

# **Vero Insurance New Zealand Limited and subsidiaries**

**Consolidated financial report  
for the financial year ended 30 June 2019**

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# Vero Insurance New Zealand Limited and subsidiaries

## Consolidated financial report

for the financial year ended 30 June 2019

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## Directors' report

The Board of Directors presents the Directors' report together with the financial report of Vero Insurance New Zealand Limited (the **Company**) and of the **Group**, being the Company and its subsidiaries, for the financial year ended 30 June 2019.

With the agreement of the shareholder, the Company has taken advantage of reporting concessions available to it under Section 211(3) of the Companies Act 1993.

### Directors

The Directors of the Company at any time during or since the end of the financial year are:

#### Non-executive

D M Flacks

A R Gerry

G T Ricketts (Chairman)

Dr D F Taggart (appointed 26 September 2018)

#### Executive

M A Cameron (resigned 26 May 2019)

P W Smeaton

### Registered office

Level 13

Vero Centre

48 Shortland Street

Auckland 1010

New Zealand

### Auditor

KPMG

18 Viaduct Harbour Avenue

Auckland 1010

New Zealand

### Dividends

During the financial year, the Company paid dividends totalling \$155,804,000 (2018: \$102,875,000). Further details of dividends paid are set out in Note 3 to the financial statements.

### Principal activities

The principal activities of the Group during the course of the financial year were the underwriting of general insurance and the investment and administration of insurance funds. There has been no significant change in the nature of these activities during the year.

### Review of operations

The net profit after income tax for the year ended 30 June 2019 was \$217,328,000 for the Group compared with net profit after income tax of \$108,949,000 for the previous year ended 30 June 2018. The net profit after income tax for the year ended 30 June 2019 was \$171,013,000 for the Company compared with net profit after income tax of \$88,744,000 for the previous year ended 30 June 2018.

### Events subsequent to reporting date

There is, at the date of this Report, no matter or circumstance that has arisen since 30 June 2019 that has significantly affected, or may significantly affect:

- (a) the Group and Company's operations in future financial periods;
- (b) the results of those operations in future financial periods; or
- (c) the Group and Company's state of affairs in future financial periods.

## Directors' report

### Information on Directors in office at the date of this report

#### David M Flacks

*BA, MA, St John's College, University of Cambridge*

Director since 2013. Mr Flacks is an experienced governance and regulatory professional having been a senior corporate lawyer for many years. He is chair of a number of company boards as well as the Regulatory Governance Committee of the NZX. He is also a director of Vero Liability Insurance Limited, a wholly-owned subsidiary of Vero Insurance New Zealand Limited, and Asteron Life Limited, a related company.

#### Alison R Gerry

*MAPPFin, BMS (Hons)*

Director since 2015. Ms Gerry is an experienced professional Director who has significant financial, commercial, governance and strategic experience in the financial services sector in New Zealand, Australia, London and Hong Kong. Ms Gerry is also a director of Vero Liability Insurance Limited and Asteron Life Limited and chairs the Board Audit & Risk Committees of those companies.

#### Dr Douglas F McTaggart

*BECON (Hons), MA, PHD, DUNIV, FAICD, SF FIN*

Director since 2018. Dr McTaggart has an extensive background in financial markets and has deep academic and commercial experience. He is well-versed in operating in a rapidly changing regulatory environment and engaging effectively with regulators and government stakeholders. He is a former Chief Executive Officer of QIC, Under Treasurer of the Queensland Department of Treasury, and was a director of UGL Limited (September 2012–August 2015). Dr McTaggart is also a director of Suncorp Group Limited and Vero Insurance New Zealand Limited, and its subsidiaries, Vero Liability Insurance Limited and AA Insurance Limited.

#### Geoffrey T Ricketts CNZM

*LLB (Hons), LLD (honoris causa), FInstD*

Director since 1992. Mr Ricketts is a commercial lawyer, having been a partner of a major New Zealand law firm for over 25 years. He has extensive experience in New Zealand and Australia.

He is a director of a number of other companies. He is also the chairman of Vero Liability Insurance Limited and Asteron Life Limited.

#### Paul W Smeaton

*BBM, MAICD*

Director and Chief Executive Officer since 2015. Mr Smeaton has been with Suncorp since 1994 and has over 30 years' financial services experience, having worked in banking, insurance, funds management and stock broking. Mr Smeaton is Chief Executive Officer of Suncorp New Zealand and is also a director of Vero Liability Insurance Limited and AA Insurance Limited, subsidiaries of Vero Insurance New Zealand Limited.

Mr Smeaton is on the board of the Insurance Council of New Zealand.

This financial report of the Company was approved for issue by the Board on 31 July 2019.

Signed in accordance with a resolution of the Directors.

Director



Director



## Corporate governance statement

### Introduction

Vero Insurance New Zealand Limited (the **Company**) is a New Zealand incorporated licensed insurer which is wholly-owned by Suncorp Group Holdings (NZ) Limited. The ultimate parent of the Company is Suncorp Group Limited (**Suncorp**), an Australian public company which is listed on the Australian Securities Exchange.

The operations of the Company are delivered by the Suncorp New Zealand (**SNZ**) operating model. Under this model, SNZ conducts the general insurance and life insurance business for Suncorp's wholly-owned general and life insurer entities in New Zealand, managed by one leadership team. SNZ also provides services to the Company's wholly-owned subsidiary which is a licensed liability insurer.

This corporate governance statement contains an outline of the principal corporate governance practices, policies and processes of the Company.

The Board believes that high standards of corporate governance are essential for achieving business objectives and creating value for all stakeholders. The Board understands the important role it plays in Suncorp's social licence to operate, corporate culture and corporate governance.

The Board is committed to maintaining a robust corporate governance framework and a corporate culture that values ethical behaviour and integrity. The Board is responsible for the corporate governance framework which operates under Board-approved policies, charters and practices.

### Board of Directors

At the date of this Statement, the Company had five Directors.

Four of the Directors are independent non-executive Directors (Geoffrey Ricketts, Alison Gerry David Flacks and Douglas McTaggart), while one is an executive Director (Paul Smeaton, who is also the Chief Executive Officer of SNZ). Geoffrey Ricketts is the Chairman of the Board. Brief details of the Directors' qualifications and experience are set out in the Directors' Report.

The Directors of the Company are appointed by the Suncorp Board. Factors that are taken into account when considering a new appointment to the Board include the size of the Board, its composition and diversity, mix of competencies, qualities and skills held by existing Directors and how the skills of a new Director may be utilised for the effective and prudent management of the Company and how the candidate's attributes will balance and complement the future requirements of the Board. Other key considerations include culture fit and an understanding of the business of the Company and the environment in which it operates. The Board considers it important to maintain an appropriate mix of long-serving Directors with established knowledge of the Company's business and corporate history, and new Directors who bring a fresh perspective to the Board.

The key skills, experience and qualities required for the effective management of the business are incorporated in a Board skills matrix. This is used as part of the annual Board performance evaluation process.

The independence of the non-executive Directors is assessed in accordance with criteria adopted by the Board and the Governance Guidelines issued by the Reserve Bank of New Zealand for licensed insurers.

New Directors undergo an induction process and all Directors are expected to keep up to date with matters affecting the business of the Company, the Suncorp Group, the general insurance industry and their duties as Directors.

Ongoing Director education sessions are provided on topical issues and matters that require technical or specialist knowledge.

The Board has adopted a Fit and Proper Policy. Each Director has met the requirements and criteria in this Policy and must complete an annual fit and proper declaration which is approved by the Board.

## Corporate governance statement (continued)

### Role of the Board

The Board of Directors is responsible for the overall performance of the Company. The Board has delegated the day-to-day operation and management of the Company to the SNZ Chief Executive Officer.

Under the Company's constitution, each Director is required to act in the best interests of the Company. Other matters covered by the constitution include the appointment and removal of Directors, the minimum number of Directors, the quorum for Board meetings, meeting procedures, Directors' interests, and Directors' remuneration and other benefits.

The Board has adopted a charter which contains the principles for the operation of the Board, a description of the functions and responsibilities of the Board and those functions that are delegated to management. Matters covered by this charter include Board composition, responsibilities of the Chairperson and individual Directors, conflicts of interest, Board meeting procedures and Board performance reviews. Provision is also made for the Board to delegate certain matters to committees. The Board is required to regularly review its charter and its continuing adequacy.

The Board currently meets five times each calendar year. Additional meetings are held as required.

The Board also meets annually with SNZ senior executives to consider strategic matters.

The Board approves an annual programme of work and this is used as a guide to the preparation of the agenda for each scheduled Board meeting.

The Board approves the strategic direction of the Company and monitors executive management's performance in the implementation and achievement of strategic and business objectives. This is achieved through the receipt of regular reports from management. Other matters that are approved by the Board include the SNZ Risk Appetite Statement (insofar as it relates to the Company), the Company's Internal Capital Adequacy Assessment Process (ICAAP), dividend payments, financial statements and solvency returns, major operating and capital expenditure which exceeds limits delegated to management, and the financial performance outcomes for the Company's senior executives.

### Governance

As part of the Suncorp Group, the Company complies with Suncorp's policies and requirements, except where these are inconsistent with the requirements of New Zealand law or regulatory requirements, or where the Board considers that they are not in the best interests of the Company. The Board of the Company has adopted a number of Suncorp's policies and frameworks (amended to reflect New Zealand requirements where appropriate). These include the Conflict of Interest Policy, Business Continuity Management Policy, Enterprise Risk Management Framework, the Whistleblower Policy, Product and Platform Management Policy, Investment Governance Policy, Securities Trading Policy, Equal Employment Opportunity and Diversity Policy, and Safety and Wellbeing Policy. Directors are also required to abide by Suncorp's Code of Conduct.

The Company has also adopted SNZ specific policies, standards and guidelines where appropriate.

### Strategy and Culture

Suncorp Group's purpose is to create a better today for its customers. Its vision is to help people live the life they want now and plan for the life they want tomorrow.

Suncorp's strategic priorities are Brilliant Customer Experience, Product Excellence and Engaged People and Culture. These are underpinned by the One Suncorp operating model and culture and behaviours.

SNZ is aligned with Suncorp's purpose, vision, priorities, operating model and cultural behaviours. SNZ's strategy is centred around connecting New Zealanders to products, services and experiences that enhance and protect their financial wellbeing. Its vision is aligned with Suncorp Group: to be the number one choice for New Zealanders.

Suncorp's culture is the aggregation of observed behaviours across all employees, driven by shared values, beliefs, symbols and systems. The behaviours that are needed to deliver targeted stakeholder outcomes are described in the behavioural framework, called Our Compass. This sets out the primary behavioural expectations that the Board believes form a foundation for successful performance.

## Corporate governance statement (continued)

### Strategy and Culture (continued)

All employees have balanced performance scorecards that, in addition to financial performance targets, include customer, risk, and people focused deliverables and also include evaluation of performance in terms of the SNZ Compass of behaviours. SNZ Compass behaviours are: Think Big, Kick Goals, Show You Care and Be Your Best.

### Board Audit and Risk Committee

In order to enable the Board to focus on strategy, planning and performance enhancement, the Board has delegated certain duties to its Board Audit and Risk Committee (**BARC**).

The role of the BARC is to assist the Board in fulfilling its statutory and fiduciary responsibilities with respect to the oversight of the effectiveness of risk management strategies and internal controls across the Company. The terms of reference of the BARC are contained in a Board-approved BARC charter. The majority of members of the BARC are independent. The Chair of the BARC is Alison Gerry, an independent Director of the Company who has a finance background.

The BARC is required to meet not less than four times a year. The BARC has an annual Board-approved programme of work which is used as a guide to the preparation of each scheduled BARC meeting agenda. The BARC receives regular reports from senior SNZ executives including the Chief Risk Officer and the Chief Financial Officer. Regular reports are also received from Suncorp Internal Audit (which provides independent and objective internal audit services to the Suncorp Group), and the Company's external auditor. Other attendees of BARC meetings include the SNZ Chief Executive Officer and representatives from SNZ's Risk and Finance functions, Suncorp Internal Audit and the external auditor. The BARC reviews and makes recommendations to the Board on matters such as SNZ's Risk Appetite Statement, its annual business licence, ICAAP, investment strategy and mandate reviews, investment policy, financial statements and solvency returns. The Board receives the minutes of each BARC meeting and an update from the BARC Chair on its activities.

