178,162)
Balance at the end of the financial year	11,599
D. RECONCILIATION OF MOVEMENTS	
Balance at the beginning of the financial year	13,170
Amortisation*	(1,571)
Balance at the end of the financial year	11,599

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

E. AMORTISATION RATE (% per annum) 10.00%-33.33%

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. There were no impairment charges recognised during the current year or prior year periods.

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NOTE 17. GOODWILL

	PARENT		CONSOLIDATED	
	2022	2021	**2022**	2021
	$000	$000	**$000**	$000
A. COMPOSITION				
Goodwill	**206,813**	206,813	**206,813**	207,473
Accumulated impairment charges	**-**	-	**-**	-
Balance at the end of the financial year	**206,813**	206,813	**206,813**	207,473

The goodwill reported by the Company substantially arises from the purchase of New Zealand Insurance Limited (NZI) in 2003. The decrease in Goodwill on consolidation is due to the Company selling its 50% shareholding in First Rescue and Emergency (NZ) Limited.

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 three 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 2022 was 3.5% (2021: 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 9.8% (2021: 9.6%).

NOTE 18. DETAILS OF SUBSIDIARIES AND ASSOCIATES

	PRINCIPAL ACTIVITY	OWNERSHIP INTEREST		BALANCE DATE
		2022	2021	
		%	%	
State Insurance Limited	Non-operating	**100**	100	30 June
Direct Insurance Services Limited	Non-operating	**100**	100	30 June
First Rescue and Emergency (NZ) Limited*	Road Side Service	**N/A**	50	30 June
IAG (NZ) Share Plan Nominee Limited	Trustee of Staff Share Plan	**100**	100	30 June
The IAG New Zealand Limited Employee Share Plan	Share Plan Trust	**100**	100	30 June
Loyalty New Zealand Limited	Data and Analytics Consulting	**25**	25	30 June
NZI Staff Superannuation Fund Nominees Limited	Investment Nominee	**100**	100	30 June

*First Rescue and Emergency (NZ) Limited was a joint venture with the Company until 31 March 2022, when the Company sold its 50% shareholding to the other remaining shareholders. Refer Note 6 for further details.

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NOTE 19. TRADE AND OTHER PAYABLES

	PARENT 2022 $000	2021 $000	CONSOLIDATED 2022 $000	2021 $000
COMPOSITION				
I. Trade creditors				
Commissions payable	**25,105**	27,419	**25,105**	27,419
Levies payable	**102,980**	100,791	**102,980**	100,791
Other	**64,431**	60,212	**64,419**	60,212
	192,516	188,422	**192,504**	188,422
II. Other payables				
Other creditors and accruals	**37,878**	49,040	**39,878**	50,644
Investment creditors	**510**	-	**510**	-
	230,904	237,462	**232,892**	239,066

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.

NOTE 20. CUSTOMER REFUNDS PROVISION

	PARENT 2022 $000	2021 $000	CONSOLIDATED 2022 $000	2021 $000
A. RECONCILIATION OF MOVEMENTS				
Balance at the beginning of the financial year	**8,172**	-	**8,172**	-
Additions	**34,797**	8,172	**34,797**	8,172
Amounts utilised	**(8,867)**	-	**(8,867)**	-
Balance at the end of the financial year	**34,102**	8,172	**34,102**	8,172

A provision is recognised for the expected costs associated with customer refunds/remediation. In establishing this provision, assumptions have been made around the impact to the premiums charged for the affected customers, the compound interest attributable to the base premium amount, the costs associated with operating the associated remediation programme and related matters.

The gross customer remediation provision was $34.1 million at 30 June 2022 (2021: $8.2 million) and is included within other liabilities on the balance sheet.

NOTE 21. EMPLOYEE BENEFITS

	PARENT 2022 $000	2021 $000	CONSOLIDATED 2022 $000	2021 $000
A. EMPLOYEE BENEFITS PROVISION				
Annual leave	**21,311**	20,451	**21,311**	20,451
Cash based incentive arrangements	**20,370**	20,738	**20,370**	20,738
Defined benefit superannuation plans	**1,570**	3,551	**1,570**	3,551
Defined benefit pension arrangement - unfunded	**700**	851	**700**	851
	43,951	45,591	**43,951**	45,591

The employee benefits provision includes $2.3 million (2021: $4.4 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. Most employees can earn a maximum of up to 10% of their Total Fixed Remuneration within the STI Plan. The incentive payments are determined based on an assessment of individual performance and achievement of a range of business unit and individual goals.

