IAG NEW ZEALAND LIMITED

AND SUBSIDIARIES

ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2023

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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 2023 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 (Director until 1 July 2023), C.M. Drayton (Director since 19 May 2023), N.B. Hawkins, W.W. Lai (Director until 31 May 2023), 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 2023 $000
Profit Before Income Tax	159,930
Income Tax Expense	(44,156)
Profit After Income Tax	115,774
Other Comprehensive Income and (Expense), net of Tax	(171)
Retained earnings as at 30 June 2022	(388,380)
Dividends paid	(5,500)
Retained earnings as at 30 June 2023	(278,277)
The state of the Consolidated entity's affairs as at 30 June 2023 was:	
Equity	1,022,560
Represented by:	
Assets	5,610,944
Liabilities	(4,588,384)
	1,022,560

REVIEW OF OPERATIONS

The net result of the Consolidated entity after applicable income tax for the financial year ended 30 June 2023 was a profit of $115.8 million. (2022: profit of $173.4 million).

DIVIDENDS AND CAPITAL MOVEMENTS

Dividends of $5.5 million were paid during the year (2022: $48.3 million).

During the year, the Company repaid $85.0 million of capital to IAG (NZ) Holdings Limited (2022: $435.0 million) and issued $100.0 million of ordinary shares to IAG (NZ) Holdings Limited (2022: $nil).

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the current year the Company has experienced two significant weather related events, namely the Auckland Floods and Cyclone Gabrielle. Both Auckland Floods and Cyclone Gabrielle were unprecedented in terms of their scale and their close proximity to one another. Both events exceeded the catastrophe reinsurance retention but are well within the upper limit of the catastrophe reinsurance programmes, as a result of these events, reinsurance cover was restored incurring additional reinsurance costs, having a net cost impact of $216.0 million. The payment for both events now exceeds the reinsurance retention and therefore the net outstanding claims for these events are $nil.

As well as affecting many communities the combined impact resulted in an unprecedented number of claims, as at 30 June 2023 the Company has closed approximately 35% of the circa 50,000 claims lodged for the two events. During the period the Company maintained a positive solvency margin in excess of its license condition. This solvency margin was further bolstered with a $100 million capital injection from IAG (NZ) Holdings Limited.

Apart from the above, the Company has not experienced any other significant seismic or weather related events for the year.

Excluding the impact of the events noted above, the Company's underwriting profit for the year is $318.3 million (2022 $270.9 million).

IAG NZ had successfully placed its catastrophe reinsurance program from 1 January for the 2023 calendar year and renewed four of its Whole of Account Quota Share (WAQS) agreements. IAG NZ, as a counter party to Group's WAQS arrangements.

Upon renewal of the 1 January 2023 catastrophe reinsurance programme, the retention (net of quota share) has increased for IAG NZ.

IAG NZ has agreed terms to renew its largest whole of account quota share agreement (WAQS), with National Indemnity Company (NICO), a subsidiary of Berkshire Hathaway Inc. This agreement represents 20% of the total 32.5% WAQS program. The renewed agreement, effective 1 January 2023, applies until 31 December 2029.

Furthermore, IAG NZ has agreed terms to renew arrangements with WAQS partners, Munich Re and Swiss Re, representing 10% of the 12.5% whole of account program. The renewed agreement, effective 1 January 2023, applies until 31 December 2027. The remaining 2.5% quota share with Hannover Re has also been renewed. The renewed agreement with Hannover Re, effective 1 July 2023, applied until 30 June 2028.

EVENTS SUBSEQUENT TO REPORTING DATE

On 22 June 2023, the IAG NZ Board resolved to pay a dividend of $5.0 million to IAG (NZ) Holdings Limited. The dividend was paid on 4 July 2023.

On 1 July 2023, the Company has agreed terms to renew arrangements with WAQS partner, Hannover Re, representing 2.5% of the 12.5% whole of account program. The renewed agreement with Hannover Re will be effective from 1 July 2023 and applied until 30 June 2028.

On 4 August 2023, the IAG NZ Board resolved to pay a dividend of $5.0 million to IAG (NZ) Holdings Limited. The dividend will be paid on or before 31 August 2023.

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 16th day of August 2023 in accordance with a resolution of the Directors.

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Director

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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 work health and safety compliance, performance, and management's actions to mitigate risk and incidents occurring;
- 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 including remuneration arrangements; 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 five 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, AMPOL Limited and Z Energy 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) and was Chair of Channel Infrastructure NZ Limited (previously known as The New Zealand Refining Company Limited).

CATHERINE M DRAYTON - Independent Non-Executive Director
BCom, LLB, FCA, CFInstD
Board Committees: Chair of the Audit Committee and Member of the People and Remuneration Committee and Risk Committee.
Catherine Drayton was appointed a Non-Executive Director of IAG New Zealand Limited and IAG (NZ) Holdings Limited on 19 May 2023.

Catherine brings extensive governance experience across a wide range of sectors to the Board. She is currently Chair of Christchurch International Airport, Guardians of NZ Superannuation, Mint Innovation and Connexa Limited.

Catherine is a director of Genesis Energy Limited and holds various director and trustee roles with Southern Cross. She has gained extensive experience from former governance roles including the Canterbury Earthquake Recovery Authority.

Catherine's former directorships include Ngai Tahu Holdings Corporation Limited, Beca Group and Meridian Energy Limited. She is a former partner in charge of assurance and advisory services for PricewaterhouseCoopers in Central and Eastern Europe. Prior to this she was a mergers and acquisition specialist focused on the manufacturing sector.

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.

DOUG A McKAY - Independent Non-Executive Director
ONZM, BA, AMP (Harvard), CFInstD
Board Committees: Chair of the People and Remuneration Committee and Risk Committee and Member of the Audit Committee.
Doug McKay was appointed a Non-Executive Director of IAG New Zealand Limited and IAG (NZ) Holdings Limited on 10 February 2014. He previously held the role of the Chair of the Audit Committee of IAG New Zealand Limited until 22 June 2023.

Doug has over 35 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 and a former director of Genesis Energy Limited and Ryman Healthcare Limited. He retired as Trustee (Chair) of the Eden Park Trust Board on 30 June 2023.

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. He currently holds directorships with Fletcher Building Limited, National Australia Bank Limited and Vector 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, Homehub Limited, IAG NZ Repairhub Limited, Loyalty New Zealand Limited and Lumley General Insurance (N.Z.) Limited.

Amanda 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.

Immediately prior to joining the New Zealand business, Amanda was Acting Group Executive Direct Insurance Australia and before that, 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 was appointed to the position of Vice President of Insurance Council of New Zealand (ICNZ) in April 2023.

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 Catherine Drayton (Chair), Simon Allen and Doug McKay.

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 Doug McKay (Chair), Simon Allen and Catherine Drayton.

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 Doug McKay (Chair), Simon Allen and Catherine Drayton.

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

- application of the Group Remuneration framework as articulated in the Group Remuneration Policy to IAG NZ;
- IAG NZ remuneration disclosures where required;
- remuneration arrangements for IAG NZ Non Executive Directors;
- remuneration arrangements and variable remuneration outcomes of the IAG NZ Chief Executive Officer (CEO), and select New Zealand Leadership Team (NZLT) members, as defined in the Group Remuneration Policy; and
- implementation of Group People and Culture strategies and frameworks, including the Diversity, Equity and Inclusion Policy and 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), Catherine Drayton 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 assist the CEO, NZLT, Boards of IAG NZ and its subsidiaries and related entities, to fulfil their risk management, compliance and regulatory responsibilities which includes:

- oversight of the effectiveness of the IAG NZ Risk Management Programme and governance arrangements;
- management and oversight of key risks, issues and events;
- monitoring and review of the IAG NZ Enterprise Risk Profile and controls;
- to provide recommendations to the CEO, NZLT, IAG NZ Risk Committee and the IAG NZ Board as appropriate to assist them in discharging their risk management and compliance responsibilities; and
- shaping and promotion of a strong risk culture.

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 Christian Barrington, Chief Actuary NZ.