Under the terms of its charter, the BARC is required to regularly review its charter and its continuing adequacy. The BARC is also required to evaluate its performance and the extent to which it has met the requirements of its charter. These findings are reported to the Board.

Information on the Company's approach to Risk Management is contained in Note 26.

### Corporate Responsibility

Suncorp and the Company believe in conducting business in a way that protects and sustains the environment for current and future generations, and are actively working to minimise the impact of their activities.

Creating and preserving value for all of Suncorp's stakeholders is fundamental to their approach to corporate responsibility. Suncorp and the Company continually strive to improve their business practices to optimise outcomes, earn trust and maintain their social licence to operate.

### Action on Climate Change

Suncorp's Climate Change Action Plan has been adopted by the Board of the Company. This defines how the Suncorp Group will work with its customers and communities to support a transition to a net-zero carbon emissions economy by 2050 through commitments to:

1. Strengthen governance processes (including assessment of climate risk)
2. Reduce environmental footprint
3. Increase community resilience
4. Accelerate emerging opportunities and climate-related innovation
5. Track and openly disclose climate-related performance.

Key areas of focus will be adapting to the physical impacts of climate change - severe weather events, rising sea levels and shifting temperature zones, responsible financial services practices, responsible investment and governance and reporting.

## **Corporate governance statement (continued)**

### **Community Involvement**

The Suncorp Brighter Futures Community Giving Programme empowers employees to make a difference to causes they feel passionate about. Through Brighter Futures, Suncorp employees have a range of opportunities to get involved, give and share by volunteering, fundraising, and matched giving.

This year, the Company has invested in community partnerships with Shine and Grandparents Raising Grandchildren – charities that address issues that matter most to SNZ employees and will form the focus of the Company's fundraising efforts in the coming year.

The Suncorp Brighter Futures Dollar Matching programme will match the fundraising amounts of employees, up to \$1,000 for individuals and \$2,500 for teams, to a registered charity in New Zealand or Australia. Employees' volunteering efforts outside of work are also eligible for dollar matching.

Employees may also take one day of paid volunteer leave each year to support local community projects.

### **Diversity & Inclusion**

The Company's goal is to attract diverse talent, to build leadership capability to enable employees to realise their full potential.

The Suncorp Diversity Council assists the Company in delivering these objectives by:

- Creating and overseeing a diversity strategy
- Recommending initiatives to support greater gender diversity
- Tracking progress including creating targets and regular scorecards
- Promoting and championing diversity

SNZ's Diversity Council is chaired by the SNZ Chief Executive Officer.





# Independent auditor's report

To the shareholder of Vero Insurance New Zealand Limited

## Report on the company and group financial statements

### Opinion

In our opinion, the accompanying financial statements of Vero Insurance New Zealand Limited (the "company") and its subsidiaries (the "group") on pages 13 to 69:

- i. present fairly in all material respects the company's and the group's financial position as at 30 June 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying company and group financial statements which comprise:

- the company and group statement of financial position as at 30 June 2019;
- the company and group statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



### Basis for opinion

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

We are independent of the company and group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (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 company and group financial statements section of our report.

Our firm has also provided other services to the company and group in relation to regulatory assurance services and agreed upon procedure engagements over profit share calculations. 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 company and group financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholder 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 company and group financial statements as a whole and we do not express discrete opinions on separate elements of the company and group financial statements.

### The key audit matter

### How the matter was addressed in our audit

#### Outstanding claims liabilities and associated reinsurance and other recoveries

<b>Outstanding claims liability</b>	<b>\$805 million (Group)</b>	<b>\$617 million (Company)</b>
<b>Reinsurance and other recoveries</b>	<b>\$490 million (Group)</b>	<b>\$420 million (Company)</b>

Refer to Notes 11 and 19 to the financial statements.

The valuation of outstanding claims liabilities and related reinsurance assets involved a high level of judgement in estimating future payments for claims incurred, including case estimates for reported claims and those incurred but not yet reported to the company and group.

Outstanding claims liabilities related to the Canterbury and Kaikoura earthquakes have greater levels of uncertainty, as disclosed in Note 19 to the financial statements. This uncertainty can include:

- Geotechnical uncertainty which can significantly impact the cost of a claim;
- Litigation, where the range of possible ultimate claim costs is substantial;
- The allocation of claim costs between earthquake events, as this impacts the amount recoverable from co-insurers and reinsurers; and
- Less information on claims managed by co-insurers and the Earthquake Commission, with greater management judgement required to value any expected recoveries, as well as making allowance for any as yet unreported claims.

Valuation of reinsurance assets involves a high degree of uncertainty due to the dependence on the estimate of related claims costs. Valuation of reinsurance and other recoveries is affected by the same uncertainties.

We involved our actuarial specialists and performed audit procedures, which included:

- Testing key controls, including IT general and application controls over claim payments, case estimates and actuarial reconciliations.
- Using data analytics to select a sample of claim payments and case estimates to check the accuracy of the claims information.
- Challenging the appropriateness of the group's actuarial methods and key assumptions for the classes of business that were deemed to have higher claims estimations risks, including separate consideration of claims relating to the Canterbury and Kaikoura earthquakes.

We assessed the selection of methods and key assumptions applied in the valuation of outstanding claims liabilities. We challenged the actuarial methods and key assumptions by:

- Analysing the accuracy of previous estimates;
  - Comparing key assumptions to the broader insurance industry, previous periods and current period claims experience; and
  - Sample testing of the key qualitative claims information that is used by the group's actuarial team to form their assumptions.
- Assessing the group's estimation of risk margins to identify possible management bias. We evaluated the group's actuarial methodologies for consistency with those used in the industry and with prior periods.
- Testing material reinsurance contracts to check that recoveries recognised in the financial statements align with the terms of those contracts and the amount of the respective outstanding claims liability.



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## 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 company and group financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

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

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## Use of this independent auditor's report

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

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## Responsibilities of the directors for the company and group financial statements

The directors, on behalf of the company and group, are responsible for:

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

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## Auditor's responsibilities for the audit of the company and group financial statements

Our objective is:

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

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





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

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

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

A handwritten signature of 'KPMG' in blue ink, written in a cursive, slightly slanted font.

KPMG  
Auckland

1 August 2019





**Statements of comprehensive income  
for the financial year ended 30 June 2019**

	Note	Consolidated		Company	
		2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Premium revenue	4	1,605,921	1,464,941	1,083,363	1,003,016
Outwards reinsurance premium expense	12	(202,511)	(198,227)	(156,230)	(155,504)
<b>Net premium revenue</b>		<b>1,403,410</b>	<b>1,266,714</b>	<b>927,133</b>	<b>847,512</b>
Claims expense	5	(763,010)	(720,577)	(467,801)	(411,233)
Reinsurance and other recoveries revenue	4, 5	66,227	(18,831)	44,574	(63,287)
<b>Net incurred claims</b>	5	<b>(696,783)</b>	<b>(739,408)</b>	<b>(423,227)</b>	<b>(474,520)</b>
Acquisition costs	13	(332,108)	(291,894)	(282,382)	(248,499)
Other underwriting expenses		(122,488)	(121,113)	(67,839)	(71,508)
<b>Underwriting expenses</b>		<b>(454,596)</b>	<b>(413,007)</b>	<b>(350,221)</b>	<b>(320,007)</b>
Reinsurance commission revenue	4	10,130	9,537	5,263	4,488
<b>Underwriting result</b>		<b>262,161</b>	<b>123,836</b>	<b>158,948</b>	<b>57,473</b>
Investment income on insurance funds	4.1	22,868	13,926	12,567	6,487
Investment expense on insurance funds		(1,070)	(799)	(620)	(396)
<b>Insurance trading result</b>		<b>283,959</b>	<b>136,963</b>	<b>170,895</b>	<b>63,564</b>
Investment income on shareholder funds	4.1	17,891	13,722	50,445	44,892
Investment expense on shareholder funds		(919)	(1,032)	(438)	(587)
Loss on defined benefit funds		(529)	(707)	(530)	(715)
Share of joint venture loss		(50)	(142)	-	-
<b>Profit before tax</b>	6	<b>300,352</b>	<b>148,804</b>	<b>220,372</b>	<b>107,154</b>
Income tax expense	7.1	(83,024)	(39,855)	(49,359)	(18,410)
<b>Profit for the financial year</b>		<b>217,328</b>	<b>108,949</b>	<b>171,013</b>	<b>88,744</b>
<b>Other comprehensive (loss)/income</b>					
<b>Items that will not be reclassified subsequently to profit or loss</b>					
Actuarial (loss)/gain on defined benefit funds		(16,411)	1,789	(16,545)	1,792
Income tax credit/(expense)	7.1	4,633	(502)	4,633	(502)
<b>Total other comprehensive (loss)/income</b>		<b>(11,778)</b>	<b>1,287</b>	<b>(11,912)</b>	<b>1,290</b>
<b>Total comprehensive income for the financial year</b>		<b>205,550</b>	<b>110,236</b>	<b>159,101</b>	<b>90,034</b>
<b>Profit for the financial year attributable to:</b>					
Owner of the Company		195,813	95,376	171,013	88,744
Non-controlling interests		21,515	13,573	-	-
<b>Profit for the financial year</b>		<b>217,328</b>	<b>108,949</b>	<b>171,013</b>	<b>88,744</b>
<b>Total comprehensive income for the financial year attributable to:</b>					
Owner of the Company		183,992	96,663	159,101	90,034
Non-controlling interests		21,558	13,573	-	-
<b>Total comprehensive income for the financial year</b>		<b>205,550</b>	<b>110,236</b>	<b>159,101</b>	<b>90,034</b>

The statements of comprehensive income are to be read in conjunction with the accompanying notes.

**Statements of financial position  
as at 30 June 2019**

	Note	Consolidated		Company	
		2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>Assets</b>					
Cash and cash equivalents	8	65,757	88,187	51,858	74,445
Receivables and other assets	9	673,570	648,197	452,323	458,553
Investment securities	10	1,014,411	787,351	600,344	443,190
Reinsurance and other recoveries receivable	11	489,503	764,468	420,483	689,761
Deferred reinsurance premiums	12	161,932	162,284	123,139	131,339
Deferred acquisition costs	13	137,239	129,397	114,856	108,942
Plant and equipment		6,388	9,297	2,909	4,874
Investment in subsidiaries	14	-	-	37,304	37,304
Investment in joint venture	15	58	108	-	-
Deferred tax assets	7.4	21,505	13,825	17,945	10,934
Intangible assets	16	29,400	37,636	29,939	38,175
<b>Total assets</b>		<b>2,599,763</b>	<b>2,640,750</b>	<b>1,851,100</b>	<b>1,997,517</b>
<b>Liabilities</b>					
Payables and other liabilities	17	362,933	285,430	276,303	228,843
Current tax liabilities	7.3	61,152	4,444	46,361	1,186
Unearned premium liabilities	18	820,672	757,668	522,614	492,368
Outstanding claims liabilities	19.1	804,841	1,101,844	617,268	908,595
Employee benefit obligations	20	38,033	20,568	29,693	12,617
Deferred tax liabilities	7.4	42,558	39,768	32,232	30,576
<b>Total liabilities</b>		<b>2,130,189</b>	<b>2,209,722</b>	<b>1,524,471</b>	<b>1,674,185</b>
<b>Net assets</b>		<b>469,574</b>	<b>431,028</b>	<b>326,629</b>	<b>323,332</b>
<b>Equity</b>					
Share capital	21	217,629	217,629	217,629	217,629
Capital notes	21	59,191	59,191	59,191	59,191
Retained profits		152,535	124,347	49,809	46,512
<b>Total equity attributable to owner of the Company</b>		<b>429,355</b>	<b>401,167</b>	<b>326,629</b>	<b>323,332</b>
Non-controlling interests		40,219	29,861	-	-
<b>Total equity</b>		<b>469,574</b>	<b>431,028</b>	<b>326,629</b>	<b>323,332</b>

The Board of Directors of Vero Insurance New Zealand Limited approved these financial statements for issue on 31 July 2019.