NOTE 22. 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 the 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 a different purpose 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 DAR 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 and are non transferable. 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 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).
- Under the TSR allocation, IAG's TSR is assessed against the TSR of a peer group of entities. 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 to 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 equal to or greater than 1.9 x WACC (1.6 x WACC for rights granted prior to 30 June 2019);
  - Minimum vesting at 0% if ROE is below 1.4 x WACC (1.2 x WACC for rights granted between 1 July 2010 to 30 June 2019).
- If a participant ceases employment with IAG before the performance conditions are tested, their unvested rights will generally lapse.
- 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 Employee Share Plan operates within the terms of a Trust Deed dated 24 July 2002. Shares subscribed under the Employee Share Plan are held in Trust for a vesting period of three years on behalf of the respective staff member. Dividends are payable during the vesting period. Under certain circumstances such as retirement, death, redundancy or accident or sickness, the vesting period may be waived. Staff who leave the Group for any other reason before completion of the vesting period forfeit any rights to the shares. In these circumstances, a plan termination payment equal to the price that was or would have been obtained for trading IAG shares on the ASX on the termination date (less selling costs and tax) will be paid. 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 shall (unless the Company otherwise directs) be paid to the Company to defray the costs of establishing and operating the Employee Share Plan. The Trustee can vote the shares but are required to seek the direction of the staff member as to how they wish the voting rights to be exercised and comply with those directions.

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 2022 IAG NZ Employee Share Awards:

Under these awards, staff can subscribe for up to $1,000 in IAG 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 Employee Share Plan do not incur any brokerage. Participation in the Employee Share Plan is optional.

The Trustee of the Employee Share Plan is IAG (NZ) Share Plan Nominee 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	
	2022	2021
Forfeited shares	**20,520**	33,185
Shares held on behalf of eligible staff	**370,800**	245,018
Total shares held	**391,320**	278,203

The total number of shares held represents 0.016% (June 2021: 0.011%) of the Ordinary Shares issued by IAG.

NOTE 23. RELATED PARTY DISCLOSURES

A. RELATED PARTY BALANCES

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

		Closing Balance	
		30 June 2022	30 June 2021
Related Party	Description	$000	$000
IAG Re Singapore Pte Limited	Fee for Services	(736)	(736)
IAG No. 1 Limited	Fee for Services	135	46
IAG No. 2 Limited	Fee for Services	135	46
Insurance Australia Limited	Forward exchange contracts	4,458	(731)
Insurance Australia Limited*	Reinsurance	(742)	(64,395)
Insurance Australia Limited	Fee for services	(21,249)	(19,495)
IAG Asset Management Limited	Investment management fees	(232)	(301)
Direct Insurance Services Limited	Current account with subsidiary company	12	12
IAG (NZ) Holdings Limited	Acquisition costs	363	-
		(17,856)	(85,554)

* The current year's related party balance relates to broker fees on reinsurance and the prior year's amount pertains to reinsurance premium paid to external reinsurers by IAL on behalf of the Company.

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

Reported within Reinsurance and other recoveries on outstanding claims (refer to Note 10):		
IAG Re Singapore Pte Limited	-	82,507
Insurance Australia Limited	274,072	230,752
Reported within Receivables (refer to Note 14):		
IAG Re Singapore Pte Limited	-	18,011
Insurance Australia Limited	74,207	37,870
IAG Re Labuan (L) Berhad	-	(43)
Reported within Reinsurance premium payable:		
IAG Re Singapore Pte Limited	13,818	13,818
Insurance Australia Limited	39,080	106,658
Reported within Payables:		
First Rescue New Zealand Limited***	2,055	-
Reported within Outstanding claims liability (refer to Note 9)		
IAG No.1 Limited	96	145

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B. RELATED PARTY TRANSACTIONS