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 Rachael O'Brien, Acting 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 NZLT, 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 2023

	NOTE	PARENT		CONSOLIDATED	
		2023	2022	**2023**	2022
		$000	$000	**$000**	$000
Premium revenue	4	**3,331,807**	3,039,422	**3,331,807**	3,039,422
Outwards reinsurance premium expense	11B	**(1,374,356)**	(1,266,475)	**(1,374,356)**	(1,266,475)
Net premium revenue (i)		**1,957,451**	1,772,947	**1,957,451**	1,772,947
Claims expense	9	**(3,264,221)**	(1,849,200)	**(3,264,221)**	(1,849,200)
Reinsurance and other recoveries revenue	4	**1,868,637**	758,011	**1,868,637**	758,011
Net claims expense (ii)	9	**(1,395,584)**	(1,091,189)	**(1,395,584)**	(1,091,189)
Acquisition costs	11A	**(544,544)**	(516,737)	**(544,544)**	(516,737)
Reinsurance commission revenue	4	**279,395**	286,029	**279,395**	286,029
Net acquisition costs		**(265,149)**	(230,708)	**(265,149)**	(230,708)
Other underwriting expenses	5	**(194,397)**	(180,110)	**(194,397)**	(180,110)
Underwriting expenses (iii)		**(459,546)**	(410,818)	**(459,546)**	(410,818)
Underwriting profit (i) + (ii) + (iii)		**102,321**	270,940	**102,321**	270,940
Investment income/(loss) on assets backing insurance liabilities	4	**27,198**	(15,269)	**27,198**	(15,269)
Investment expenses on assets backing insurance liabilities		**(2,082)**	(1,914)	**(2,082)**	(1,914)
Insurance profit		**127,437**	253,757	**127,437**	253,757
Investment Income/(loss) on shareholder's funds	4	**34,720**	(4,537)	**35,571**	(4,031)
Finance costs	15	**(1,662)**	(1,891)	**(1,662)**	(1,891)
Fee based, corporate and other expenses	5	**(1,416)**	(1,383)	**(1,416)**	(1,383)
Profit before income tax		**159,079**	245,946	**159,930**	246,452
Income tax expense	8	**(44,156)**	(73,102)	**(44,156)**	(73,102)
Profit for the year		**114,923**	172,844	**115,774**	173,350
OTHER COMPREHENSIVE INCOME, NET OF TAX					
Items that will not be reclassified to profit or loss:					
Remeasurements of defined benefit plans		**385**	2,023	**385**	2,023
Income tax expense on other comprehensive income		**(556)**	(556)	**(556)**	(556)
Other comprehensive income, net of tax		**(171)**	1,467	**(171)**	1,467
Total comprehensive income for the year, net of tax		**114,752**	174,311	**115,603**	174,817

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 2023

	NOTE	PARENT		CONSOLIDATED	
		2023	2022	**2023**	2022
		$000	$000	**$000**	$000
ASSETS					
Cash held for operational purposes	25	**200,164**	74,629	**200,168**	74,633
Investments	13	**1,309,282**	1,457,586	**1,312,026**	1,459,468
Premium receivable	14	**1,163,732**	972,366	**1,163,732**	972,366
Trade and other receivables	14	**214,170**	109,355	**214,170**	109,355
Receivables from related bodies corporate	23	**207**	5,103	**194**	5,091
Deferred outwards reinsurance expense	11	**773,476**	619,332	**773,476**	619,332
Deferred acquisition costs	11	**265,540**	247,948	**265,540**	247,948
Reinsurance and other recoveries on outstanding claims	10	**1,378,394**	684,034	**1,378,394**	684,034
Deferred tax assets	8	**12,120**	56,082	**12,120**	56,082
Right-of-use assets	15	**40,276**	43,764	**40,276**	43,764
Plant and equipment		**18,580**	22,899	**18,580**	22,899
Intangible assets	16	**10,908**	12,479	**10,908**	12,479
Investment in subsidiaries and associates	18	**1,002**	1,004	**1,000**	1,000
Goodwill	17	**206,813**	206,813	**206,813**	206,813
Other assets		**13,733**	13,075	**13,547**	12,889
Total assets		**5,608,397**	4,526,469	**5,610,944**	4,528,153
LIABILITIES					
Trade and other payables	19	**235,819**	230,394	**237,864**	232,382
Reinsurance premium payable		**388,289**	404,623	**388,289**	404,623
Payables to related bodies corporate	23	**14,874**	22,959	**14,874**	22,959
Unearned premium liability	12	**1,740,325**	1,495,243	**1,740,325**	1,495,243
Customer refunds provision	20	**23,941**	34,102	**23,941**	34,102
Employee benefits provision	21	**45,325**	43,951	**45,325**	43,951
Outstanding claims liability	9	**1,980,170**	1,238,090	**1,980,170**	1,238,090
Lease liabilities	15	**47,629**	55,200	**47,629**	55,200
Other liabilities		**109,967**	101,900	**109,967**	101,900
Total liabilities		**4,586,339**	3,626,462	**4,588,384**	3,628,450
Net assets		**1,022,058**	900,007	**1,022,560**	899,703
EQUITY					
Ordinary share capital	24	**1,778,433**	1,763,433	**1,778,433**	1,763,433
General reserve	24	**(478,445)**	(478,445)	**(478,445)**	(478,445)
Equity reserve	24	**1,203**	3,404	**849**	3,095
Retained earnings		**(279,133)**	(388,385)	**(278,277)**	(388,380)
Total equity		**1,022,058**	900,007	**1,022,560**	899,703

Signed in Auckland this 16th day of August 2023 in accordance with a resolution of the Directors.

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

KPMG

IAG NEW ZEALAND LIMITED AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2023

CONSOLIDATED	SHARE CAPITAL $000	GENERAL RESERVE $000	EQUITY RESERVE $000	RETAINED EARNINGS $000	TOTAL EQUITY $000
2023					
Balance at the beginning of the financial year	**1,763,433**	**(478,445)**	**3,095**	**(388,380)**	**899,703**
Profit for the year	-	-	-	**115,774**	**115,774**
Other comprehensive expense that will not be reclassified to profit or loss	-	-	-	**(171)**	**(171)**
Total comprehensive income for the year	-	-	-	**115,603**	**115,603**
Shares issued	**100,000**	-	-	-	**100,000**
Shares repurchased	**(85,000)**	-	-	-	**(85,000)**
Share based payment	-	-	**(2,246)**	-	**(2,246)**
Dividends determined and paid	-	-	-	**(5,500)**	**(5,500)**
Balance at the end of the financial year	**1,778,433**	**(478,445)**	**849**	**(278,277)**	**1,022,560**
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

PARENT	SHARE CAPITAL $000	GENERAL RESERVE $000	EQUITY RESERVE $000	RETAINED EARNINGS $000	TOTAL EQUITY $000
2023					
Balance at the beginning of the financial year	**1,763,433**	**(478,445)**	**3,404**	**(388,385)**	**900,007**
Profit for the year	-	-	-	**114,923**	**114,923**
Other comprehensive expense that will not be reclassified to profit or loss	-	-	-	**(171)**	**(171)**
Total comprehensive income for the year	-	-	-	**114,752**	**114,752**
Share issued	**100,000**	-	-	-	**100,000**
Shares repurchased	**(85,000)**	-	-	-	**(85,000)**
Share based payment	-	-	**(2,201)**	-	**(2,201)**
Dividends determined and paid	-	-	-	**(5,500)**	**(5,500)**
Balance at the end of the financial year	**1,778,433**	**(478,445)**	**1,203**	**(279,133)**	**1,022,058**
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

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

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IAG NEW ZEALAND LIMITED AND SUBSIDIARIES
CASH FLOW STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

	NOTE	PARENT 2023 $000	PARENT 2022 $000	CONSOLIDATED 2023 $000	CONSOLIDATED 2022 $000
CASH FLOWS FROM OPERATING ACTIVITIES					
Premium received		**3,385,540**	3,072,824	**3,385,540**	3,072,824
Reinsurance and other recoveries received		**970,428**	729,777	**970,428**	729,777
Claims costs paid		**(2,522,141)**	(1,791,593)	**(2,522,141)**	(1,791,593)
EQC claims costs paid/received, net of recoveries		**(219)**	(2,827)	**(219)**	(2,827)
Outwards reinsurance premium expense paid		**(1,401,855)**	(1,288,853)	**(1,401,855)**	(1,288,853)
Dividends received		**-**	885	**-**	885
Interest and Trust distributions received		**44,515**	29,447	**44,515**	29,447
Income taxes paid		**(120)**	(3,472)	**(120)**	(3,472)
Other operating receipts		**239,171**	275,730	**239,171**	275,730
Other operating payments		**(734,905)**	(738,406)	**(734,905)**	(738,406)
Finance costs paid		**(1,616)**	(1,882)	**(1,616)**	(1,882)
Customer refunds and related expenses		**(20,161)**	(8,867)	**(20,161)**	(8,867)
Net cash flows from/(used in) operating activities	25	**(41,363)**	272,763	**(41,363)**	272,763
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from disposal of investments and plant and equipment		**1,314,963**	1,830,272	**1,314,963**	1,830,272
Outlays for investments and plant and equipment		**(1,144,150)**	(1,599,054)	**(1,144,150)**	(1,599,054)
Net cash flows from investing activities		**170,813**	231,218	**170,813**	231,218
CASH FLOWS FROM FINANCING ACTIVITIES					
Principal element of lease payments		**(10,802)**	(12,736)	**(10,802)**	(12,736)
Dividends paid		**(5,500)**	(48,300)	**(5,500)**	(48,300)
Proceeds from issue of shares		**100,000**	-	**100,000**	-
Outlays for repurchase of shares		**(85,000)**	(435,000)	**(85,000)**	(435,000)
Principal element of sub lease receipts		**495**	399	**495**	399
Net cash flows from financing activities		**(807)**	(495,637)	**(807)**	(495,637)
Net movement in cash held		**128,643**	8,344	**128,643**	8,344
Effects of exchange rate changes on balances of cash held in foreign currencies		**(136)**	595	**(136)**	595
Cash and cash equivalents at the beginning of the financial year		**200,980**	192,041	**200,984**	192,045
Cash and cash equivalents at the end of the financial year	25	**329,487**	200,980	**329,491**	200,984

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 2023 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 a FMC reporting entity under the Financial Markets Conduct Act 2013 (FMCA).