For, and on behalf of the Board

Director



Director



The statements of financial position are to be read in conjunction with the accompanying notes.

**Statements of changes in equity  
for the financial year ended 30 June 2019**

Consolidated	Note	Equity attributable to owners of the Company				Total Equity \$'000
		Share capital \$'000	Retained profits \$'000	Total \$'000	Non-controlling interest \$'000	
		276,820	130,559	407,379	27,488	434,867
		-	95,376	95,376	13,573	108,949
		-	1,287	1,287	-	1,287
		-	96,663	96,663	13,573	110,236
<b>Transactions with owners</b>						
	3	-	(102,875)	(102,875)	(11,200)	(114,075)
	21	59,191	-	59,191	-	59,191
	21	(59,191)	-	(59,191)	-	(59,191)
		<b>276,820</b>	<b>124,347</b>	<b>401,167</b>	<b>29,861</b>	<b>431,028</b>
		-	<b>195,813</b>	<b>195,813</b>	<b>21,515</b>	<b>217,328</b>
		-	<b>(11,821)</b>	<b>(11,821)</b>	<b>43</b>	<b>(11,778)</b>
		-	<b>183,992</b>	<b>183,992</b>	<b>21,558</b>	<b>205,550</b>
<b>Transactions with owners</b>						
	3	-	<b>(155,804)</b>	<b>(155,804)</b>	<b>(11,200)</b>	<b>(167,004)</b>
		<b>276,820</b>	<b>152,535</b>	<b>429,355</b>	<b>40,219</b>	<b>469,574</b>

Company	Note	Retained		
		Share capital \$'000	profits \$'000	Total \$'000
		276,820	59,353	336,173
		-	88,744	88,744
		-	1,290	1,290
		-	90,034	90,034
<b>Transactions with owner</b>				
	3	-	(102,875)	(102,875)
	21	59,191	-	59,191
	21	(59,191)	-	(59,191)
		<b>276,820</b>	<b>46,512</b>	<b>323,332</b>
		-	<b>171,013</b>	<b>171,013</b>
		-	<b>(11,912)</b>	<b>(11,912)</b>
		-	<b>159,101</b>	<b>159,101</b>
<b>Transactions with owner</b>				
	3	-	<b>(155,804)</b>	<b>(155,804)</b>
		<b>276,820</b>	<b>49,809</b>	<b>326,629</b>

The statements of cash flows are to be read in conjunction with the accompanying notes.

**Statements of cash flows  
for the financial year ended 30 June 2019**

	Note	Consolidated		Company	
		2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>Cash flows from operating activities</b>					
Premiums received		1,623,123	1,480,410	1,096,071	1,014,070
Claims paid		(1,060,013)	(1,134,669)	(761,336)	(845,569)
Interest received		26,773	26,378	17,624	17,029
Dividends received		2,324	1,978	42,329	39,821
Reinsurance and other recoveries received		364,936	381,103	340,514	345,970
Outward reinsurance premiums paid		(201,777)	(204,744)	(154,521)	(160,742)
Net movement in shared property reinstatement advances		(7,801)	(6,627)	(6,203)	(3,412)
Acquisition costs paid		(302,956)	(287,688)	(255,865)	(248,922)
Income tax paid*		(26,573)	(26,684)	(4,906)	(7,165)
Net movement in goods and services tax and levies		41,526	20,717	18,716	17,768
Underwriting and other operating expenses paid		(111,012)	(100,411)	(57,040)	(63,794)
Cash received on behalf of related parties		14,409	-	14,409	-
<b>Net cash from operating activities</b>	24	<b>362,959</b>	149,763	<b>289,792</b>	105,054
<b>Cash flows from investing activities</b>					
Proceeds from sale of investment securities		1,452,613	1,130,021	926,527	757,206
Payments for purchase of investment securities		(1,668,958)	(1,146,359)	(1,081,478)	(745,076)
Payment for Autosure sale adjustment		(1,953)	-	(1,953)	-
Investment in joint venture		-	(250)	-	-
Proceeds from sale of plant and equipment		401	335	325	277
Payments for purchases of plant and equipment and capitalised software costs		(488)	(6,707)	4	(3,092)
<b>Net cash (used in)/from investing activities</b>		<b>(218,385)</b>	(22,960)	<b>(156,575)</b>	9,315
<b>Cash flows from financing activities</b>					
Dividends paid to owners of the Company		(155,804)	(102,875)	(155,804)	(102,875)
Dividends paid to non-controlling interests		(11,200)	(11,200)	-	-
Proceeds from issue of capital notes		-	59,191	-	59,191
Payment for repurchase of shares		-	(59,191)	-	(59,191)
<b>Net cash used in financing activities</b>		<b>(167,004)</b>	(114,075)	<b>(155,804)</b>	(102,875)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(22,430)</b>	12,728	<b>(22,587)</b>	11,494
Cash and cash equivalents at the beginning of the financial year		88,187	75,459	74,445	62,951
<b>Cash and cash equivalents at the end of the financial year</b>		<b>65,757</b>	88,187	<b>51,858</b>	74,445

\* Income tax paid includes cash flows from tax offsets.

## Notes to the financial statements

### 1. Reporting entity

Vero Insurance New Zealand Limited (the **Company**) is a company incorporated and domiciled in New Zealand. Its registered office is Vero Centre, 48 Shortland Street, Auckland.

The consolidated financial statements of the Company as at and for the financial year ended 30 June 2019 comprise the Company and its subsidiaries (the **Group**) and were issued by the Board of Directors on 31 July 2019.

The Group is a profit oriented entity in the business of underwriting general insurance and the investment and administration of insurance funds. It has a mix of intermediated (through brokers) and direct business within the general insurance industry. It operates predominantly throughout New Zealand.

The Company's parent entity is Suncorp Group Holdings (NZ) Limited, with Suncorp Group Limited, a company incorporated in Australia, being the ultimate parent entity. Suncorp Group Limited and its subsidiaries are referred to as the **Suncorp Group**.

### 2. Basis of preparation

The Company and the Group are for-profit entities and the consolidated financial statements have been prepared on the historical cost basis unless the application of fair value measurements are required by the relevant accounting standards such as the measurement of financial instruments at fair value through profit or loss and the measurement of outstanding claims liabilities, reinsurance recoveries and defined benefit superannuation funds.

Significant accounting policies applied in the preparation of these financial statements are set out in Note 31. There have been no significant changes in accounting policies apart from the adoption of NZ IFRS 9 and NZ IFRS 15.

The reporting period is from 1 July 2018 to 30 June 2019.

These financial statements are presented in New Zealand dollars, which is the Company's and Group's functional and presentation currency. All values are rounded to the nearest thousand dollars (\$'000) unless stated otherwise.

The accompanying statements of financial position have been prepared using the liquidity format of presentation.

#### 2.1 Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with New Zealand Generally Accepted Accounting Practice in New Zealand (**NZ GAAP**). They comply with the New Zealand equivalents to International Financial Reporting Standards (**NZ IFRS**), and other applicable Financial Reporting Standards as appropriate for profit-oriented entities. The Company is an FMC reporting entity for the purpose of the Financial Markets Conduct Act 2013. The financial statements have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013, Companies Act 1993, Financial Reporting Act 2013 and the Insurance (Prudential Supervision) Act 2010. They also comply with International Financial Reporting Standards (**IFRS**).

## Notes to the financial statements (continued)

### 2.2 New or amended standards which became mandatory and were adopted during the financial year

The following new accounting standards were adopted:

#### a) NZ IFRS 9 Financial Instruments

NZ IFRS 9 *Financial Instruments* (NZ IFRS 9) replaces NZ IAS 39 *Financial Instruments: Recognition and Measurement* and sets out new requirements for the impairment of financial assets, classification and measurement of financial assets and financial liabilities and general hedge accounting. NZ IFRS 9 introduces a new model for classifying financial assets whereby financial assets are classified based on the business model under which the assets are held and managed and the nature of their underlying cash flows. NZ IFRS 9 contains three principal classification categories for financial assets: financial assets measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss (FVTPL).

The standard has been applied retrospectively. The impacts of implementation are immaterial.

#### *Transitional impact*

The adoption of an expected credit loss (ECL) model for impairment has had an immaterial impact on the provision for irrecoverable loans and receivables. There is no impact from the change in general hedge accounting as the Company and Group do not apply general hedge accounting. There are no changes to the measurement of financial instruments. Changes in the classification of financial instruments are shown in the table below:

Financial instruments	Original classification under NZ IAS 39	New classification under NZ IFRS 9
Cash and cash equivalents	Loans and receivables	Amortised cost
Premium receivables, related parties receivables, reinsurance debtors, reinsurance and other recoveries receivables	Loans and receivables	Amortised cost
Financial assets and liabilities	FVTPL	FVTPL

#### b) NZ IFRS 15 Revenue From Contracts With Customers

NZ IFRS 15 *Revenue From Contracts With Customers* (NZ IFRS 15) replaces existing revenue recognition guidance, including among others NZ IAS 18 *Revenue* and IFRIC 13 *Customer Loyalty Programmes*. NZ IFRS 15 provides a single comprehensive model for revenue recognition based on the satisfaction of performance obligations and requires additional disclosures on revenue. The majority of the Group's revenue relates to insurance contracts within the scope of NZ IFRS 4 *Insurance Contracts* and investment income within the scope of NZ IFRS 9. Therefore the overall effect of the implementation of NZ IFRS 15 is not material to the Group.

### 2.3 Comparative information

Certain amounts and presentations in the comparative information have been restated or reclassified to conform to changes in the current financial year.

Amounts disclosed in the fair value hierarchy Note 25.2 have been updated to reflect financial instruments that are not traded in active markets in Level 2 instead of Level 1 to more appropriately reflect the applicable valuation methodology.

Amounts disclosed in the commitments of expenditure Note 27 have been updated to include fixed rate increases which are part of the minimum lease payment amounts.

## Notes to the financial statements (continued)

### 2.4 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and amounts reported in the financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Estimates and underlying assumptions are reviewed on an ongoing basis. Where revisions are made to accounting estimates, any financial impact is recognised in the period in which the estimate is revised.

The key areas of significant estimates and judgements and the methodologies used to determine key assumptions are set out below.

#### a) Outstanding claims liability

The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. Given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

Claims reported to the Group at balance date are estimated with due regard to the claim circumstance as reported by the insured, legal representative, assessor, loss adjuster and/or other third party and then combined, where appropriate, with historical evidence on the cost of settling similar claims. Estimates of the cost of claims reported are reviewed regularly and are updated as and when new information arises.

The estimation of claims incurred but not reported (**IBNR**) and claims incurred but not enough reported (**IBNER**) are generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where more information about the claim event is generally available. IBNR and IBNER claims may often not be adequately reported until many years after the events giving rise to the claims have happened. Long-tail classes of business will typically display greater variations between initial estimates and final outcomes because there is a greater degree of difficulty in estimating IBNR and IBNER reserves. Short-tail claims are typically reported soon after the claim event, and hence, estimates are more certain.

In calculating the estimated cost of unpaid claims, the Group uses a variety of estimation techniques, generally based upon statistical analysis of historical and industry experience that assumes that the development pattern of the current claims will be consistent with past experience and/or general industry benchmarks as appropriate.

Allowance is made, however, for changes or uncertainties that may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims. The ultimate net outstanding claims provision also includes an additional risk margin to allow for the uncertainty within the estimation process.

Details regarding actuarial estimates and judgements are detailed in Notes 5, 11 and 19. In particular details of the uncertainties that exist in measuring gross incurred claims arising from the Canterbury and Kaikoura earthquakes are explained in Note 19.1.

#### b) Assets arising from reinsurance contracts and other recoveries

Estimates of reinsurance and other recoveries receivable are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as credit risk.

Details of the uncertainties that exist in measuring reinsurance recoveries arising from the Canterbury and Kaikoura earthquakes are explained in Note 19.1.