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

		Transaction Amount	
		30 June 2022	30 June 2021
Related Party	**Transaction**	**$000**	$000
Insurance Australia Limited	Forward exchange contracts	**18,254**	3,284
Insurance Australia Limited	Reinsurance recoveries	**(81,526)**	(45,767)
Insurance Australia Limited	Reinsurance expense	**118,038**	105,531
Insurance Australia Limited	Fee for services	**56,519**	70,591
IAG Asset Management Limited	Investment management fees	**2,981**	3,415
First Rescue and Emergency (NZ) Limited**	Claims expenditure	**7,842**	10,097
First Rescue and Emergency (NZ) Limited**	Fee for services	**907**	1,552
First Rescue New Zealand Limited***	Claims expenditure	**2,547**	-
First Rescue New Zealand Limited***	Fee for services	**239**	-
Loyalty New Zealand Limited	Issue of Fly Buys points	**5,662**	6,519
IAG (NZ) Holdings Limited*	Dividend paid	**48,300**	21,000
IAG No. 1 Limited	Costs on-charged	**(181)**	(209)
IAG (NZ) Holdings Limited*	Repurchase of ordinary shares	**435,000**	160,000
IAG No. 2 Limited	Costs on-charged	**(181)**	(232)
IAG Re Singapore Pte Limited	Reinsurance expense	**-**	76,897
IAG Re Singapore Pte Limited	Reinsurance recoveries	**-**	(24,751)
Loyalty New Zealand Limited	Share capital cash call	**1,000**	-
IAG No. 1 Limited	Claims paid	**17,091**	7,196
IAG Re Singapore Pte Limited	Reinsurance commission revenue	**-**	111
Insurance Australia Limited	Reinsurance commission revenue	**(22,866)**	(21,740)

**First Rescue and Emergency (NZ) Limited was a joint venture with the Company until 31 March 2022, when the Company sold its 50% shareholding to the other remaining shareholders. Refer Note 6 for further details.

***During the year the NZ Group incorporated First Rescue New Zealand Limited which acquired the roadside rescue business from First Rescue and Emergency (NZ) Limited on 31 March 2022.

The Consolidated entity had the same related party transactions.

The above related party transactions highlighted as * were with the parent entity 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	
	2022	2021
	$000	$000
Short term employee benefits	**6,028**	6,081
Post employment benefits	**31**	3
Other long term benefits	**11**	3
Share based payments	**1,291**	1,682
	7,361	7,769

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.

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NOTE 24. NOTES TO THE STATEMENTS OF CHANGES IN EQUITY

A. CAPITAL

At 30 June 2022, Share Capital comprised 1,763,433,488 ordinary shares of $1 each (2021: 2,198,433,488)

On 30 July 2021, the Company bought back and cancelled 275 million ordinary shares of $1 each issued to IAG (NZ) Holdings Limited.

On 18 November 2021, the Company bought back and cancelled 30 million ordinary shares of $1 each issued to IAG (NZ) Holdings Limited.

On 3 February 2022, the Company bought back and cancelled 80 million ordinary shares of $1 each issued to IAG (NZ) Holdings Limited.

On 12 May 2022, the Company bought back and cancelled 50 million ordinary shares of $1 each issued to IAG (NZ) Holdings Limited.

During the year the Company paid dividends totalling $48.3 million which represented 3 cent per share (2021: $21.0 million).

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 25. NOTES TO THE CASH FLOW STATEMENTS

	PARENT		CONSOLIDATED	
	2022	2021	**2022**	2021
	$000	$000	**$000**	$000
A. COMPOSITION				
Cash held for operational purposes	**74,629**	105,214	**74,633**	105,218
Cash and short term money held in investments	**126,351**	86,827	**126,351**	86,827
Cash and cash equivalents	**200,980**	192,041	**200,984**	192,045

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.