A. STATEMENT OF COMPLIANCE

This general purpose financial report has been prepared as the Company and the Consolidated entity's ability to continue as a going concern and 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.

Certain items have been reclassified from the Company's prior year financial report to conform to the current period's presentation.

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. NZ IFRS 17 does not impact the fundamental economics of our business, our capital or solvency positions, or our financial strength. It impacts the timing of recognition, measurement and disclosure of our insurance contracts issued and reinsurance contracts held. The quantum of impact is influenced by several key judgements, the most significant of these are outlined below.

- Measurement models – NZ IFRS 17 introduces the general measurement model (GMM) which consists of fulfillment cash flows and a contractual service margin. NZ IFRS 17 also provides an alternative and simpler measurement model, the premium allocation approach (PAA) which an entity may choose to adopt when either the liability for remaining coverage under the PAA is not expected to differ materially from that under the GMM, or the coverage period of contracts are one year or less. A significant simplification adopted by the PAA 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, PAA has similarities to the current accounting requirements for insurance contracts under NZ IFRS 4.

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The measurement of the liability for incurred claims is consistent under both the GMM and the PAA and requires all incurred claims to be measured at the present value of expected fulfilment cash flows plus a risk adjustment to reflect the compensation that the entity requires for bearing the uncertainty relating to the amount and timing of future cash flows. At transition, IAG NZ intends to adopt the PAA for both insurance contracts issued, and reinsurance contracts held as the eligibility criteria for PAA are met.

For groups of contracts that apply the PAA and have a coverage period of one year or less, NZ IFRS 17 permits recognition of insurance contract acquisition costs as expenses when incurred. IAG NZ does not intend to apply this option and will continue to defer acquisition costs and amortise these 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 – NZ IFRS 17 requires insurance contracts issued, and reinsurance contracts held, to be separately grouped into portfolios which comprise contracts subject to similar risk and managed together. These portfolios are further subdivided into specified measurement groups, based on the date of issue of contracts, which can be no more than a year apart, and on their profitability.

  Contracts that are measured using the PAA are assumed not to be onerous unless facts and circumstances indicate otherwise. IAG NZ has developed a framework for identifying facts and circumstances that may be indicators of possible onerous contracts. If facts and circumstances indicate that contracts may be onerous, IAG NZ will perform an assessment to determine if a net outflow is expected from the contracts, measured based on an estimation of fulfilment cash flows. To the extent onerous contracts are identified, losses are recognised immediately in the Statement of Comprehensive Income and a loss component established. NZ IFRS 17 requires that this assessment is performed on a gross basis (i.e., excluding the effect of reinsurance). To the extent onerous contracts are covered by reinsurance, entered into on or before the recognition of the onerous contracts, reinsurance recoveries are recognised immediately in the Statement of Comprehensive Income and a loss recovery component established. If a group of contracts which were initially identified as onerous were to subsequently become non onerous, the loss component and similarly the loss recovery component would be reversed within the profit and loss.

  As onerous contract testing will be performed at a more granular level than the current Liability Adequacy Test (LAT) under IFRS 4, which is at the entity level, it will result in more transparency of loss-making groups of contracts and recognition of a loss component.

- Risk adjustment – NZ IFRS 17 requires the measurement of insurance contract liabilities to 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. 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 or 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.

  The Company intends to apply a Cost of Capital approach as a key input to determining the risk adjustment. Risk adjustment at 30 June 2022 is 8.5% (however we expect this to reduce through FY23) of the net central estimate of the liability for incurred claims and results in returns which, when combined with investment income, are equivalent to the Company's weighted average cost of capital (WACC). Calibration continues and results indicate that this will generate an implied probability of sufficiency in excess of 75%. This is expected to be the largest driver of change in the opening equity on transition to NZ IFRS 17.

- Discount rates – NZ IFRS 17 requires that the estimates of expected cash flows that are used to measure the liability for remaining coverage, for contracts measured under the GMM, and the liability for incurred claims, under both the GMM and PAA, are discounted to reflect the time value of money and the financial risks related to those cash flows. This aligns to the requirements for measuring the outstanding claims liability under NZ IFRS 4 (using the risk-free rate).

  In addition, NZ IFRS 17 also requires the discount rate to reflect the liquidity characteristics of the underlying insurance contracts. This will result in higher discount rates relative to current requirements and an increase in opening equity on transition to NZ IFRS 17.

- Presentation and disclosure – NZ IFRS 17 introduces substantial changes in the presentation of both the statement of comprehensive income and balance sheet, as well as introducing 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 as a result 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 insurance finance income or expenses.

  In the balance sheet, as all cash flows resulting from the rights and obligations under insurance and reinsurance contracts are included in the measurement of each group of contracts, existing balance sheet items will no longer be presented separately. NZ IFRS 17 requires these associated balances to be combined into single line items for portfolios of insurance contracts issued or reinsurance contracts held that are either in an asset or liability position.

  In order to reconcile the movement in insurance contract liabilities and reinsurance contract assets from period to period, the standard requires detailed disclosures that present the changes to each of the individual measurement components.

NZ IFRS 17 permits recognition of a component of insurance finance income or expenses either in profit or loss or other comprehensive income. IAG NZ currently intends to recognise all elements of insurance finance income or expense in the statement of comprehensive income. This aligns to the current approach under NZ IFRS 4 and maintains effective matching with valuation changes in the investment portfolio, which is measured at fair value through profit or loss.

- Transition – On transition to NZ IFRS 17 at 1 July 2022, the Company expects to apply the full retrospective approach to all insurance contracts issued and reinsurance contracts held. Based on the above and work performed to date, the impact of NZ IFRS 17 upon adoption on the Company's reported net assets of $900 million as of 30 June 2022 is currently expected to be within a range of $10 million to $30 million or less than 3% of net assets. The opening net asset impact is mainly driven by increases to net assets from the measurement of the NZ IFRS 17 risk adjustment and higher discount rates reflecting the inclusion of an illiquidity premium.

The requirements of NZ IFRS 17 are complex and subject to ongoing interpretation, and IAG NZ's expectations noted above are subject to change as it continues to assess the impact of the standard and further interpretations develop. The actual transitional impact (1 July 2023) is subject to the finalisation of key assumptions in relation to each of these components and is impractical to quantify at this stage.

Ultimately NZ IFRS 17 is not expected to change the underlying economics or cash flows of IAG NZ's business or its strategic direction.

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 External Reporting Board (XRB) 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 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.

The new Interim Solvency Standard (ISS) was published on 3 October 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 other 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 is 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.

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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.

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.

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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.

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.

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.

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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.

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.

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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 paid 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 useful economic life for acquired intangible assets is 0 to 8 years.

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. The useful economic life for software development expenditure is 3 to 10 years.

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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.

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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 2022 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 does 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 and currently known 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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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 where necessary, specific local policies which support 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
- Model
- Operational
- Regulatory and compliance
- Organisational conduct and customer
- Climate change and environmental risk

NATURAL PERILS

In late January and mid February 2023, New Zealand was affected by the Auckland Anniversary Weekend floods and Cyclone Gabrielle. The extreme weather and resulting flooding caused significant damage and disruption, particularly across the North Island. The events have impacted IAG NZ's customers, staff, business operations and risk profile. Business activity has rightly oriented towards supporting affected customers, in line with Group's purpose 'We make your world a safer place' and has re focused attention on several key enterprise level risks. In particular:

- Climate change implications – Awareness of the implications of climate change on customers, businesses and New Zealand more generally has been elevated, supported by IAG NZ's call for more industry and government collaboration. IAG NZ's response to climate change continues to evolve with enhanced governance, strategic and risk management initiatives being developed. The co ordination and embedment of these initiatives within the business will ensure the risk is mitigated in the medium to long term.

- Frequency and severity of climate change linked perils events – The frequency and severity of events, locally and globally, is negatively impacting pricing and capacity in the reinsurance market. Rising premiums, or the potential for higher premiums, in an inflationary environment have raised insurance affordability and availability concerns amongst customers and in the media. This will continue to present reputational risk, and affordability issues may increase the likelihood of future government intervention in the insurance sector.

- Wider operational risk implications – The events placed pressure on internal and external claims resources (for example, Claims staff, geo-technical engineers and loss adjusters) and created supply chain challenges, impacting on call handling and claims resolution timeframes. Corporate support staff were also diverted to support the initial lodgement of claims and are supporting the ongoing management of the events. The low unemployment environment in New Zealand and Australia further impacted on the ability to scale the number of Claims staff at pace and the high inflation environment and supply chain challenges have placed additional pressure on costs. The Company has been proactive in addressing these challenges, including setting up insurance hubs in affected areas to meet face to face with customers and drawing on resources from the wider IAG Group and partners, however the overall impact of the events has contributed to a heightened level of operational and reputation risk.