#### c) Impairment of goodwill

The Group assesses whether goodwill is impaired at least annually. The assessment involves estimations of the recoverable amount of the cash-generating units to which the goodwill is allocated. Refer to Note 16.2.

## Notes to the financial statements (continued)

### 3. Dividends

	2019		2018	
	¢ per share/note	\$'000	¢ per share/note	\$'000
<b>Ordinary shares</b>				
Dividends	95.55	152,300	55.23	102,000
<b>Capital notes</b>				
Coupon payments	5.92	3,504	1.48	875
<b>Total dividends recognised in equity attributable to owners of the Company</b>		<b>155,804</b>		<b>102,875</b>

The dividend on ordinary shares in 2018 was paid prior to the share repurchase of 25,295,299 ordinary shares in May 2018, therefore the 55 cents per share is calculated based on 184,687,954 shares.

### 4. Revenue

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>Insurance income</b>				
Gross written premium	1,669,797	1,541,631	1,114,481	1,047,552
Movement in unearned premium	(63,876)	(76,690)	(31,118)	(44,536)
<b>Premium revenue</b>	<b>1,605,921</b>	<b>1,464,941</b>	<b>1,083,363</b>	<b>1,003,016</b>
Reinsurance and other recoveries revenue	66,227	(18,831)	44,574	(63,287)
Reinsurance commission revenue	10,130	9,537	5,263	4,488
<b>Total insurance income</b>	<b>1,682,278</b>	<b>1,455,647</b>	<b>1,133,200</b>	<b>944,217</b>
<b>Investment income</b>				
Interest income	27,962	25,956	18,750	16,710
Dividend income				
Other entities	2,324	1,978	29	21
Related parties	-	-	42,300	39,800
Net gain/(loss) on financial assets at fair value through profit or loss	10,473	(286)	1,933	(5,152)
<b>Total investment income</b>	<b>40,759</b>	<b>27,648</b>	<b>63,012</b>	<b>51,379</b>
<b>Total revenue</b>	<b>1,723,037</b>	<b>1,483,295</b>	<b>1,196,212</b>	<b>995,596</b>

#### 4.1 Investment Income

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Investment income on insurance funds	22,868	13,926	12,567	6,487
Investment income on shareholder funds	17,891	13,722	50,445	44,892
<b>Total investment income</b>	<b>40,759</b>	<b>27,648</b>	<b>63,012</b>	<b>51,379</b>



## Notes to the financial statements (continued)

### 5. Net incurred claims

Current year claims relate to risks borne in the current financial year. Prior year claims relate to a reassessment of the risks borne in all previous financial years.

	Consolidated			Company		
	Current Year \$'000	Prior Year \$'000	Total \$'000	Current Year \$'000	Prior Year \$'000	Total \$'000
<b>Year ended 30 June 2019</b>						
Gross incurred claims and related expenses						
Undiscounted	776,889	(28,887)	748,002	466,082	(11,327)	454,755
Discount and discount movement	(2,920)	17,928	15,008	(876)	13,922	13,046
Gross incurred claims discounted	773,969	(10,959)	763,010	465,206	2,595	467,801
Reinsurance and other recoveries						
Undiscounted	(56,788)	2,734	(54,054)	(26,136)	(6,881)	(33,017)
Discount and discount movement	508	(12,681)	(12,173)	158	(11,715)	(11,557)
Reinsurance and other recoveries discounted	(56,280)	(9,947)	(66,227)	(25,978)	(18,596)	(44,574)
<b>Net incurred claims</b>	<b>717,689</b>	<b>(20,906)</b>	<b>696,783</b>	<b>439,228</b>	<b>(16,001)</b>	<b>423,227</b>
<b>Year ended 30 June 2018</b>						
Gross incurred claims and related expenses						
Undiscounted	833,881	(156,124)	677,757	529,777	(160,938)	368,839
Discount and discount movement	(4,397)	47,217	42,820	(1,345)	43,739	42,394
Gross incurred claims discounted	829,484	(108,907)	720,577	528,432	(117,199)	411,233
Reinsurance and other recoveries						
Undiscounted	(72,031)	132,189	60,158	(40,098)	144,705	104,607
Discount and discount movement	1,074	(42,401)	(41,327)	288	(41,608)	(41,320)
Reinsurance and other recoveries discounted	(70,957)	89,788	18,831	(39,810)	103,097	63,287
<b>Net incurred claims</b>	<b>758,527</b>	<b>(19,119)</b>	<b>739,408</b>	<b>488,622</b>	<b>(14,102)</b>	<b>474,520</b>

Details of the uncertainties that exist in measuring gross incurred claims and reinsurance recoveries arising from the Canterbury and Kaikoura earthquakes are explained in Note 19.1.

### 6. Profit before tax

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>Profit before tax is arrived at after charging the following specific items:</b>				
Bad and doubtful debt expense	178	60	9	-
Contributions to defined contribution superannuation schemes	1,790	1,709	-	-
Depreciation on plant and equipment	3,040	3,747	1,670	2,779
Employee benefits	63,006	57,169	-	-
(Gain)/Loss on disposal of plant and equipment	(4)	57	6	45
Operating lease rental expenses	5,747	8,678	1,472	5,011
Software impairment (Note 16.3)	2,881	1,402	2,881	1,402
Software amortisation cost (Note 16.3)	5,315	9,752	5,315	9,752

## Notes to the financial statements (continued)

### 7. Income tax

#### 7.1 Income tax expense

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>Profit before tax</b>	<b>300,352</b>	148,804	<b>220,372</b>	107,154
Prima facie income tax @ 28% (2018: 28%)	<b>84,100</b>	41,665	<b>61,704</b>	30,003
<b>Movement in income tax expense due to:</b>				
Non-deductible expenditure	<b>118</b>	1,610	<b>2</b>	1,476
Non-taxable related party dividends	-	-	<b>(5,180)</b>	(4,480)
Capital notes distribution	<b>(490)</b>	(245)	<b>(490)</b>	(245)
Imputation credits	<b>(110)</b>	(122)	<b>(6,664)</b>	(6,664)
Tax exempt revenue	<b>(555)</b>	(1,313)	-	-
Other	<b>3</b>	(35)	-	-
Adjustment for prior financial years	<b>(42)</b>	(1,705)	<b>(13)</b>	(1,680)
<b>Income tax expense</b>	<b>83,024</b>	39,855	<b>49,359</b>	18,410
<b>Income tax expense recognised in profit consists of:</b>				
<b>Current tax expense</b>				
Current year	<b>82,791</b>	37,122	<b>49,897</b>	16,225
Adjustment for prior financial years	<b>490</b>	(1,251)	<b>184</b>	(1,265)
	<b>83,281</b>	35,871	<b>50,081</b>	14,960
<b>Deferred tax expense</b>				
Current year	<b>275</b>	4,438	<b>(525)</b>	3,865
Adjustment for prior financial years	<b>(532)</b>	(454)	<b>(197)</b>	(415)
	<b>(257)</b>	3,984	<b>(722)</b>	3,450
<b>Income tax expense</b>	<b>83,024</b>	39,855	<b>49,359</b>	18,410
<b>Income tax (credit)/expense recognised in other comprehensive income</b>				
Income tax (credit)/expense on actuarial gains on defined benefit funds	<b>(4,633)</b>	502	<b>(4,633)</b>	502

#### 7.2 Imputation credits

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
SGHNZL ICA Group	<b>331,372</b>	241,072	<b>331,372</b>	241,072
Subsidiaries outside the SGHNZL ICA Group	<b>6,802</b>	422	-	-
<b>Imputation credits available for use in subsequent reporting periods</b>	<b>338,174</b>	241,494	<b>331,372</b>	241,072

The Company is a member of the Suncorp Group Holdings (NZ) Limited consolidated imputation credit account group (SGHNZL ICA Group) and together with the other members has access to the accumulated imputation credits contained within the SGHNZL ICA Group.

## Notes to the financial statements (continued)

### 7.3 Current tax

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Balance at the beginning of the financial year	(4,444)	4,743	(1,186)	6,609
Income tax paid net of refunds	26,518	26,663	4,851	7,144
Current year tax on operating profit	(82,791)	(37,122)	(49,897)	(16,225)
Adjustment for prior financial years	(490)	1,251	(184)	1,265
Transfers between related parties	55	21	55	21
<b>Balance at the end of the financial year</b>	<b>(61,152)</b>	<b>(4,444)</b>	<b>(46,361)</b>	<b>(1,186)</b>

### 7.4 Deferred tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>Deferred tax assets are attributable to:</b>				
Depreciable assets	2,571	3,417	1,583	3,096
Employee benefits	10,690	5,781	8,314	3,533
Payables and other liabilities	8,244	4,627	8,048	4,305
<b>Total deferred tax assets</b>	<b>21,505</b>	<b>13,825</b>	<b>17,945</b>	<b>10,934</b>
<b>Deferred tax liabilities are attributable to:</b>				
Investments	(556)	(72)	(72)	(72)
Deferred acquisition costs	(38,427)	(36,231)	(32,160)	(30,504)
Risk margins	(3,575)	(3,465)	-	-
<b>Total deferred tax liabilities</b>	<b>(42,558)</b>	<b>(39,768)</b>	<b>(32,232)</b>	<b>(30,576)</b>
<b>Net deferred tax liabilities</b>	<b>(21,053)</b>	<b>(25,943)</b>	<b>(14,287)</b>	<b>(19,642)</b>
<b>Movements</b>				
<b>Deferred tax assets</b>				
Balance at the beginning of the financial year	13,825	16,531	10,934	13,508
Movement recognised in profit or loss	3,047	(1,865)	2,378	(2,072)
Reclassification	-	(339)	-	-
Recognised in other comprehensive income	4,633	(502)	4,633	(502)
<b>Balance at the end of the financial year</b>	<b>21,505</b>	<b>13,825</b>	<b>17,945</b>	<b>10,934</b>
<b>Deferred tax liabilities</b>				
Balance at the beginning of the financial year	(39,768)	(37,988)	(30,576)	(29,198)
Movement recognised in profit or loss	(2,790)	(2,119)	(1,656)	(1,378)
Reclassification	-	339	-	-
<b>Balance at the end of the financial year</b>	<b>(42,558)</b>	<b>(39,768)</b>	<b>(32,232)</b>	<b>(30,576)</b>

## Notes to the financial statements (continued)

### 8. Cash and cash equivalents

	Consolidated		Company	
	2019	2018	2019	2018
	\$'000	\$'000	\$'000	\$'000
Cash at bank and on hand	15,074	12,036	11,024	8,438
Shared property reinstatement deposits (Note 17)	825	8,627	772	6,976
Cash held within investment portfolios	49,858	67,524	40,062	59,031
<b>Total cash and cash equivalents</b>	<b>65,757</b>	<b>88,187</b>	<b>51,858</b>	<b>74,445</b>

Shared property reinstatement deposits relate to advances received from other insurers and property owners for multi-unit property reinstatements arising from the Canterbury earthquake where the Group acts as the lead insurer to facilitate the property reinstatement on behalf of all property owners. These amounts are held in a separate bank account for the sole purpose of undertaking these property reinstatements.