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	
	2022	2021	**2022**	2021
	$000	$000	**$000**	$000
C. RECONCILIATION OF PROFIT/(LOSS) FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES				
Profit for the year	**172,844**	259,357	**173,350**	259,372
I. Non-cash items				
Depreciation of plant and equipment and right of use assets	**20,794**	30,134	**20,794**	30,134
Amortisation of intangible assets	**1,571**	1,571	**1,571**	1,571
Net realised losses on disposal of investments	**45,460**	9,587	**44,921**	9,587
Net unrealised (gains) and losses on revaluation of investments	**5,624**	(19,052)	**5,657**	(19,067)
Net (gains)/losses on disposal of plant and equipment	**(38)**	890	**(38)**	890
Impairment of plant and equipment and right of use assets	**3,752**	-	**3,752**	-
(Gain)/loss of leased assets	**(1,476)**	(4,652)	**(1,476)**	(4,652)
Other	**1,467**	1,520	**1,467**	1,520
II. Movement in operating assets and liabilities				
DECREASE/(INCREASE) IN OPERATING ASSETS				
Premium and other receivables	**(99,755)**	(5,378)	**(99,755)**	(5,378)
Prepayments, deferred levies and charges	**(27,834)**	121,776	**(27,834)**	121,776
Deferred tax assets	**70,186**	85,714	**70,186**	85,714
Reinsurance and other recoveries	**(24,971)**	(15,544)	**(24,971)**	(15,544)
Current tax asset	**-**	-	**-**	-
Other	**197**	721	**197**	721
INCREASE/(DECREASE) IN OPERATING LIABILITIES				
Trade and other payables	**(71,344)**	(43,055)	**(71,344)**	(43,055)
Provisions	**(1,641)**	4,794	**(1,641)**	4,794
Outstanding claims liability	**57,608**	32,626	**57,608**	32,626
Unearned premium liability	**120,319**	50,828	**120,319**	50,828
Net cash flows from operating activities	**272,763**	511,837	**272,763**	511,837

NOTE 26. 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.

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 2022, the ASC, MSC, solvency margin and solvency ratio held was:

2022	$m
ASC	584.1
MSC	364.6
Solvency margin	219.5
Solvency Ratio (percent)	160.2%

2021	$m
ASC	578.7
MSC	351.5
Solvency margin	227.2
Solvency Ratio (percent)	164.6%

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

The ASC, solvency margin and solvency ratios presented above are after allowing for the $5.5 million dividend and $35.0 million capital repayment. Refer to Note 28.

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-" (2021: "AA-"). The AA- rating represents, a 'very strong' claims paying ability.

NOTE 27. 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.

Like many regulated entities the Company has been reviewing its conduct and practices regarding products and pricing offered to its customers. The Company will continue its review during the ensuing financial year. The identification to date of matters requiring remediation or compensation associated with the Company's review are covered by the customer refunds (remediation) provision in Note 20.

NOTE 28. EVENTS SUBSEQUENT TO REPORTING DATE

On 5 August 2022, the IAG NZ Board resolved to buy back and cancel 35 million $1 ordinary shares issued by IAG NZ from IAG (NZ) Holdings Limited. The capital will be repaid on or before 31 August 2022.

On 5 August 2022, the IAG NZ Board resolved to pay a dividend of $5.5 million to IAG (NZ) Holdings Limited. The dividend will be paid on or before 31 August 2022.

Independent auditor's report

To the shareholder of IAG New Zealand Limited

Report on the audit of the financial statements

Opinion

We have audited the accompanying Company and Group financial statements of IAG New Zealand Limited (the "Company") and its subsidiaries (the "Group") which comprise:

- the balance sheet as at 30 June 2022;
- the statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies.

In our opinion, the financial statements of IAG New Zealand Limited on pages 8 to 50 present fairly, in all material respects, the Company's and the Group's financial position as at 30 June 2022, and its financial performance and cash flows for the year ended on that date, in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

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 in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (Including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the "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 financial statements* section of our report.

Our firm has also provided other services to the company in relation to a limited assurance engagement in respect of the Company's interim financial statements for the six month period ended 31 December 2022, a limited assurance engagement in respect of the Company's Insurer Solvency Return as at 31 December 2022, a reasonable assurance engagement in respect of the Company's Annual Insurer Solvency Return as at 30 June 2022, an agreed upon procedures engagement and limited assurance engagement in respect of the Company's reporting requirements to various banking partners in accordance with their respective agency agreements, and agreed upon procedures engagements in respect of a Canterbury Earthquake claims handling expenses allocation agreement held with a third party. 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 business 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.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholder as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