- Wider strategic risk implications – The orientation of resources to responding to the events has increased the level of execution risk for several strategic priorities due to resource contention issues. This risk is being actively mitigated by enhanced Executive prioritisation, sequencing and focus. In particular, affordability challenges for customers have resulted in strategic initiatives including efficiency improvements in the supply chain and claims process and a focus on controllable expenses.

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

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

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

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 Group Chief Underwriting Officer in consultation with the business 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.

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, tropical cyclones, storms and floods. 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;

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- 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 risk.

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	
		2023	2022
		$000	$000
		Impact to profit	Impact to profit
Investments - interest bearing securities and related interest rate derivatives	+1%	**(14,483)**	(12,469)
	-1%	**14,897**	12,915

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.

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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	
		2023	2022
		$000	$000
Investments - Trust securities and equity derivatives	+10%	**8,414**	9,582
	- 10%	**(8,055)**	(9,340)

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 counterparties 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.

					CONSOLIDATED
	NOT OVERDUE			OVERDUE	TOTAL
		<30 days	30-120 days	>120 days	
	$000	$000	$000	$000	$000
2023					
Premium receivable	**1,145,156**	**20,052**	**4,041**	**2,446**	**1,171,695**
Provision for lapses	**(3,576)**	**(976)**	**(2,091)**	**(1,320)**	**(7,963)**
Net balance	**1,141,580**	**19,076**	**1,950**	**1,126**	**1,163,732**
Reinsurance recoveries on paid claims	**141,642**	**-**	**-**	**-**	**141,642**
Net balance	**141,642**	**-**	**-**	**-**	**141,642**
Other trade debtors	**72,528**	**-**	**-**	**-**	**72,528**
Net balance	**72,528**	**-**	**-**	**-**	**72,528**
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

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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 are reversed.

The provision for lapses at reporting date for receivables balances totalled $8.0 million (2022: $6.3 million). The net movement in the aggregated provision for the current period was a $1.7 million increase (2022: $1.9 million decrease).

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). 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	**2023**	2022
	% of total	% of total
AA	**96**	100
A	**4**	-
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	
	2023	2022
	% of total	% of total
AAA	**58**	49
AA	**42**	51
Total	**100**	100

VI. Liquidity Risk

a. NATURE OF THE RISK AND HOW MANAGED

Liquidity risk arises where there are inadequate funds and/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 Liquidity Risk Management Policy, and has the framework and procedures in place to ensure an 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	
	2023	2022	**2023**	2022
	$000	$000	**$000**	$000
Floating interest rate (at call)	**-**	-	**129,323**	126,351
Within 1 year or less	**470,803**	427,625	**488,473**	430,121
Within 1 to 2 years	**66,673**	62,710	**221,728**	397,350
Within 2 to 3 years	**27,624**	25,506	**193,924**	155,646
Within 3 to 4 years	**15,461**	15,296	**42,720**	41,239
Within 4 to 5 years	**8,237**	8,508	**-**	-
Over 5 years	**12,978**	14,411	**-**	32,195
Total	**601,776**	554,056	**1,076,168**	1,182,902

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. Model Risk

Model risk is the potential for adverse consequences from decisions based on incorrect, misapplied, or misused model outputs and reports, including automated decisions based on model output. It can lead to financial loss, adverse customer outcomes, poor business and strategic decision making or damage to IAG NZ's reputation and/or regulatory enforcement.

At IAG NZ, models are used for a broad range of activities across the business, including underwriting, valuing exposures, pricing, measuring risk, claims response, determining capital and reserve adequacy. These and other activities may expose IAG NZ to Model Risk.

Models are required to adhere to the Group Model Governance Policy. The requirements in this policy vary depending on the materiality of the model. At least annually the model owner will attest to the governing committee that the models under their remit are fit for purpose, up to date and comply with the Policy and associated Standards.

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IX. 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.

X. 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.

XI. 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 the 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. Committees and 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 and continues to communicate regularly with the regulator on the progress of remediation. A dedicated Manager of Customer Remediation is in place to lead the Customer Refund and Remediation programme to ensure IAG NZ takes all possible steps to remediate customers in a fair, comprehensive, timely, transparent and consistent manner. Risk Management practices continue to improve the speed with which IAG NZ can identify and respond to instances requiring remediation, and root cause analysis is undertaken to prevent future recurrence.

XII. Climate Change 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 Climate & Disaster Resilience Action Plan and through our Risk Management Programme. A detailed review of IAG NZ's progress in managing climate-related risks and opportunities can be found in IAG NZ's FY23 Climate-related disclosure at www.iag.co.nz. This is our second voluntary disclosure. The disclosure is aligned to the final requirements from the XRB, which IAG NZ will need to be fully compliant with for the year ending 30 June 2024.

Governance

IAG has a clear governance structure across the Group Board and Leadership Team 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 of climate related risk and opportunities, the development of our strategic and operational response, and the development of supporting frameworks and methods. A New Zealand Climate Disclosure Steering Committee has been in place since 2022 and meets regularly. It is co-sponsored by the NZ Chief Financial Officer and the Group Executive General Manager (EGM) Safer Communities, with membership including the NZ Chief Risk Officer and the NZ General Counsel.

IAG NZ has established a Climate Working Group (CWG) to interpret the latest information on climate-related impacts, 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 across the business. The CWG meets at least quarterly, and its outputs form the basis of engagement with the New Zealand Leadership Team and the NZ Board.

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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 an ambition for 50% emissions reduction by 2030; and
- 1 million Australians 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 natural perils. Progress against our climate commitments has been detailed in our FY23 Action Plan Scorecard, which is an appendix to the IAG Group FY23 Climate-related Disclosure (https://www.iag.com.au/safercommunities/iag-climate-action-plan/climate-related-disclosure).

In this year's IAG NZ Climate-related disclosure detail is provided on both the physical risks facing our customers and operations as well as the transition risks and opportunities facing our business. These risks and opportunities have been assessed against shared insurance sector climate scenarios developed for the Insurance Council of New Zealand.

Risk Management
IAG NZ recognises that the changing climate and our response to it brings risks that could manifest at many points across the value chain. As an insurer, IAG NZ considers the impact of growing climate related claims on our insurance portfolios, but also considers 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, and the physical and transition risks identified in the disclosure have been assessed as part of these practices. These include:

- IAG NZ Risk Management Programme (RMP)
- IAG NZ Risk Appetite Statement (RAS)
- IAG NZ Enterprise Risk Profile (ERP)

IAG NZ's primary consideration of the physical impacts of climate change is the effect of more frequent and intense weather related events on our insurance portfolios. Our Natural Perils team undertakes research and stays abreast of the latest science on physical climate related impacts 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.

Collaboration
IAG NZ is a founding member of the Climate Leaders Coalition. IAG was an early adopter of the Coalition's latest Statement of Ambition, in which IAG NZ has committed to assess and disclose our climate risks, and to measure and set targets for all material Scope 3 emissions by November 2024.

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NOTE 4. ANALYSIS OF INCOME

	PARENT		CONSOLIDATED	
	2023	2022	**2023**	2022
	$000	$000	**$000**	$000
A. GENERAL INSURANCE REVENUE				
Gross written premium	**3,576,889**	3,159,741	**3,576,889**	3,159,741
Movement in unearned premium liability	**(245,082)**	(120,319)	**(245,082)**	(120,319)
Premium revenue	**3,331,807**	3,039,422	**3,331,807**	3,039,422
Reinsurance and other recoveries revenue	**1,868,637**	758,011	**1,868,637**	758,011
Reinsurance commission revenue	**279,395**	298,655	**279,395**	298,655
Total general insurance revenue	**5,479,839**	4,096,088	**5,479,839**	4,096,088
B. INVESTMENT INCOME				
Dividend revenue	-	885	-	885
Interest revenue	**43,043**	25,386	**43,043**	25,386
Trust revenue	-	5,007	-	5,007
Total investment revenue	**43,043**	31,278	**43,043**	31,278
Net gains and (losses)	**19,287**	(45,460)	**19,287**	(44,921)
Unrealised net gains and (losses)	**(412)**	(5,624)	**439**	(5,657)
Total investment income	**61,918**	(19,806)	**62,769**	(19,300)
Represented by				
Investment income on assets backing insurance liabilities	**27,198**	(15,269)	**27,198**	(15,269)
Investment income on shareholder's funds	**34,720**	(4,537)	**35,571**	(4,031)
	61,918	(19,806)	**62,769**	(19,300)
Total income	**5,541,757**	4,076,282	**5,542,608**	4,076,788

NOTE 5. ANALYSIS OF EXPENSES

	PARENT		CONSOLIDATED	
	2023	2022	**2023**	2022
	$000	$000	**$000**	$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	**14**	1	**14**	1
Commissions	**333,593**	314,754	**333,593**	314,754
Depreciation - plant and equipment and right of use assets	**16,658**	20,794	**16,658**	20,794
Directors' fees	**602**	519	**602**	519
Lease costs	**3,195**	3,084	**3,195**	3,084
Loss/(Gain) on disposal of plant and equipment	**1,229**	(38)	**1,229**	(38)
Restructuring costs	**125**	(253)	**125**	(253)
Share based remuneration expense	**1,285**	1,532	**1,285**	1,532
Defined contribution superannuation expense	**9,182**	8,333	**9,182**	8,333
Employee benefit expense	**351,075**	344,735	**351,075**	344,735
Impairment - plant and equipment and right of use assets*	-	3,752	-	3,752
Gain on right of use assets (refer to Note 15)	**(3,372)**	(1,476)	**(3,372)**	(1,476)

NOTE 6. DISPOSALS OF BUSINESS

A. DISPOSAL OF SUBSIDIARY

On 10 February 2023, the Company made a de-registration of fully owned subsidiary IAG (NZ) Share Plan Nominee Limited and recovered the 100% share capital of $2,000.