### 9. Receivables and other assets

	Consolidated		Company	
	2019	2018	2019	2018
	\$'000	\$'000	\$'000	\$'000
<b>Trade and other receivables</b>				
Premiums due	599,465	550,510	388,188	367,499
Amounts due from related parties (Note 28.2)	706	1,588	2,043	3,414
Prepaid expenses	17	127	-	-
Amounts due from reinsurers	62,521	69,068	53,169	65,466
Provision for bad and doubtful debts	(7)	(5)	-	-
<b>Total trade and other receivables</b>	<b>662,702</b>	<b>621,288</b>	<b>443,400</b>	<b>436,379</b>
<b>Other assets</b>				
Accrued income	6,275	5,086	4,476	3,350
Investment receivables	-	33	-	12
Other assets	4,593	21,790	4,447	18,812
Total other assets	10,868	26,909	8,923	22,174
<b>Total receivables and other assets</b>	<b>673,570</b>	<b>648,197</b>	<b>452,323</b>	<b>458,553</b>
Current	673,570	648,197	452,323	458,553
<b>Total receivables and other assets</b>	<b>673,570</b>	<b>648,197</b>	<b>452,323</b>	<b>458,553</b>
<b>Movements in provision for bad and doubtful debts</b>				
Balance at the beginning of the financial year	(5)	(4)	-	-
Provision raised during the financial year	(2)	(1)	-	-
<b>Balance at the end of the financial year</b>	<b>(7)</b>	<b>(5)</b>	<b>-</b>	<b>-</b>

## Notes to the financial statements (continued)

### 10. Investment securities

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<i>Financial assets at fair value through profit or loss</i>				
<i>Interest bearing securities</i>				
Debentures and corporate bonds	304,030	259,307	190,363	155,420
Government and semi-government securities	212,435	224,693	163,487	153,248
Discounted securities*	373,902	210,719	246,049	134,064
<b>Total interest bearing securities</b>	<b>890,367</b>	<b>694,719</b>	<b>599,899</b>	<b>442,732</b>
Unit trusts	123,599	92,174	-	-
Equities	445	458	445	458
<b>Total investment securities</b>	<b>1,014,411</b>	<b>787,351</b>	<b>600,344</b>	<b>443,190</b>

\* Discounted securities include floating rate notes, term deposits and commercial papers.

### 11. Reinsurance and other recoveries receivable

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Expected future reinsurance and other recoveries undiscounted	496,466	783,604	425,732	706,567
Discount to present value	(6,963)	(19,136)	(5,249)	(16,806)
<b>Total reinsurance and other recoveries receivable</b>	<b>489,503</b>	<b>764,468</b>	<b>420,483</b>	<b>689,761</b>
Current	197,406	465,237	171,650	424,442
Non-current	292,097	299,231	248,833	265,319
<b>Total reinsurance and other recoveries receivable</b>	<b>489,503</b>	<b>764,468</b>	<b>420,483</b>	<b>689,761</b>

Details of the uncertainties that exist in measuring reinsurance recoveries arising from the Canterbury and Kaikoura earthquakes are explained in Note 19.1.

### 12. Deferred reinsurance premiums

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Balance at the beginning of the financial year	162,284	152,743	131,339	123,471
Reinsurance premium liability incurred	202,159	207,768	148,030	163,372
Reinsurance premium charged to profit or loss	(202,511)	(198,227)	(156,230)	(155,504)
<b>Balance at the end of the financial year</b>	<b>161,932</b>	<b>162,284</b>	<b>123,139</b>	<b>131,339</b>

## Notes to the financial statements (continued)

### 13. Deferred acquisition costs

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Balance at the beginning of the financial year	129,397	121,898	108,942	104,031
Acquisition costs deferred	329,820	289,856	283,033	248,922
Amortisation charged to profit or loss	(332,108)	(291,894)	(282,382)	(248,499)
Reinsurance commission recognised in profit or loss	10,130	9,537	5,263	4,488
<b>Balance at the end of the financial year</b>	<b>137,239</b>	<b>129,397</b>	<b>114,856</b>	<b>108,942</b>

### 14. Investment in subsidiaries

	Company	
	2019 \$'000	2018 \$'000
<b>Shares in subsidiaries</b>	<b>37,304</b>	<b>37,304</b>

The Company's investments in subsidiaries comprise shares held at cost. All entities are incorporated in New Zealand and have a balance date of 30 June.

Trading subsidiaries	Principal activity	Company	
		2019 %	2018 %
AA Insurance Limited	General Insurance	68	68
Vero Liability Insurance Limited	General Insurance	100	100

### 15. Investment in joint venture

	Consolidated	
	2019 %	2018 %
<b>Share of interest in joint venture</b>	<b>\$'000</b>	<b>\$'000</b>
AA Home Limited	58	108

The Group has a joint venture interest in AA Home Limited. AA Home Limited is incorporated in New Zealand and its principal activity is the provision of home repair services to customers. The balance date for AA Home Limited is 30 June.

### 16. Intangible assets

Intangible assets consist of two main components, goodwill and computer software. The value of the goodwill has been reviewed for impairment in accordance with NZ IAS 36 *Impairment of Assets*. Goodwill is deemed to have an indefinite useful life and has therefore not been amortised. Computer software is deemed to have a finite life and is amortised at a rate of 20%-33% per annum on a straight line basis.

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Goodwill	21,902	21,902	22,441	22,441
Computer software	7,498	15,734	7,498	15,734
<b>Total intangible assets</b>	<b>29,400</b>	<b>37,636</b>	<b>29,939</b>	<b>38,175</b>

## Notes to the financial statements (continued)

### 16.1 Goodwill

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
At 1 July				
Cost	27,067	27,067	27,543	27,543
Accumulated impairment	(5,165)	(5,165)	(5,102)	(5,102)
Balance at the beginning of the financial year	21,902	21,902	22,441	22,441
At 30 June				
Cost	27,067	27,067	27,543	27,543
Accumulated impairment	(5,165)	(5,165)	(5,102)	(5,102)
Balance at the end of the financial year	21,902	21,902	22,441	22,441

### 16.2 Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to significant cash generating units (CGU) as outlined in the table below.

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
AA Insurance	13,235	13,235	13,410	13,410
AMP General	8,667	8,667	9,031	9,031
Carrying amount of goodwill	21,902	21,902	22,441	22,441

The carrying amount of each CGU, including the allocated goodwill, is compared to its recoverable amount determined based on a value-in-use basis. If the recoverable amount is lower, the goodwill is written down. If the recoverable amount is lower than the carrying amount of the CGU after the write down of the goodwill, the assets within the CGU are to be impaired on a proportional basis.

Value in use was determined by discounting the future cash flows generated from the continuing use of these units and was based on the following key assumptions, for which the values have been obtained on the basis of past experience:

- Cash flows are projected from the financial forecasts prepared by the business units covering a three-year period, extended to five years based on specific assumptions for the fourth and fifth year;
- A terminal growth rate of 2.5% (2018: 2.5%) is used to extrapolate cash flows beyond the five-year projections, which does not exceed the long-term average growth rate for the industry;
- The weighted average cost of capital of 8.1% (2018: 8.2%) is used as the post-tax discount rate.

At 30 June 2019, the recoverable amount exceeds carrying amount of each CGU including the goodwill, therefore no impairment loss has been recognised in profit or loss (2018: \$nil). Based on information available and market conditions at 30 June 2019, a reasonably possible change to any of the key assumptions made in this assessment would not cause the CGU's recoverable amount to be less than its carrying amount.

## Notes to the financial statements (continued)

### 16.3 Software

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
At 1 July				
Cost	64,225	61,973	62,567	60,315
Accumulated amortisation and impairment	(48,491)	(37,337)	(46,833)	(35,679)
<b>Balance at the beginning of the financial year</b>	<b>15,734</b>	<b>24,636</b>	<b>15,734</b>	<b>24,636</b>
Additions	(40)	2,252	(40)	2,252
Amortisation charge	(5,315)	(9,752)	(5,315)	(9,752)
Impairment charge	(2,881)	(1,402)	(2,881)	(1,402)
<b>Balance at the end of the financial year</b>	<b>7,498</b>	<b>15,734</b>	<b>7,498</b>	<b>15,734</b>
At 30 June				
Cost	64,185	64,225	62,527	62,567
Accumulated amortisation and impairment	(56,687)	(48,491)	(55,029)	(46,833)
<b>Balance at the end of the financial year</b>	<b>7,498</b>	<b>15,734</b>	<b>7,498</b>	<b>15,734</b>

### 17. Payables and other liabilities

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Trade creditors and accruals	120,457	92,049	93,664	64,513
GST payable	50,946	8,814	26,554	6,202
Investment payables	209	-	258	-
Amounts due to reinsurers	163,963	163,581	132,238	138,729
Shared property reinstatement advances (Note 8)	825	8,627	772	6,976
Amounts due to related parties (Note 28.2)	26,533	12,359	22,817	12,423
<b>Total payables and other liabilities</b>	<b>362,933</b>	<b>285,430</b>	<b>276,303</b>	<b>228,843</b>
Current	354,521	276,140	276,303	228,843
Non-current	8,412	9,290	-	-
<b>Total payables and other liabilities</b>	<b>362,933</b>	<b>285,430</b>	<b>276,303</b>	<b>228,843</b>

The Group has changed the timing of when it returns GST on instalment premiums during the year ended 30 June 2019 to align with when premiums are due or received from customers in line with the requirements of the Goods and Services Tax Act 1985. This has resulted in an increase in the GST payable balance at 30 June 2019 as compared to the balance at 30 June 2018.

### 18. Unearned premium liabilities

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Balance at the beginning of the financial year	757,668	683,758	492,368	450,612
Autosure portfolio transfer	(872)	(2,780)	(872)	(2,780)
Premiums written during the financial year (Note 4)	1,669,797	1,541,631	1,114,481	1,047,552
Premiums earned during the financial year (Note 4)	(1,605,921)	(1,464,941)	(1,083,363)	(1,003,016)
<b>Balance at the end of the financial year</b>	<b>820,672</b>	<b>757,668</b>	<b>522,614</b>	<b>492,368</b>

The Autosure portfolio transfer amounts relate to adjustments in respect of the unearned premium liabilities that were transferred as part of the disposal of this business during the 2017 financial year.



## Notes to the financial statements (continued)

### 18.1 Liability adequacy test

The liability adequacy test which was performed as at 30 June 2019 identified a surplus for the Group and Company (30 June 2018: surplus).

### 19. Outstanding claims liabilities

#### 19.1 Gross outstanding claims liabilities

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Gross central estimate - undiscounted	734,475	1,038,776	567,179	863,820
Discount to present value	(11,584)	(21,956)	(7,910)	(16,780)
Claim handling expenses	32,023	34,753	22,586	25,330
Risk margin	49,927	50,271	35,413	36,225
<b>Gross outstanding claims liabilities</b>	<b>804,841</b>	<b>1,101,844</b>	<b>617,268</b>	<b>908,595</b>
Current	423,851	723,134	332,634	610,153
Non-current	380,990	378,710	284,634	298,442
<b>Gross outstanding claims liabilities</b>	<b>804,841</b>	<b>1,101,844</b>	<b>617,268</b>	<b>908,595</b>

There is still uncertainty with regards to the estimation of gross outstanding claims liabilities and related reinsurance recoveries for the November 2016 Kaikoura earthquakes and the 2010 and 2011 Canterbury earthquake claims, despite continued progress in the settlement of these claims. The uncertainty on these events is large in dollar terms due to the volume, value and complexity of the outstanding earthquake claims relative to other outstanding claims on the statements of financial position. The level of uncertainty has however reduced since 30 June 2018.

At 30 June 2019, the central estimate of gross outstanding claims liabilities, plus the net risk margin, attributed to the Kaikoura earthquakes totals \$307 million and \$306 million for the Group and Company, respectively (2018: \$455 million and \$454 million respectively). The equivalent figures for the Canterbury earthquakes totals \$139 million and \$116 million for the Group and Company, respectively (2018: \$261 million and \$237 million respectively).

The central estimate represents actuarial estimates, as at 30 June 2019, of what the Group and Company ultimately has left to pay, prior to receiving any reinsurance recoveries in relation to these claims. Given the nature of the uncertainties associated with the remaining earthquake claims, including any recoveries from the Earthquake Commission, the actual claims experience may deviate, perhaps substantially, from the central estimate as at 30 June 2019.

The net risk margin represents additional provisions required to meet expected claim payments, net of all reinsurance, with a 90% probability of sufficiency. In the event of actual claims experience deviating from expectations, the net risk margin is designed to act as a buffer to minimise the impact on the Group's financial performance.

On behalf of the Company and Group, Suncorp Group Limited had an Adverse Development Cover (ADC) in place to cover Suncorp's net exposure to losses arising from the February 2011 Canterbury earthquake between AU \$3.1 billion and AU \$3.4 billion. Recoveries from this ADC arrangement have now been exhausted, with all recoveries being received in full.

Future movements in the AUD:NZD exchange rate can affect the net incurred claims position. This arises because claims are paid in New Zealand dollars, but the applicable catastrophe reinsurance programme is denominated in Australian dollars. An allowance is made for foreign exchange risk in the central estimate as well as the net risk margin.