The key audit matter	How the matter was addressed in our audit
Valuation of outstanding claims liability - $1,238.1m (2021: $1,180.5m)	
Refer to Note 9 of the financial statements. The valuation of gross outstanding claims liability is a key audit matter because: — judgement is required by the Group to consider the central estimate of the gross outstanding claims liability. This is a significant estimate as the eventual outcomes of incurred but unsettled claims at the balance sheet date are inherently uncertain; — there is limited information available and greater level of uncertainty inherent in assessing estimation of claims that have been incurred by the balance sheet date but have not yet been reported to the Group; — claims estimation uses an actuarial modelling process which involves complex and subjective actuarial methodologies, judgements and assumptions about future events and developments, both within and external to the Group, and for which small changes can have significant implications to the quantification of gross outstanding claims liabilities; — judgement is required when considering the application of historical experience of claims development to determine current estimates. For example, specific to the current environment where the COVID-19 pandemic continues to result in heightened risk across New Zealand, claims activity through the period may not be representative of future claims activity and judgement is required when considering	We adopted a risk-based audit approach to determine which classes of business posed higher claims estimation risks. Factors that influenced the risk assessment included the level of judgement required, degree of uncertainty regarding the assumptions adopted, longer delays between claims being incurred, reported and expected settlement, greater relative magnitude in size, and significant variations over prior estimates. We have: — compared the Group's actuarial methodologies with the methodologies applied in prior periods; — evaluated the Group's governance processes, including inspecting the Reserving Committee and Event Reserve Working Party ("ERWP") charters; — inspected meeting agendas and minutes of meetings of both the Reserving Committee and ERWP in relation to the 30 June 2022 reporting date; — evaluated the actuarial methodologies and the assumptions applied in the previous reporting period by comparing the actual claims development to the prior year claims liability estimate. We used the information to assess the adjustments made to the current year's actuarial methodologies and assumptions applied in the estimation; — challenged key actuarial assumptions, including loss ratios, claim frequency and average size of claims, expected impact of judicial rulings, and allowance for future claims inflation; and — considered judgements required to estimate the period in which claims will be settled by analysing historical payment patterns and assessing any significant changes. For claims liabilities arising from the Canterbury earthquakes, we applied our own methodologies to establish a range of acceptable gross ultimate costs across the three major

The key audit matter	How the matter was addressed in our audit
the use of recent experience to determine current estimates; — when considering the application of historical experience of claims development to determine current estimates, there is greater variability between the original estimation and the ultimate settlement of claims where there is a long delay between the claim being incurred and the ultimate settlement; — there are significant uncertainties that exist in measuring the gross outstanding claims liabilities arising from the Canterbury earthquakes, due to the complexities and event-specific risks; — judgement is required to assess the estimation of the periods the claims are expected to be settled in; — the estimation of claims at the 30 June 2022 reporting date relies on the quality of the underlying data, including claim payments and individual estimates of unsettled claims, which is gathered from many different systems; and — we involve senior resources, with deep industry experience, together with our actuarial specialists in evaluating the Group's estimations of outstanding claims. **Risk margins and Probability of Adequacy** — The evaluation of risk margins and Probability of Adequacy is significant to the key audit matter because it is complex and necessitated a significant level of judgement by the Group. — The outstanding claims liability includes statistically determined risk margins developed by the Group to make allowance for the inherent uncertainty in estimating ultimate claim settlements. The risk margins are included to achieve a specified Probability of Adequacy for the total outstanding claims reserves. — We involved senior resources and our actuarial specialists to focus on the complex statistical processes and parameters used by the Group to establish the risk margins.	events. We used this range to examine the Group's estimate in the context of acceptable results and to challenge any significant differences. We were assisted by KPMG actuarial specialists in interpreting and evaluating the Group's actuarial modelling processes and methodology for determining the level of provisions for gross outstanding claims liabilities. We also considered the work and findings of an external, independent actuary, engaged by the Group in respect of the valuation of Canterbury earthquake liabilities arising from the Lumley portfolio. Our procedures included evaluating the competence and objectivity of the Group's Appointed Actuary and the external independent actuary. Our procedures around the financial records and controls included, amongst others: — testing accounting and actuarial controls such as reconciliations of key data; — testing key controls, and a sample of claims estimates and paid claims, by comparing the Group's estimation for individual claims to third party evidence; and — using our IT specialists, we tested the reconciliations between data on the claims systems (underlying data) and data used in the actuarial modelling processes. **Risk margins and Probability of Adequacy** With the assistance of our actuarial specialists we evaluated the appropriateness of the statistical processes to establish the Group's risk margins. Our procedures included: — evaluating the statistical processes' suitability by critically studying these and comparing them to known industry practices, our industry knowledge and other observable trends in industry forums and Actuaries Institute papers; — assessing the risk margin parameters for significant portfolios by comparing these to external sources of data including published statistics, prior periods and our own industry knowledge; — checking the central estimates of outstanding claims, which were tested in the valuation of gross outstanding claims liability processes, and are a key input into the risk margin model, to the underlying financial records; and — critically evaluating the Group's judgement in the execution of the statistical processes by comparing the overall results to our expectations based on the Group's historical experience, our industry knowledge and independent observable trends.