NOTE 7. REMUNERATION OF AUDITOR

	PARENT		CONSOLIDATED	
	2023	2022	**2023**	2022
	$000	$000	**$000**	$000
Audit and Review of the financial statements	**1,840**	1,526	**1,840**	1,526
Assurance of regulatory returns in accordance with regulatory requirements	**125**	113	**125**	113
Other assurance services	**49**	60	**49**	60
Other non-assurance services	**3**	-	**3**	-
Total remuneration of auditor	**2,017**	1,699	**2,017**	1,699

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

Other non assurance services relate to engagements on climate related disclosures.

NOTE 8. INCOME TAX

	PARENT		CONSOLIDATED	
	2023	2022	**2023**	2022
	$000	$000	**$000**	$000
A. INCOME TAX EXPENSE				
Current tax	**120**	52	**120**	52
Deferred tax	**44,057**	69,951	**44,057**	69,951
(Over)/under provided in prior year	**(21)**	3,099	**(21)**	3,099
Income tax expense	**44,156**	73,102	**44,156**	73,102
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	**159,079**	245,946	**159,930**	246,452
Income tax calculated at 28% (2022: 28%)	**44,542**	68,865	**44,780**	69,007
Amounts which are not deductible/(taxable) in calculating taxable income				
Capital profits/(losses) not subject to income tax	**(1,479)**	(2,194)	**(1,479)**	(2,345)
Effect of overseas investment tax regime	**629**	3,093	**629**	3,093
Foreign withholding tax	**120**	52	**120**	52
Non-deductible expenses	**365**	528	**365**	528
Other	**-**	(341)	**(238)**	(332)
Income tax expense applicable to current year	**44,177**	70,003	**44,177**	70,003
Adjustment relating to prior year	**(21)**	3,099	**(21)**	3,099
Income tax expense attributable to profit for the year	**44,156**	73,102	**44,156**	73,102
C. DEFERRED TAX ASSETS				
Depreciation	**6,780**	7,479	**6,780**	7,479
Deferred acquisition costs	**(74,352)**	(69,425)	**(74,352)**	(69,425)
Tax losses	**54,170**	90,022	**54,170**	90,022
Other	**25,522**	28,006	**25,522**	28,006
	12,120	56,082	**12,120**	56,082
D. IMPUTATION CREDITS				
Imputation credits at the beginning of the financial year	**5,754**	5,414	**5,754**	5,414
Imputation credits attached to dividends received	**-**	340	**-**	340
Imputation credits at the end of the financial year	**5,754**	5,754	**5,754**	5,754
The imputation credits are available to shareholders of the Company:				
Through the Company	**5,754**	5,754	**5,754**	5,754
	5,754	5,754	**5,754**	5,754

Tax losses have been recognised as a deferred tax asset since it is considered probable, based on profit forecasts, that the losses will

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be offset against future taxable income.

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
			2023			2022
	Current year	**Prior years**	**Total**	Current year	Prior years	Total
	$000	**$000**	**$000**	$000	$000	$000
Gross claims - undiscounted	**3,344,743**	**(21,844)**	**3,322,899**	1,967,433	(83,982)	1,883,451
Discount	**(61,744)**	**3,066**	**(58,678)**	(18,512)	(15,739)	(34,251)
Gross claims - discounted	**3,282,999**	**(18,778)**	**3,264,221**	1,948,921	(99,721)	1,849,200
Reinsurance and other recoveries - undiscounted	**(1,844,038)**	**(74,729)**	**(1,918,767)**	(804,453)	26,202	(778,251)
Discount	**45,904**	**4,226**	**50,130**	9,369	10,871	20,240
Reinsurance and other recoveries - discounted	**(1,798,134)**	**(70,503)**	**(1,868,637)**	(795,084)	37,073	(758,011)
Net claims expense	**1,484,865**	**(89,281)**	**1,395,584**	1,153,837	(62,648)	1,091,189

The prior years' net claims expense for the year ended 30 June 2023 substantially pertains to the settlement of claims and adjustments to prior year reserves. 2022: 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 June 2021 and an increase in discount rates.

B. OUTSTANDING CLAIMS LIABILITY RECOGNISED ON THE BALANCE SHEET

		PARENT AND CONSOLIDATED
	2023	2022
	$000	$000
I. Composition of gross outstanding claims liability		
Gross central estimate - undiscounted	**1,902,179**	1,105,108
Claims handling costs	**46,509**	42,500
Risk margin	**130,870**	131,192
	2,079,558	1,278,800
Discount to present value	**(99,388)**	(40,710)
Gross outstanding claims liability - discounted	**1,980,170**	1,238,090

The outstanding claims liability includes $706.0 million (2022: $356.7 million) which is expected to be settled more than 12 months from the reporting date. The increase in the outstanding claims liability reflects the impact of the two significant weather-related events, namely the Auckland Floods and Cyclone Gabrielle experienced in early 2023. These events were unprecedented in terms of their scale and close proximity to one another. As at 30 June 2023, the Company has closed approximately 35% of the circa 50,000 claims lodged for the two events. The outstanding claims liability also includes $1.7 million claims liability owing to IAG NZ Repairhub Limited (2022: $0.1 million).

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II. Reconciliation of movements in discounted outstanding claims liability

	2023			2022 PARENT AND CONSOLIDATED		
	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	**1,238,090**	**(684,034)**	**554,056**	1,180,482	(674,067)	506,415
Movement in the prior year central estimate	**54,257**	**(92,741)**	**(38,484)**	4,066	(6,413)	(2,347)
Current year claims incurred	**3,221,269**	**(1,783,534)**	**1,437,735**	1,877,683	(762,209)	1,115,474
(Claims paid)/recoveries received	**(2,522,141)**	**1,174,277**	**(1,347,864)**	(1,791,593)	748,043	(1,043,550)
Movement in discounting	**(8,344)**	**9,680**	**1,336**	(30,076)	17,760	(12,316)
Movement in risk margin	**(2,961)**	**(2,042)**	**(5,003)**	(2,472)	(7,148)	(9,620)
Balance at the end of the financial year	**1,980,170**	**(1,378,394)**	**601,776**	1,238,090	(684,034)	554,056

III. Central estimate and risk margin

a. REPORTING DATE VALUES

	PARENT AND CONSOLIDATED	
	2023 %	2022 %
The percentage risk margin applied to the net outstanding claims liability (excluding Canterbury earthquake claims)	**12.4**	12.4
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, IBNER, 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.

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 IBNR and IBNER components of the outstanding claims liability for the Canterbury earthquake events have been determined 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.

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.

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.

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As at 30 June 2023, the outstanding claims liability for IAG NZ was valued by Richard Trendall (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 PwC.

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 has been 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 and the continued number of claims going over-cap from the EQC 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.

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	PARENT AND CONSOLIDATED CLAIMS
2023	
Discounted average term to settlement	**0.8 years**
Inflation rate	**4.18%**
Discount rate	**4.20-5.70%**
Claims handling costs ratio	**5.10%**
2022	
Discounted average term to settlement	0.9 years
Inflation rate	3.74%
Discount rate	3.25-4.50%
Claims handling costs ratio	5.10%

PROCESS USED TO DETERMINE ASSUMPTIONS

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

i. Discounted average term to settlement

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

ii. Inflation rate

Insurance costs are subject to inflationary pressures. The actuarial valuation relies upon recent inflationary experience.