## Notes to the financial statements (continued)

### 19.2 Reconciliation of movement in discounted outstanding claims liabilities

	Note	Consolidated		Company	
		2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Net outstanding claims liabilities at the beginning of the financial year		337,376	319,698	218,833	208,870
<i>Prior periods</i>					
Payments net of reinsurance and other recoveries		(206,628)	(191,538)	(147,857)	(134,942)
Movement in discounting		2,645	3,993	1,519	2,164
Margin release on prior periods		(21,479)	(21,253)	(14,799)	(14,957)
Incurred claims due to changes in assumptions and experience		(2,726)	51	(727)	1,777
Change in discount rate		2,179	714	592	225
Change in claims handling expense rate		(28)	(62)	-	(62)
Change in inflation assumption		(649)	135	(549)	87
Movement in risk margins		(848)	(2,697)	(2,037)	(3,336)
<i>Current period</i>					
Net ultimate incurred costs		717,689	758,527	439,228	488,622
Payments net of reinsurance recoveries		(512,193)	(530,192)	(297,418)	(329,615)
Net outstanding claims liabilities at end of the financial year		315,338	337,376	196,785	218,833
Reinsurance and other recoveries receivable	11	489,503	764,468	420,483	689,762
<b>Gross outstanding claims liabilities</b>		<b>804,841</b>	<b>1,101,844</b>	<b>617,268</b>	<b>908,595</b>

### 19.3 Claims development tables

The following tables show the development of undiscounted net outstanding claims relative to the ultimate expected claims for the ten most recent accident years.

Consolidated Accident year	Accident year											2019 Total \$'000
	Prior \$'000	2010 \$'000	2011 \$'000	2012 \$'000	2013 \$'000	2014 \$'000	2015 \$'000	2016 \$'000	2017 \$'000	2018 \$'000	2019 \$'000	
Estimate of ultimate claims cost:												
At end of accident year	24,487	173,474	44,976	27,357	28,346	29,590	32,328	31,563	31,232	37,205		37,205
One year later	19,450	201,947	46,363	27,371	29,103	32,625	31,316	30,973	33,874			33,874
Two years later	20,006	232,508	43,717	29,349	29,340	31,779	29,830	28,628				28,628
Three years later	21,692	279,859	40,554	28,041	27,469	31,996	28,408					28,408
Four years later	21,821	286,287	42,005	27,269	27,092	32,049						32,049
Five years later	21,988	280,470	44,083	28,656	27,776							27,776
Six years later	21,221	281,221	44,116	28,162								28,162
Seven years later	21,277	286,873	41,134									41,134
Eight years later	21,347	289,589										289,589
Nine years later	21,564											21,564
Current estimate of cumulative claims cost	209,470	21,564	289,589	41,134	28,162	27,776	32,049	28,408	28,628	33,874	37,205	777,859
Payments	209,143	21,458	274,306	40,250	26,449	26,341	26,527	20,975	19,550	17,594	8,452	691,045
Outstanding claims - undiscounted	327	106	15,283	884	1,713	1,435	5,522	7,433	9,078	16,280	28,753	86,814
Discount to present value	(2)	(3)	(970)	(6)	(38)	(30)	(132)	(200)	(265)	(481)	(774)	(2,901)
Outstanding claims - long tail	325	103	14,313	878	1,675	1,405	5,390	7,233	8,813	15,799	27,979	83,913
Outstanding claims - short tail												149,475
Claims handling expenses												32,023
Risk margin												49,927
Total net outstanding claims liabilities												315,338
Reinsurance and other recoveries receivable												489,503
<b>Total gross outstanding claims liabilities</b>												<b>804,841</b>

## Notes to the financial statements (continued)

### 19.3 Claims development tables (continued)

Company	Accident year											2019	Total
	Accident year	Prior	2010	2011	2012	2013	2014	2015	2016	2017	2018		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Estimate of ultimate claims cost:													
At end of accident year		6,022	146,243	23,465	7,997	9,407	8,561	8,887	6,934	6,818	9,285		9,285
One year later		5,185	174,381	24,074	6,793	9,105	7,150	7,136	6,443	7,000			7,000
Two years later		5,344	202,036	19,714	6,659	8,641	7,880	6,670	6,248				6,248
Three years later		5,394	242,500	15,488	6,631	7,847	7,944	6,642					6,642
Four years later		5,282	247,440	17,523	6,426	7,624	7,856						7,856
Five years later		5,393	242,584	17,546	7,200	8,455							8,455
Six years later		5,529	242,520	18,532	7,202								7,202
Seven years later		5,586	248,003	17,779									17,779
Eight years later		5,585	249,979										249,979
Nine years later		5,586											5,586
Current estimate of cumulative claims cost	127,823	5,586	249,979	17,779	7,202	8,455	7,856	6,642	6,248	7,000	9,285		453,855
Payments	127,715	5,579	236,479	17,405	7,185	8,453	7,811	6,518	5,658	5,322	3,094		431,219
Outstanding claims - undiscounted	108	7	13,500	374	17	2	45	124	590	1,678	6,191		22,636
Discount to present value	(2)	-	(864)	7	-	-	(1)	(1)	(8)	(21)	(81)		(971)
Outstanding claims - long tail	106	7	12,636	381	17	2	45	123	582	1,656	6,110		21,665
Outstanding claims - short tail													117,121
Claims handling expenses													22,586
Risk margin													35,413
Total net outstanding claims liabilities													196,785
Reinsurance and other recoveries receivable													420,483
Total gross outstanding claims liabilities													617,268

The claims development tables disclose amounts net of reinsurance and third party recoveries to give the most meaningful insight into the impact on profit or loss. Short-tail claims are disclosed separately as they are generally subject to less uncertainty since they are normally reported soon after the incident.

### 19.4 Actuarial Assumptions and Methods

#### a) Assumptions

The following key assumptions have been applied in determining the net outstanding claims liabilities of the Group and Company including claims arising from the Canterbury and Kaikoura earthquakes:

	Consolidated		Company	
	2019	2018	2019	2018
Weighted average term to settlement (years)	0.97	0.89	0.53	0.56
Economic inflation rate	1.9%	2.3%	1.6%	2.1%
Superimposed inflation rate	1.6%	1.5%	0.2%	0.2%
Discount rate	1.3%	2.0%	1.3%	1.9%
Claim handling expense ratio	9.0%	10.6%	8.7%	11.4%
Risk margin	18.8%	17.5%	21.9%	19.8%

**Weighted average term to settlement** - The average weighted term to settlement is calculated separately by class of business and is based on historic settlement patterns.

## Notes to the financial statements (continued)

### a) Assumptions (continued)

**Economic and superimposed inflation** - Economic inflation is based on economic indicators such as the consumer price index and/or increases in average weekly earnings. Superimposed inflation reflects the tendency for some costs, such as court awards, to increase at levels in excess of economic inflation. Inflation assumptions are set at a class of business level and reflect past experience and future expectations

In some cases, no explicit assumption for inflation has been made. Instead, there is an implicit assumption that future inflation will be in line with past inflation. In these situations, the inflation assumption has been estimated after considering current information on a number of suitable indices.

**Discount rate** - The outstanding claims liability is discounted at a rate equivalent to that inherent in a portfolio of riskless fixed interest securities with coupon and redemption cash flows exactly matching the projected inflation claim cash flows.

**Claim handling expense allowance** - An estimate of outstanding claim liability will typically incorporate an allowance for the future cost of administering the claims. This allowance is determined after analysing claims related expenses incurred by the portfolio in question, adjusted for the expected pattern of payment of claim handling expenses during the life of a claim.

**Risk margin** - The overall risk margin is determined after analysing the relative uncertainty of the outstanding claims estimate for each class of business and the diversification between classes.

The assumptions regarding uncertainty for each class are applied to the net central estimates, and the results aggregated, allowing for diversification in order to arrive at an overall provision, which is intended to have a 90% (2018: 90%) probability of sufficiency (**POS**).

A net risk margin at an approximate 90% POS (2018: 90%) has been included in the net outstanding claims provision in respect of the 2010 and 2011 Canterbury earthquakes. The net risk margin takes into account the retention and limits of the 2010 and 2011 Suncorp Group catastrophe programmes; the timing of cash flows and the currency exchange rates that are likely over the future payment period.

### b) Impact of changes in assumptions

The Group and the Company conduct sensitivity analyses to quantify the exposure to the risk of changes in the key underlying actuarial assumptions. A sensitivity analysis is conducted on each variable, whilst holding all other variables constant. The tables below describe how a change in each assumption will affect the profit before tax. There is no impact on equity reserves.

	Movement in variables	Consolidated		Company	
		2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Weighted average term to settlement - years	+0.5	(3,604)	(2,998)	(548)	(475)
	-0.5	3,563	2,972	546	474
Inflation rate	+1%	(2,871)	(2,770)	(1,014)	(1,166)
	-1%	2,872	2,774	1,018	1,171
Discount rate	+1%	2,910	2,796	1,014	1,165
	-1%	(2,966)	(2,847)	(1,029)	(1,182)
Claim handling expense ratio	+1%	(2,894)	(3,049)	(1,811)	(1,965)
	-1%	2,894	3,049	1,811	1,965
Risk margin	+1%	(2,654)	(2,871)	(1,614)	(1,826)
	-1%	2,654	2,871	1,614	1,826

## Notes to the financial statements (continued)

### c) Actuarial information

Kate Dron is the Appointed Actuary for Vero Insurance New Zealand Limited (VINZL). She is a Fellow of the New Zealand Society of Actuaries and a Fellow of the Institute and Faculty of Actuaries (UK). The Appointed Actuary for VINZL receives a proportion of remuneration based on the financial results of the Suncorp Group. Adam Follington, of The Quantum Group Pty Limited is the Appointed Actuary for Vero Liability Insurance Limited (VLIL) and AA Insurance Limited (AAIL). Mr Follington is a Fellow of the New Zealand Society of Actuaries. Mr Follington has no financial interest in the Group.

According to section 77(1) of the Insurance (Prudential Supervision) Act 2010 (IPSA) the Appointed Actuaries must review the actuarial information in, or used in the preparation of, the financial statements.

The outstanding claims reserves disclosed for the Group have been calculated in accordance with the New Zealand Society of Actuaries Professional Standard No. 30 "Valuations of General Insurance Claims". The effective date of the respective Appointed Actuaries' advice is 30 June 2019.

The Appointed Actuaries are satisfied that they have obtained all the information and explanations required. They are satisfied that the actuarial information has been used appropriately in the preparation of the financial statements and included appropriately in the financial statements.

In particular, the Appointed Actuaries are satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liabilities. There were no qualifications contained in their respective actuarial advice. The key assumptions used in the compilations of the reserves as at 30 June 2019 have been outlined above.

In addition, the Company's Board Audit and Risk Committee (BARC) receives a Financial Condition Report (FCR) annually from the Appointed Actuary of the Company in accordance with IPSA. The purpose of the FCR is to provide the Appointed Actuary's objective assessment of the Company's overall financial condition. It considers, among other things, the material risks facing the Company that, in the Appointed Actuary's opinion, pose a threat to its ability to remain financially solvent now and in the future. The Appointed Actuary for the Company's licensed insurance subsidiaries, VLIL and AAIL, also provides an FCR to his respective BARCs.

### 20. Employee benefit obligations

	Consolidated		Company	
	2019	2018	2019	2018
	\$'000	\$'000	\$'000	\$'000
Employee entitlements	8,889	8,365	-	-
Net defined benefit liability	29,144	12,203	29,693	12,617
<b>Total employee benefit obligation</b>	<b>38,033</b>	<b>20,568</b>	<b>29,693</b>	<b>12,617</b>
Current	8,889	8,365	-	-
Non-current	29,144	12,203	29,693	12,617
<b>Total employee benefit obligation</b>	<b>38,033</b>	<b>20,568</b>	<b>29,693</b>	<b>12,617</b>

## Notes to the financial statements (continued)

### 20.1 Defined benefit superannuation funds

The Group participates in three defined benefit superannuation funds which provide benefits to members on retirement, disability or death. These defined benefit superannuation funds are now closed to new members, with new employees now being offered membership of a defined contribution fund.