The key audit matter

How the matter was addressed in our audit

Valuation of reinsurance and other recoveries on outstanding claims - $684.0m (2021: $674.1m)

Refer to Note 10 of the financial statements.

- Reinsurance and other recoveries on outstanding claims represent the Group's estimate of the reinsurers' share of the costs to settle all claims that have occurred up to and including 30 June 2022. These claims may either be known to the Group (reported), or unknown (not yet reported).
- The Group has reinsurance cover in the form of an Excess of Loss contract, designed to protect its exposure to catastrophic claim events.
- The Group also has a range of other significant reinsurance contracts which form part of its capital management plan. These include Whole of Account Quota Shares, Adverse Development Cover with a related party reinsurer in the form of an Excess of Loss contract, and other Quota Share arrangements.
- Reinsurance and other recoveries on outstanding claims are a function of outstanding claims liabilities and are therefore subject to the same valuation uncertainties as outstanding claims liabilities. There are significant uncertainties that exist in measuring the outstanding claims liabilities and associated Reinsurance recoveries arising from the Canterbury earthquakes.
- The valuation of reinsurance and other recoveries on outstanding claims is significant to our audit due to their size and the high level of judgement applied by the Group in determining its quantum.

In addition to our audit procedures undertaken to assess the valuation of the outstanding claims liability, our procedures included:

- forming our own expectation of reinsurance and other recoveries on outstanding claims arising from the Whole of Account Quota Share contracts and the Adverse Development Cover contract based on our understanding of the key terms of those contracts and compared our expectation to the Group's estimate, investigating any material differences;
- checking that the reinsurance balances have been determined on a basis consistent with the underlying valuation of gross outstanding claims liabilities and the reinsurance programmes in place;
- confirming significant reinsurance receivable balances with related party counterparties; and
- assessing the recoverability of balances owed by reinsurers by considering their credit worthiness and capital strength, based on external sources of information such as Standard and Poor's credit ratings, payment history, and consideration of information for indicators of disputes.

Other information

The Directors, on behalf of the company, are responsible for the other information included in the entity's Annual Report. Other information includes the Directors' Report and Corporate Governance Statement. Our opinion on the 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 financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 as a body. 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 as a body for our audit work, this independent auditor's report, or any of the opinions we have formed.

Responsibilities of the Directors for the financial statements

The Directors, on behalf of the company, are responsible for:

- the preparation and fair presentation of the 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 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 financial statements

Our objective is:

- to obtain reasonable assurance about whether the 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 financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (the "XRB") website at:
http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

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

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

For and on behalf of

KPMG

KPMG
Auckland

9 August 2022

IAG New Zealand Limited - Section 78 Appointed Actuaries Report as at 30 June 2022

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 New Zealand Limited’s (“IAG”) 30 June 2022 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.
(iii)The Appointed Actuary holds shares with Insurance Australia Group Limited

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 2022.

h. As at 30 June 2022 IAG is not considered to be a life insurer as per the Act. 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 2022

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 2022 Financial Condition Report.

Signed

Christian Barrington
Appointed Actuary
IAG NZ Limited
Fellow of the New Zealand Society of Actuaries
Date 5 August 2022