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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 significant events are 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 profit and loss is disclosed for each of the key assumptions:

ASSUMPTION	MOVEMENT IN ASSUMPTION	PARENT AND CONSOLIDATED CLAIMS $000
2023		
Discounted average term to settlement	**+1 Month**	**(2,684)**
	-1 Month	**2,696**
Inflation rate	**+1%**	**4,698**
	-1%	**(4,515)**
Discount rate	**+1%**	**(4,515)**
	-1%	**4,698**
Claims handling costs ratio	**+1%**	**6,742**
	-1%	**(6,742)**
2022		
Discounted average term to settlement	+1 Month	(1,469)
	-1 Month	1,473
Inflation rate	+1%	4,910
	-1%	(4,713)
Discount rate	+1%	(4,713)
	-1%	4,910
Claims handling costs ratio	+1%	6,287
	-1%	(6,287)

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NOTE 10. REINSURANCE AND OTHER RECOVERIES ON OUTSTANDING CLAIMS

	PARENT AND CONSOLIDATED	
	2023	2022
	$000	$000
A. REINSURANCE AND OTHER RECOVERIES ON OUTSTANDING CLAIMS		
Expected reinsurance and other recoveries on outstanding claims - undiscounted	**1,451,680**	707,191
Discount to present value	**(73,286)**	(23,157)
Expected reinsurance and other recoveries on outstanding claims - discounted	**1,378,394**	684,034

The carrying value of reinsurance recoveries and other recoveries includes $575.0 million (2022: $230.3 million) which is expected to be settled more than 12 months from the reporting date.

The reinsurance recoveries on outstanding claims includes $327.3 million (2022: $274.1 million) recoverable from Insurance Australia Limited (IAL).

The increase in the expected reinsurance and other recoveries on outstanding claims reflects expected increase in reinsurance recoveries arising from the Auckland Floods and Cyclone Gabrielle that impacted NZ in January and February 2023. These two events were unprecedented in terms of their scale and each exceeded the catastrophe reinsurance retention with a combined net cost of $216.0 million.

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 Note 9).

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 Note 9.

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.

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

- A Group Catastrophe cover which is placed in line with the strategy of buying to at least the level of a 1:1000 year event on a modified whole of portfolio basis. Covers purchased are dynamic, the MER changes as total requirements change and as the reinsurance purchase strategy evolves.
- Excess of loss reinsurance for casualty, marine, motor, engineering and property portfolios.
- The Company has renewed its whole of account 20% quota share agreement effective 1 January 2023 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.
- The Company has further renewed its whole of account 10.0% quota share agreement effective 1 January 2023 with reinsurers Munich Re and Swiss Re. The Company also renewed its whole of account 2.5% quota share agreement effective 1 July 2023 with Hannover Re. Combined, the Company cedes 12.5% of Gross Written Premium and recovers 12.5% of all claims across these 3 quota share arrangements. 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 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 90% of this portfolio gross of any quota share arrangements.

The Auckland Floods and Cyclone Gabrielle events exceeded the catastrophe reinsurance retention but are well within the upper limit of the catastrophe reinsurance programmes. As a result of these events, the Company went into its catastrophe programme, however reinsurance cover was restored.

NOTE 11. DEFERRED INSURANCE ASSETS

	PARENT AND CONSOLIDATED	
	2023	2022
	$000	$000
A. DEFERRED ACQUISITION COSTS		
Reconciliation of movements		
Deferred acquisition costs at the beginning of the financial year	**247,948**	231,526
Acquisition costs deferred	**562,136**	533,159
Amortisation charged to profit	**(544,544)**	(516,737)
Deferred acquisition costs at the end of the financial year	**265,540**	247,948
B. DEFERRED OUTWARDS REINSURANCE EXPENSE		
Reconciliation of movements		
Deferred outwards reinsurance expense at the beginning of the financial year	**619,332**	607,209
Reinsurance expenses deferred	**1,528,500**	1,344,452
Amortisation charged to profit	**(1,374,356)**	(1,266,475)
Reinsurance contracts cancelled	**-**	(65,854)
Deferred outwards reinsurance expense at the end of the financial year	**773,476**	619,332

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NOTE 12. UNEARNED PREMIUM LIABILITY

	PARENT AND CONSOLIDATED	
	2023	2022
	$000	$000
A. RECONCILIATION OF MOVEMENTS		
Unearned premium liability at the beginning of the financial year	**1,495,243**	1,374,924
Deferral of premiums on contracts written during the financial year	**1,740,325**	1,495,243
Earning of premiums written in previous financial years	**(1,495,243)**	(1,374,924)
Unearned premium liability at the end of the financial year	**1,740,325**	1,495,243

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 (2022: surplus).

		PARENT AND CONSOLIDATED
	2023	2022
	$000	$000
Net central estimate of present value of expected future cash flows from future claims	**778,816**	610,976
Risk margin of the present value of expected future cash flows	**22,986**	18,020
	801,802	628,996
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.

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NOTE 13. INVESTMENTS

	PARENT 2023 $000	PARENT 2022 $000	CONSOLIDATED 2023 $000	CONSOLIDATED 2022 $000
A. COMPOSITION				
I. Interest bearing investments				
Cash and short term money held in investment	**129,323**	126,351	**129,323**	126,351
Government and semi-government bonds	**548,898**	562,813	**548,898**	562,813
Corporate bonds and notes	**397,947**	493,738	**397,947**	493,738
	1,076,168	1,182,902	**1,076,168**	1,182,902
II. Equity investments				
Listed	-	-	**2,744**	1,882
Unlisted	**241,452**	275,194	**241,452**	275,194
	241,452	275,194	**244,196**	277,076
III. Derivatives				
Foreign exchange risk derivatives	**(8,338)**	(510)	**(8,338)**	(510)
	1,309,282	1,457,586	**1,312,026**	1,459,468

B. DETERMINATION OF FAIR VALUE

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

I. Level 1 quoted prices

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

II. Level 2 other observable inputs

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

III. Level 3 unobservable inputs

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

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

	LEVEL 1 $000	LEVEL 2 $000	LEVEL 3 $000	CONSOLIDATED TOTAL $000
2023				
Interest bearing investments	**537,449**	**538,719**	-	**1,076,168**
Equity investments	**2,744**	**241,452**	-	**244,196**
Derivatives	**(8,338)**	-	-	**(8,338)**
	531,855	**780,171**	-	**1,312,026**
2022				
Interest bearing investments	572,548	610,354	-	1,182,902
Equity investments	1,882	275,194	-	277,076
Derivatives	(510)	-	-	(510)
	573,920	885,548	-	1,459,468

The Company holds the same investments as the Consolidated entity with the exception of Equity Investments of $2.7 million (2022: $1.9 million).

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NOTE 14. RECEIVABLES

	PARENT 2023 $000	PARENT 2022 $000	CONSOLIDATED 2023 $000	CONSOLIDATED 2022 $000
COMPOSITION				
I. Premium receivable				
Gross premium receivable	**1,171,695**	978,661	**1,171,695**	978,661
Provision for lapses	**(7,963)**	(6,295)	**(7,963)**	(6,295)
Net premium receivable	**1,163,732**	972,366	**1,163,732**	972,366
II. Trade and other receivables				
Reinsurance recoveries on paid claims	**141,642**	75,453	**141,642**	75,453
Investment income receivable	**4,340**	5,989	**4,340**	5,989
Investment transactions not yet settled at reporting date	**-**	193	**-**	193
Other debtors	**68,188**	27,720	**68,188**	27,720
Trade and other receivables	**214,170**	109,355	**214,170**	109,355
	1,377,902	1,081,721	**1,377,902**	1,081,721

Reinsurance recoveries on paid claims includes $127.5 million (2022: $74.2 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 2023, the Company has offset receivables due under the contracts of $393.0 million (2022: $250.0 million) with the reinsurance premium payable of $570.0 million (2022: $491.0 million). The net payable is included within the reinsurance premium payable balance. The relevant cash flows pertaining to the contracts have been presented on a gross basis within the cash flow statement.

NOTE 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
2023				
Balance at the beginning of the financial year	**42,053**	**1,689**	**22**	**43,764**
Additions to right-of-use assets	**5,502**	**1,128**	**-**	**6,630**
Depreciation charge for the year	**(8,080)**	**(1,315)**	**(22)**	**(9,417)**
Impairment of right-of-use-asset	**-**	**-**	**-**	**-**
Derecognition of right-of-use assets	**(680)**	**(21)**	**-**	**(701)**
Balance at the end of the financial year	**38,795**	**1,481**	**-**	**40,276**
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

II. Lease liabilities

	2023 $000	2022 $000
Current	**9,228**	11,247
Non-current	**38,401**	43,953
Carrying value of lease liabilities	**47,629**	55,200
Due within 1 year	**10,971**	12,706
Due within 1 to 2 years	**7,149**	11,532
Due within 2 to 5 years	**17,541**	16,809
Due after 5 years	**14,004**	20,966
Total undiscounted lease liabilities	**49,665**	62,013

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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 $5.9 million (2022: $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

	2023 $000	2022 $000
Depreciation (included in underwriting expense)	**9,417**	11,339
Impairment (included in underwriting expense)	**-**	2,759
Interest income from sub-leasing right-of-use assets (included in fee and other income)	**(206)**	(185)
Interest expense (included in finance costs)	**1,616**	1,882
Gain on right of use assets (included in underwriting expense)	**(3,372)**	(1,476)

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

	2023 $000	2022 $000
Total cash outflow for leases	**(12,444)**	(14,618)

NOTE 16. INTANGIBLE ASSETS

	PARENT AND CONSOLIDATED
	Software development $000
2023	
A. COMPOSITION	
Cost	**192,212**
Accumulated amortisation and impairment	**(181,304)**
Balance at the end of the financial year	**10,908**
B. RECONCILIATION OF MOVEMENTS	
Balance at the beginning of the financial year	**12,479**
Additions acquired and developed	**-**
Amortisation*	**(1,571)**
Balance at the end of the financial year	**10,908**

	PARENT AND CONSOLIDATED
	Total $000
2022	
C. COMPOSITION	
Cost	192,212
Accumulated amortisation and impairment	(179,733)
Balance at the end of the financial year	12,479
D. 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

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

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

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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.