The following tables summarise the deficit position for each defined superannuation benefit fund

Consolidated	2019			2018		
	Surplus \$'000	Deficit \$'000	Net \$'000	Surplus \$'000	Deficit \$'000	Net \$'000
Vero & Asteron New Zealand Staff Pension Scheme	-	(25,138)	(25,138)	-	(10,796)	(10,796)
RIG Superannuation Fund	-	(1,833)	(1,833)	-	(616)	(616)
Commercial Union General Insurance Staff Pension Scheme	-	(2,173)	(2,173)	-	(791)	(791)
<b>Total net defined benefit liability</b>	<b>-</b>	<b>(29,144)</b>	<b>(29,144)</b>	<b>-</b>	<b>(12,203)</b>	<b>(12,203)</b>

Company	2019			2018		
	Surplus \$'000	Deficit \$'000	Net \$'000	Surplus \$'000	Deficit \$'000	Net \$'000
Vero & Asteron New Zealand Staff Pension Scheme	-	(25,687)	(25,687)	-	(11,210)	(11,210)
RIG Superannuation Fund	-	(1,833)	(1,833)	-	(616)	(616)
Commercial Union General Insurance Staff Pension Scheme	-	(2,173)	(2,173)	-	(791)	(791)
<b>Total net defined benefit liability</b>	<b>-</b>	<b>(29,693)</b>	<b>(29,693)</b>	<b>-</b>	<b>(12,617)</b>	<b>(12,617)</b>

The characteristics of the defined benefit superannuation funds and their associated risks are summarised as follows:

- Members receive regular pension payments or deferred pension payments. The amount of pension payable upon retirement of active members is determined based on final pensionable salary and pensionable service. Partial or full commutation of the pension may be allowed.
- The Financial Markets Conduct Act 2013 (**FMCA**), which replaced the Superannuation Schemes Act 1989) governs the superannuation industry and provides the framework within which superannuation funds operate. The FMCA requires an actuarial valuation to be performed for each defined benefit superannuation fund at least every three years.
- The Trustees of each fund are responsible for the governance of the fund. The Trustees have a legal obligation to act solely in the best interests of fund beneficiaries. The Trustees have the following roles:
  - Administration of the fund and payment to the beneficiaries from fund assets when required in accordance with the fund rules;
  - Management and investment of the fund assets; and
  - Compliance with superannuation law and other applicable regulations.
- The Financial Markets Authority licenses and supervises regulated superannuation funds.
- There are a number of risks to which each fund exposes the Group. The more significant risks relating to the defined benefit superannuation funds are:
  - Investment risk – The risk that investment returns will be lower than assumed and the Group will need to increase contributions to offset this shortfall.
  - Mortality risk – The risk that the members of the fund will live longer than assumed, increasing the number of pension payments and thereby requiring additional Group contributions.
  - Legislative risk – The risk that legislative changes could be made which increase the cost of providing the defined benefits.

## Notes to the financial statements (continued)

### 20.1 Defined benefit superannuation funds (continued)

- Other Suncorp Group entities participate in the funds and the amounts included in these financial statements relate to the Group's share in relation to the members that are attributable to the Group. The Group is not liable for any deficits or contributions attributable to other Suncorp Group entities.
- There were no fund amendments or curtailments during the year. In the year ended 30 June 2019 the Vero & Asteron New Zealand Staff Pension Scheme made two redundancy payments to members and these were treated as settlements.

#### a) Present value of superannuation commitments

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Fair value of fund assets at the end of the financial year	53,141	55,913	51,208	54,403
Defined benefit obligations at the end of the financial year	(72,668)	(64,089)	(71,103)	(62,857)
Adjustment for contributions tax	(9,617)	(4,027)	(9,798)	(4,163)
<b>Net liability recognised in the statements of financial position</b>	<b>(29,144)</b>	<b>(12,203)</b>	<b>(29,693)</b>	<b>(12,617)</b>

The value of assets and liabilities shown above are the combined values of the three funds.

#### b) Reconciliation of movements

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>Changes in the fair value of plan assets</b>				
Balance at the beginning of the financial year	55,913	55,197	54,403	53,760
Interest income	1,691	1,778	1,643	1,730
Actual return on plan assets less interest income	(195)	2,739	(593)	2,696
Contributions by Group companies	387	420	369	398
Contributions by plan participants	8	8	8	8
Benefits paid	(4,004)	(3,609)	(3,978)	(3,583)
Settlements	(371)	(282)	(371)	(282)
Premiums and expenses paid	(288)	(338)	(273)	(324)
<b>Balance at the end of the financial year</b>	<b>53,141</b>	<b>55,913</b>	<b>51,208</b>	<b>54,403</b>

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>Changes in the present value of defined benefit fund obligations</b>				
Balance at the beginning of the financial year	(64,089)	(64,098)	(62,857)	(62,935)
Current service cost	(647)	(655)	(621)	(630)
Interest expense	(1,945)	(2,076)	(1,906)	(2,037)
Contributions by plan participants	(8)	(8)	(8)	(8)
Actuarial (gains)/losses arising from changes in financial assumptions	(10,042)	(1,413)	(9,744)	(1,371)
Actuarial (gains)/losses arising from liability experience	(760)	(128)	(749)	(125)
Benefits paid	4,004	3,609	3,978	3,583
Settlements	531	342	531	342
Premiums and expenses paid	288	338	273	324
<b>Balance at the end of the financial year</b>	<b>(72,668)</b>	<b>(64,089)</b>	<b>(71,103)</b>	<b>(62,857)</b>

## Notes to the financial statements (continued)

### c) Categories of fund assets

	Consolidated		Company	
	2019	2018	2019	2018
Major categories of fund assets as a percentage of total fund assets	%	%	%	%
Equity	32.4	32.7	32.5	32.7
Fixed Income	37.2	37.1	37.2	37.1
Investments in managed funds	17.7	17.5	17.6	17.5
Cash	12.7	12.7	12.7	12.7
	100.0	100.0	100.0	100.0

The table above reflects the aggregate assets of the three defined benefit superannuation funds the Group participates in.

A review of the strategic asset allocation is undertaken periodically with the last review being completed in October 2017. The strategic asset allocation is implemented via investment mandates with external fund managers which sets a target weighting across asset classes to ensure appropriate asset-liability matching as well as benchmark return objectives.

### d) Principal actuarial assumptions

The principal actuarial assumptions used in the valuation of the defined benefit superannuation funds are as follows:

	Consolidated		Company	
	2019	2018	2019	2018
	%	%	%	%
<b>Vero &amp; Asteron New Zealand Staff Pension Scheme</b>				
Discount rate	1.94	3.24	1.94	3.24
Future salary increases	1.75 for 3 yrs then 2.0 thereafter	2.25 for 3 yrs then 2.5 thereafter	1.75 for 3 yrs then 2.0 thereafter	2.25 for 3 yrs then 2.5 thereafter
<b>RIG Superannuation Fund</b>				
Discount rate	1.60	2.82	1.60	2.82
Future salary increases	n/a	n/a	n/a	n/a
<b>Commercial Union General Insurance Staff Pension Scheme</b>				
Discount rate	1.82	3.02	1.82	3.02
Future salary increases	1.75 for 3 yrs then 2.0 thereafter	2.25 for 3 yrs then 2.5 thereafter	1.75 for 3 yrs then 2.0 thereafter	2.25 for 3 yrs then 2.5 thereafter

Mortality assumptions are based on the New Zealand Life Tables 2012-2014 with a one year age setback and an age related future mortality improvement scale, starting from 2013 (the mid-point of the period on which the base Life Table was produced). A one year offset is used to reflect the lower mortality expected of pensioners relative to the overall New Zealand population.

The weighted average duration (in years) of each of the defined benefit superannuation funds' obligation is:

	Consolidated		Company	
	2019	2018	2019	2018
Vero & Asteron New Zealand Staff Pension Scheme	13	13	13	13
RIG Superannuation Fund	8	8	8	8
Commercial Union General Insurance Staff Pension Scheme	11	10	11	10



## Notes to the financial statements (continued)

### e) Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding all other assumptions constant, would increase/(decrease) the aggregate defined benefit obligation by the amounts shown below:

	Consolidated		Company	
	2019 Increase \$'000	2019 Decrease \$'000	2019 Increase \$'000	2019 Decrease \$'000
Discount rate movement (100 basis points)	(8,344)	10,335	(8,088)	9,994
Future salary increases (100 basis points)	994	(905)	926	(848)
One year movement in life expectancy	2,593	(2,581)	2,546	(2,534)

### f) Funding

The objective of funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable. The funding requirements are based on an actuarial valuation performed for each defined benefit superannuation fund at least once every three years. The actuarial valuations for funding purposes prepared under applicable actuarial standards are different to the actuarial valuations prepared in accordance with accounting standards. Assumptions used in actuarial valuations for funding purposes may also be different to those described in section (d) above.

For the Vero & Asteron New Zealand Staff Pension Scheme other Suncorp Group entities also participate in the fund. The most recent statutory review was carried out as at 31 March 2017. The employers are currently contributing at a rate of 20% of active members' salaries (inclusive of contribution tax). In addition, currently each year lump sum contributions are considered; the amounts are subject to review by the trustees and employers following the actuary's interim actuarial advice. The most recent lump sum was \$950,000 (inclusive of contribution tax) made in the year to 30 June 2016.

For the RIG Superannuation Fund, the most recent statutory review was carried out as at 31 March 2016 and, on the basis of that review, no employer contributions are currently required.

For the Commercial Union General Insurance Staff Pension Scheme the most recent statutory review was carried out as at 31 March 2017 and on the basis of that review, no employer contributions are currently required.

The Group, via AA Insurance Limited and a related entity Suncorp NZ Employees Limited, intends to contribute \$449,000 to the defined superannuation benefit funds in the financial year ending 30 June 2020, being 20% of active members' salary in the Vero & Asteron New Zealand Staff Pension Scheme.

## Notes to the financial statements (continued)

### 21. Share capital and capital notes

	Company		Company	
	2019	2019	2018	2018
	Shares/ Notes No. (000)	Shares/ Notes \$'000	Shares/ Notes No. (000)	Shares/ Notes \$'000
Issued and fully paid ordinary shares	159,393	211,318	159,393	211,318
Shareholder contribution under equity settled employee share plans	-	6,311	-	6,311
<b>Total share capital</b>	<b>159,393</b>	<b>217,629</b>	159,393	217,629
Capital notes	592	59,191	592	59,191
<b>Total capital notes</b>	<b>592</b>	<b>59,191</b>	592	59,191
<b>Total share and capital notes</b>		<b>276,820</b>		276,820
<b>Movements in issued and fully paid ordinary shares</b>				
Balance at the beginning of the financial year	159,393	211,318	184,688	270,509
Repurchase of shares	-	-	(25,295)	(59,191)
<b>Balance at the end of the financial year</b>	<b>159,393</b>	<b>211,318</b>	159,393	211,318
<b>Movements in capital notes</b>				
Balance at the beginning of the financial year	592	59,191	-	-
Notes issued	-	-	592	59,191
<b>Balance at the end of the financial year</b>	<b>592</b>	<b>59,191</b>	592	59,191

#### 21.1 Share capital

The Company does not have authorised capital or par value in respect of its issued shares. All shares are fully paid. All shares rank equally with one vote attached to each fully paid ordinary share.

As at 30 June 2019, the Company had 159,392,655 ordinary shares with no par value issued to Suncorp Group Holdings (NZ) Limited (2018:159,392,655). During the year ended 30 June 2018 the Company repurchased 25,295,299 ordinary shares from Suncorp Group Holdings (NZ) Limited for \$59,191,000.

#### Capital notes

At 30 June 2019 the Company had 591,910 capital notes with a face value of \$59,191,000 issued to its parent Suncorp Group Holdings (NZ) Limited.

The capital notes are qualifying perpetual instruments and qualify as capital under the Solvency Standard for Non-life Business issued by the Reserve Bank of New Zealand. They are fully paid, perpetual, subordinated, unsecured securities.