NOTE 17. GOODWILL

	CONSOLIDATED	
	2023	2022
	$000	$000
A. COMPOSITION		
Goodwill	**206,813**	206,813
Accumulated impairment charges	-	-
Balance at the end of the financial year	**206,813**	206,813

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

B. IMPAIRMENT ASSESSMENT

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

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

Assumptions used

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

a. CASH FLOW FORECASTS

Cash flow forecasts are based on 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. The terminal growth rate assumptions used in the impairment assessment as at 30 June 2023 was 3.5% (2022: 3.5%).

c. DISCOUNT RATE

Discount rates reflect a beta and equity risk premium appropriate to the Consolidated entity, risk adjusted where applicable. The post-tax discount rate used was 10.0% (2022: 9.8%).

NOTE 18. DETAILS OF SUBSIDIARIES AND ASSOCIATES

	PRINCIPAL ACTIVITY	OWNERSHIP INTEREST		BALANCE DATE
		2023	2022	
		%	%	
State Insurance Limited	Non-operating	**100**	100	30 June
Direct Insurance Services Limited	Non-operating	**100**	100	30 June
IAG (NZ) Share Plan Nominee Limited*	Trustee of Staff Share Plan	**N/A**	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

*Refer to Note 6.

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NOTE 19. TRADE AND OTHER PAYABLES

	PARENT		CONSOLIDATED	
	2023	2022	**2023**	2022
	$000	$000	**$000**	$000
COMPOSITION				
I. Trade creditors				
Commissions payable	**24,401**	25,105	**24,401**	25,105
Levies payable	**130,755**	102,980	**130,755**	102,980
Other	**48,967**	64,431	**51,012**	64,419
	204,123	192,516	**206,168**	192,504
II. Other payables				
Other creditors and accruals	**31,696**	37,878	**31,696**	39,878
	235,819	230,394	**237,864**	232,382

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		CONSOLIDATED	
	2023	2022	**2023**	2022
	$000	$000	**$000**	$000
A. RECONCILIATION OF MOVEMENTS				
Balance at the beginning of the financial year	**34,102**	8,172	**34,102**	8,172
Additions and remeasurement of provisions	**10,000**	34,797	**10,000**	34,797
Amounts utilised	**(20,161)**	(8,867)	**(20,161)**	(8,867)
Balance at the end of the financial year	**23,941**	34,102	**23,941**	34,102

A provision is recognised for the expected and currently known 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 customer remediation provision was $23.9 million at 30 June 2023 (2022: $34.1 million) and is included within other liabilities on the balance sheet.

NOTE 21. EMPLOYEE BENEFITS

	PARENT		CONSOLIDATED	
	2023	2022	**2023**	2022
	$000	$000	**$000**	$000
A. EMPLOYEE BENEFITS PROVISION				
Annual leave	**21,065**	21,311	**21,065**	21,311
Cash based incentive arrangements	**22,473**	20,370	**22,473**	20,370
Defined benefit superannuation plans	**1,194**	1,570	**1,194**	1,570
Defined benefit pension arrangement - unfunded	**593**	700	**593**	700
	45,325	43,951	**45,325**	43,951

The employee benefits provision includes $1.8 million (2022: $2.3 million) which is expected to be settled after more than 12 months from reporting date.

B. CASH BASED INCENTIVE ARRANGEMENTS

Short term incentive plan (STI Plan)

The STI 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.

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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 generally covered by the on market purchase of IAG ordinary shares which are held in trust. The shares are purchased as needed 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 and in accordance with the terms of the plan.

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.

Rights granted under the DAR Plan may also be provided as a sign on award as compensation for incentives forgone from the employee's previous employer. The key terms and conditions are as described above except that the rights vest will vary in accordance with each individual grant.

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 50.1th percentile of the peer group.
- The ROE hurdle is based on IAG's return on equity over the performance period, incorporating adjustments determined by IAG. The tiered vesting scale is:
  - Maximum vesting of 100% if ROE is equal to or greater than 14%;
  - Minimum vesting at 0% if ROE is below 10%.
- 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 2023 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	
	2023	2022
Forfeited shares	**36,639**	20,520
Shares held on behalf of eligible staff	**417,576**	370,800
Total shares held	**454,215**	391,320

The total number of shares held represents 0.019% (June 2022: 0.016%) of the Ordinary Shares issued by IAG.

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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 2023	30 June 2022
Related Party	**Description**	**$000**	$000
IAG Re Singapore Pte Limited	Fee for Services	**(736)**	(736)
IAG NZ Repairhub Limited (Formerly IAG No.1 Limited)	Fee for Services	**195**	135
IAG NZ Repairhub Limited (Formerly IAG No.2 Limited)**	Fee for Services	-	135
Insurance Australia Limited	Forward exchange contracts	-	4,458
Insurance Australia Limited*	Reinsurance	-	(742)
Insurance Australia Limited	Fee for services	**(13,868)**	(21,249)
IAG Asset Management Limited	Investment management fees	**(270)**	(232)
Direct Insurance Services Limited	Current account with subsidiary company	**12**	12
IAG (NZ) Holdings Limited	Acquisition costs	-	363
		(14,667)	(17,856)

* This related party balance relates to broker fees on reinsurance.

** During the year IAG NZ No.2 Limited was amalgamated into IAG NZ Repairhub Limited (Formally IAG No.1 Limited).

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):		
Insurance Australia Limited	**327,265**	274,072
Reported within Receivables (refer to Note 14):		
Insurance Australia Limited	**127,471**	74,207
Reported within Reinsurance premium payable:		
IAG Re Singapore Pte Limited	-	13,818
Insurance Australia Limited	**46,031**	39,080
Reported within Payables:		
First Rescue New Zealand Limited	**2,304**	2,055
Reported within Outstanding claims liability (refer to Note 9)		
IAG NZ Repairhub Limited (Formerly IAG No.1 Limited)	**1,703**	96

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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 2023	30 June 2022
Related Party	**Transaction**	**$000**	$000
Insurance Australia Limited	Forward exchange contracts	**859**	18,254
Insurance Australia Limited	Reinsurance recoveries	**(314,690)**	(81,526)
Insurance Australia Limited	Reinsurance expense	**6,622**	118,038
Insurance Australia Limited	Fee for services	**55,446**	56,519
IAG Asset Management Limited	Investment management fees	**3,109**	2,981
First Rescue New Zealand Limited	Claims expenditure	**10,951**	2,547
First Rescue New Zealand Limited	Fee for services	**808**	239
Loyalty New Zealand Limited	Issue of Fly Buys points	**6,178**	5,662
IAG (NZ) Holdings Limited*	Dividend paid	**5,500**	48,300
IAG NZ Repairhub Limited (Formerly IAG No.1 Limited)	Costs on-charged	**(808)**	(181)
IAG (NZ) Holdings Limited*	Repurchase of ordinary shares	**85,000**	435,000
IAG (NZ) Holdings Limited*	Issue of ordinary shares	**(100,000)**	-
IAG NZ Repairhub Limited (Formerly IAG No.2 Limited)	Costs on-charged	**-**	(181)
Loyalty New Zealand Limited	Share capital cash call	**-**	1,000
IAG NZ Repairhub Limited (Formerly IAG No.1 Limited)	Claims paid	**43,753**	17,091
Insurance Australia Limited	Reinsurance commission revenue	**(98)**	(22,866)

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 cross currency swaps have been recognised within realised and unrealised 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	
	2023	2022
	$000	$000
Short term employee benefits	**7,876**	6,028
Post employment benefits	**26**	31
Other long term benefits	**9**	11
Termination benefits	**119**	-
Share based payments	**1,230**	1,291
	9,260	7,361

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 2023, Share Capital comprised 1,778,433,488 ordinary shares of $1 each (2022: 1,763,433,488)

On 12 August 2022, the Company bought back and cancelled 35 million ordinary shares of $1 each issued to IAG (NZ) Holdings Limited.

On 25 November 2022, the Company bought back and cancelled 50 million ordinary shares of $1 each issued to IAG (NZ) Holdings Limited.

On 24 February 2023, 100 million ordinary shares of $1 each were issued to IAG (NZ) Holdings Limited on the same terms as existing shares.

During the year the Company paid dividends totalling $5.5 million which represented 0.3 cent per share (2022: $48.3 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	
	2023	2022	**2023**	2022
	$000	$000	**$000**	$000
A. COMPOSITION				
Cash held for operational purposes	**200,164**	74,629	**200,168**	74,633
Cash and short term money held in investments	**129,323**	126,351	**129,323**	126,351
Cash and cash equivalents	**329,487**	200,980	**329,491**	200,984

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

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

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

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

	PARENT		CONSOLIDATED	
	2023	2022	**2023**	2022
	$000	$000	**$000**	$000
C. RECONCILIATION OF PROFIT/(LOSS) FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES				
Profit for the year	**114,923**	172,844	**115,774**	173,350
I. Non-cash items				
Depreciation of plant and equipment and right of use assets	**16,658**	20,794	**16,658**	20,794
Amortisation of intangible assets	**1,571**	1,571	**1,571**	1,571
Net realised (gains) and losses on disposal of investments	**(19,287)**	45,460	**(19,287)**	44,921
Net unrealised (gains) and losses on revaluation of investments	**412**	5,624	**(439)**	5,657
Net (gains) and losses on disposal of plant and equipment	**1,229**	(38)	**1,229**	(38)
Impairment of plant and equipment and right of use assets	**-**	3,752	**-**	3,752
Gain on Right of Use Asset	**(3,372)**	(1,476)	**(3,372)**	(1,476)
Other	**(171)**	1,467	**(171)**	1,467
II. Movement in operating assets and liabilities				
DECREASE/(INCREASE) IN OPERATING ASSETS				
Premium and other receivables	**(230,680)**	(99,755)	**(230,680)**	(99,755)
Prepayments, deferred levies and charges	**(172,394)**	(27,834)	**(172,394)**	(27,834)
Deferred tax assets	**43,962**	70,186	**43,962**	70,186
Reinsurance and other recoveries	**(760,549)**	(24,971)	**(760,549)**	(24,971)
Other	**647**	197	**647**	197
INCREASE/(DECREASE) IN OPERATING LIABILITIES				
Trade and other payables	**(22,849)**	(71,344)	**(22,849)**	(71,344)
Provisions	**1,375**	(1,641)	**1,375**	(1,641)
Outstanding claims liability	**742,080**	57,608	**742,080**	57,608
Unearned premium liability	**245,082**	120,319	**245,082**	120,319
Net cash flows from/(used in) operating activities	**(41,363)**	272,763	**(41,363)**	272,763

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.

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Regulatory capital
IAG NZ is regulated by the RBNZ in terms of the Insurance (Prudential Supervision) Act 2010 (the Act). The Act and associated Solvency Standards prescribe how the minimum solvency capital (MSC) required by the regulator and how the actual solvency capital (ASC) held by the licensed insurer are calculated. The solvency margin is determined by comparing the ASC with the MSC, which are required to be reported to RBNZ half-yearly. As at 30 June 2023, the ASC, MSC, solvency margin and solvency ratio held was:

2023	**$m**
ASC	**782.2**
MSC	**501.9**
Solvency margin	**280.3**
Solvency Ratio (percent)	**155.8%**

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

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 $10.0 million dividend. Refer to Note 28.

The ISS was published on 3 October 2022. Management is working through the requirements of the ISS and impacts on regulatory capital. Management feels the Company is in a strong position to comply with the ISS from Q1 FY24.

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-" (2022: "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 22 June 2023, the IAG NZ Board resolved to pay a dividend of $5.0 million to IAG (NZ) Holdings Limited. The dividend was paid on 4 July 2023.

On 1 July 2023, the Company has agreed terms to renew arrangements with WAQS partner, Hannover Re, representing 2.5% of the 12.5% whole of account program. The renewed agreement with Hannover Re will be effective from 1 July 2023 and applied until 30 June 2028.

On 4 August 2023, the IAG NZ Board resolved to pay a dividend of $5.0 million to IAG (NZ) Holdings Limited. The dividend will be paid on or before 31 August 2023.

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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 sheets as at 30 June 2023;
- the statements of comprehensive income and changes in equity, and cash flow statements for the year then ended; and
- notes, including a summary of significant accounting policies.

In our opinion, the financial statements of the Company and Group on pages 8 to 49 present fairly, in all material respects the Company's and the Group's financial position as at 30 June 2023 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 and Group 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 2023, an agreed upon procedures engagement and a limited review engagement in respect of the Company's reporting requirements to various banking partners in accordance with their respective agency agreements, agreed upon procedures engagements in respect of a Canterbury Earthquake claims handling expenses allocation agreement held with a third party, and regulatory compliance services. 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

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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 - $1,980.2m (2022: $1,238.1m)	
Refer to Note 9 to the Financial Report. The valuation of the gross outstanding claims liability is a key audit matter because: – the gross outstanding claims liability is financially significant; – the valuation of outstanding claims reflects a high degree of judgement and estimation uncertainty to determine the central estimate of claims liabilities, where the eventual outcomes of incurred but unsettled claims are inherently uncertain at the reporting date; – given the recency of the January 2023 Auckland floods and Cyclone Gabrielle, there is heightened uncertainty in regard to the future development of incurred costs for these events; uncertainty also arises in respect of event-specific risks, including demand-surge inflation risks to claim costs, and complexities associated with determining actuarial allowances and assumptions for the events; – there is limited information available and a greater level of uncertainty inherent in assessing the estimation of claims which have been incurred but not yet reported to the Company at the reporting date; – 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 Company; actuarial assumptions include loss ratios, claim frequencies, average claim sizes, and allowance for future claims inflation; there are currently elevated inflationary pressures on claims costs which are difficult to estimate; – judgement is required 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; examples include the Canterbury earthquakes; – judgement is required to assess the estimation of the periods the claims are expected to be settled in;	We involved actuarial and IT audit specialists to supplement our senior personnel and core audit team members in assessing this key audit matter. Our audit procedures included: – testing accounting and actuarial controls, including reconciliations of key claims financial and non-financial attribute data; – testing a sample of manual controls, including management review and Quality Assurance claims reserve review controls; and for a sample of claims estimates and paid claims, checking for an appropriate level of authorisation and third party evidence; – checking reconciliations between data on claims systems and data applied in the actuarial modelling processes; testing general IT controls and application controls of claims systems; – assessing the Company's actuarial methods, assumptions, key judgements and methodologies, and comparing with the those applied in prior periods; – evaluating the Company's claims and actuarial governance processes; – checking claims development against prior year claims liability estimates; considering judgements required to estimate the period in which claims will be settled by analysing historical payment patterns and assessing any significant changes; – performing independent reprojections, range and scenario testing of claims liabilities, using one or more valuation methods, to evaluate a range of reasonable outcomes; comparing those outcomes against the Company's estimates; and – evaluating risk margin parameters for significant portfolios, by comparing to external published statistical data, prior periods, our industry knowledge and externally observable trends.

The key audit matter	How the matter was addressed in our audit
– the estimation of claims at the reporting date relies on the integrity of the underlying data, including claim payments and individual estimates of unsettled claims; and – the outstanding claims liability includes statistically determined risk margins that 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.	

Valuation of reinsurance and other recoveries on outstanding claims - $1,378.4m (2022: $684.0m)

Refer to Note 10 to the Financial Report. The valuation of reinsurance and other recoveries on outstanding claims is a key audit matter because: – reinsurance and other recoveries on outstanding claims are financially significant; – the valuation of reinsurance and other recoveries has an implicit dependence on the estimate of gross outstanding claims and reflects a high degree of management judgement and estimation uncertainty; – the Company has a complex set of reinsurance arrangements designed to protect its aggregated exposure to insurance risk and catastrophic claim events; these reinsurance contracts include a whole-of-account quota share arrangement, a catastrophe excess of loss program and adverse development cover, and other quota share arrangements; and – the consideration of accounting treatment across multiple reinsurance contracts, and the assessment of recoverability and credit worthiness and capital strength of reinsurer counterparties, requires significant audit effort.	In addition to our audit procedures undertaken to assess the valuation of the outstanding claims liability, our procedures included: – testing a sample of key controls for entering into and accounting for reinsurance arrangements; – evaluating a sample of reinsurance recoveries, checking key terms of reinsurance contracts, and 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, payment history, and consideration of information for indicators of disputes.

Other information

The Directors, on behalf of the Company and Group, 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 and Group, 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 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 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

16 August 2023

IAG New Zealand Limited - Section 78 Appointed Actuaries Report as at 30 June 2023

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 2023 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 2023.

h. As at 30 June 2023 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.

Information Security Classification - INTERNAL

IAG New Zealand Limited - Section 78 Appointed Actuaries Report as at 30 June 2023

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 2023 Financial Condition Report.

Signed

Christian Barrington
Appointed Actuary
IAG NZ Limited
Fellow of the New Zealand Society of Actuaries
Date 16 August 2023

Information Security Classification - INTERNAL