The capital notes pay a distribution. Payments are floating rate, discretionary, non-cumulative, and scheduled to be paid quarterly, at the Company's discretion. They are calculated based on the sum of the three-month bank bill rate plus a 4% margin.

The Company has the option to redeem the instruments following a regulatory or tax event or if certain other requirements are met.

In the event of the winding-up of the Company, the rights of the holders will rank equally, and in priority to the rights of the ordinary shareholders only.

## Notes to the financial statements (continued)

### 22. Capital management

#### 22.1 Capital management policies and objectives

The Group is part of the Suncorp Group. The capital management strategy of the Suncorp Group is to optimise shareholder value, having regard to the need to hold sufficient capital to protect the interests of policy holders, and comply with relevant regulatory requirements, by managing the level, mix and use of capital resources. The primary objective is to ensure there are sufficient capital resources to maintain and grow the business, in accordance with risk appetite. The Suncorp Group's Internal Capital Adequacy Assessment Process (ICAAP) provides the framework to ensure that the Suncorp Group as a whole, and each regulated entity, is capitalised to meet internal and external requirements. The ICAAP is reviewed regularly and, where appropriate, adjustments are made to reflect changes in the capital needs and risk profile of the Suncorp Group.

The Company and its two general insurance subsidiaries, Vero Liability Insurance Limited and AA Insurance Limited, are licensed insurance companies in accordance with the Insurance (Prudential Supervision) Act 2010 (IPSA). All three companies manage their capital in accordance with the requirements of IPSA and the Solvency Standard for Non-life Insurance Business (the **Solvency Standard**) issued by the Reserve Bank of New Zealand.

The Company and its licensed insurance subsidiaries are required to maintain a solvency margin of at least \$0, i.e. actual solvency capital as determined under the Solvency Standard should be at or above the minimum solvency capital level. The actual amount retained as minimum solvency capital and determined by the Directors of the companies as appropriate to ensure their financial soundness, and the basis for determining the amount are set out below.

The Group and Company satisfied all externally imposed capital requirements which they were subject to during the year ended 30 June 2019.

The Company and its licensed insurance subsidiaries have embedded in their capital management framework the necessary tests to ensure continuous and full compliance with the Solvency Standard.

The Company and its subsidiaries' Board Audit and Risk Committees oversee capital computations and maintains optimal capital structure by advising their respective Boards on dividend payments and share issues. In addition, the Group manages its required level of capital through analysis and optimisation of the product and asset mix, reinsurance program, catastrophe exposure and investment strategy.

#### 22.2 Capital composition

The Group and Company manage their capital by considering both regulatory and economic capital. The primary source of capital used by the Company is total equity attributable to owners. Total equity attributable to owners is included in the definition of "capital" in the Solvency Standard.

##### Regulatory capital

Regulatory capital is made up of two components, actual solvency capital and minimum solvency capital with the difference representing the solvency margin. The calculation of the solvency margin for the Group, being the Company and its two general insurance subsidiaries Vero Liability Insurance Limited and AA Insurance Limited (**Licensed Insurer Group**), and the Company is detailed below:

	Licensed Insurer Group		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Actual solvency	406,021	319,239	241,442	182,919
Minimum solvency capital	206,646	199,594	128,389	130,520
Solvency margin	199,375	119,645	113,053	52,399
Solvency ratio	1.96	1.60	1.88	1.40

## Notes to the financial statements (continued)

### 23. Credit rating

The Company and its general insurance subsidiaries have the following Standard & Poor's ratings which provides an indication of their ability to pay current and future claims.

	Credit Rating	
	2019	2018
Vero Insurance New Zealand Limited	A+	A+
Vero Liability Insurance Limited	A+	A+
AA Insurance Limited	A+	A+

### 24. Notes to the statements of cash flows

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>Profit for the financial year</b>	<b>217,328</b>	108,949	<b>171,013</b>	88,744
<b>Non-cash items</b>				
Movement in financial assets at fair value through profit or loss	(10,473)	286	(1,933)	5,152
Depreciation, amortisation and impairment expense	11,236	14,900	9,866	13,932
Changes in assets and liabilities related to Autosure disposal	1,953	-	1,953	-
(Gain)/Loss on disposal of plant and equipment	(4)	57	6	45
Share of joint venture loss	50	142	-	-
Movement in defined benefit fund	(11,778)	1,287	(11,912)	1,290
<b>Change in assets and liabilities</b>				
(Increase)/decrease in receivables and other assets	(25,406)	(91,230)	6,218	(64,623)
Decrease in reinsurance and other recoveries receivable	274,965	431,770	269,278	442,224
Decrease/(increase) in deferred reinsurance premiums	352	(9,541)	8,200	(7,868)
Increase in deferred acquisition costs	(7,842)	(7,499)	(5,914)	(4,911)
Decrease in current tax assets	-	4,743	-	6,609
(Increase)/decrease in deferred tax assets	(7,680)	2,706	(7,011)	2,574
Increase in payables and other liabilities	77,294	27,022	47,202	10,904
Increase in unearned premium liabilities	63,004	73,910	30,246	41,756
Increase in current tax liabilities	56,708	4,444	45,175	1,186
Decrease in outstanding claims liabilities	(297,003)	(414,092)	(291,327)	(432,261)
Increase/(decrease) in employee benefit obligations	17,465	129	17,076	(1,077)
Increase in deferred tax liabilities	2,790	1,780	1,656	1,378
<b>Net cash from operating activities</b>	<b>362,959</b>	149,763	<b>289,792</b>	105,054

## Notes to the financial statements (continued)

### 25. Financial instruments

#### 25.1 Comparison of fair value to carrying amounts

Investment securities are recognised and measured at fair value and therefore their carrying value equates to their fair value.

Investments traded in an active market are valued at the closing quoted market price. The significant majority of other investments are valued using independently sourced valuations that do not involve the exercise of judgement by management.

Financial assets and liabilities that are not recognised and measured at fair value include cash and cash equivalents, receivables and other assets and payables. The basis of recognition and measurement of these financial assets and liabilities is described in Note 31.

#### 25.2 Fair value hierarchy

Financial assets and liabilities that are recognised and measured at fair value are categorised by a hierarchy which identifies the most significant input used in the valuation methodology:

- Level 1 – quoted prices (unadjusted) in active markets for identical financial instruments.
- Level 2 – derived from other than quoted prices included within Level 1 that are observable for the financial instruments, either directly or indirectly.
- Level 3 – fair value measurement is not based on observable market data.

The Level 2 securities held by the Group represent investment securities valued using a market comparison technique. For investment securities the fair value is calculated using observable inputs from a non-active market for an identical security with the valuation reflecting the exit price for the security. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.

	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
<b>Consolidated</b>				
<b>As at 30 June 2019</b>				
<b>Financial assets</b>				
Investment securities	59,853	954,558	-	1,014,411
<b>As at 30 June 2018</b>				
<b>Financial assets</b>				
Investment securities	52,909	734,442	-	787,351
<b>Company</b>				
<b>As at 30 June 2019</b>				
<b>Financial assets</b>				
Investment securities	50,289	550,055	-	600,344
<b>As at 30 June 2018</b>				
<b>Financial assets</b>				
Investment securities	43,559	399,631	-	443,190

There have been no material transfers between Level 1 and Level 2 during the year ended 30 June 2019 for the Group or Company.

## Notes to the financial statements (continued)

### 25.3 Accounting classification

The carrying amount of financial assets and liabilities shown in the statements of financial position are as follows:

<b>Consolidated</b>				
	Financial Assets at Fair Value	Financial Assets at Amortised Cost	Financial Liabilities at Amortised Cost	Carrying amount
	\$'000	\$'000	\$'000	\$'000
<b>2019</b>				
Cash and cash equivalents	-	65,757	-	65,757
Receivables and other assets	-	673,570	-	673,570
Investment securities	1,014,411	-	-	1,014,411
	1,014,411	739,327	-	1,753,738
Payables and other liabilities*	-	-	(311,987)	(311,987)
<b>2018</b>				
Cash and cash equivalents	-	88,187	-	88,187
Receivables and other assets	-	648,197	-	648,197
Investment securities	787,351	-	-	787,351
	787,351	736,384	-	1,523,735
Payables and other liabilities*	-	-	(276,616)	(276,616)

\* Payables and other liabilities excludes GST payable which is not a financial liability as it is created as a result of statutory requirements as opposed to being a contractual obligation.

<b>Company</b>				
	Financial Assets at Fair Value	Financial Assets at Amortised Cost	Financial Liabilities at Amortised Cost	Carrying amount
	\$'000	\$'000	\$'000	\$'000
<b>2019</b>				
Cash and cash equivalents	-	51,858	-	51,858
Receivables and other assets	-	452,323	-	452,323
Investment securities	600,344	-	-	600,344
	600,344	504,181	-	1,104,525
Payables and other liabilities*	-	-	(249,749)	(249,749)
<b>2018</b>				
Cash and cash equivalents	-	74,445	-	74,445
Receivables and other assets	-	458,553	-	458,553
Investment securities	443,190	-	-	443,190
	443,190	532,998	-	976,188
Payables and other liabilities*	-	-	(222,641)	(222,641)

\* Payables and other liabilities excludes GST payable which is not a financial liability as it is created as a result of statutory requirements as opposed to being a contractual obligation.

## Notes to the financial statements (continued)

### 26. Risk management

#### 26.1 Risk management objectives and structure

The Company and subsidiaries are entities within the Suncorp Group and operate in accordance Suncorp Group risk management practices. The operations of the Company and Asteron Life Limited (**ALL NZ**) are delivered by the Suncorp New Zealand (**SNZ**) organisational 'Function' in the Suncorp Group. SNZ is not a legal entity. Vero Liability Insurance Limited (**VLIL**) and AA Insurance Limited (**AAIL**) are not part of the SNZ Function.

The Company's Board recognises that effective risk management is integral to the achievement of the Company's objectives. This is consistent with Suncorp Group Board objectives. The Company's BARC is responsible for making recommendations to the Company's Board in fulfilling its responsibilities with respect to the oversight of all categories of risk, which includes the identification, assessment and management of risk, and adherence to risk management and other policies and procedures. The Company's subsidiaries, VLIL and AAIL, have their own respective BARCs which also perform this role.

The Suncorp Group Board approved Enterprise Risk Management Framework (**ERMF**) has been adopted by the Company. It is subject to an annual review, updated for material changes as they occur and is approved by the Boards of the Company and its subsidiaries. The ERMF requires:

- Company Board approved Risk Appetite Statements (**RAS**) are linked to strategic business and capital plans. Risk Appetite is both set at Suncorp Group level and at the Function level in Board approved RAS. The SNZ RAS applies to the Company and ALL NZ. VLIL and AAIL have their own RAS;
- accountabilities and governance arrangements for the management of risk within the Three Lines of Defence model; and
- risk management processes.

The Three Lines of Defence model of accountability as it applies to the Company involves:

Line of Defence	Responsibility of	Accountable for
<b>First</b> – Manage risk and comply with adopted Suncorp Group, and Company-specific policies, frameworks, standards and guidelines and the Company's risk appetite	All business areas	<ul style="list-style-type: none"> <li>• Identify and manage the risks inherent in their operations including control testing</li> <li>• Ensure compliance with all legal and regulatory requirements and Company-adopted Suncorp Group, and Company-specific policies</li> <li>• Promptly escalate any significant actual and emerging risks for management attention</li> </ul>
<b>Second</b> – Independent functions own and monitor the application of risk frameworks, and measure and report on risk performance and compliance	All risk functions	<ul style="list-style-type: none"> <li>• Design, implement and manage the ongoing maintenance of risk frameworks and related policies</li> <li>• Advise and partner with the business in the design and execution of risk frameworks and practices</li> <li>• Develop, apply and execute risk frameworks</li> <li>• Facilitate the reporting of the appropriateness and quality of risk management</li> </ul>
<b>Third</b> – Independent assurance over internal controls and risk management practices	Internal auditors and specific obligations of the Appointed Actuaries	<ul style="list-style-type: none"> <li>• Decides the level and extent of independent testing required to verify the efficacy of internal controls</li> <li>• Validates the overall risk framework</li> <li>• Provides assurance that the risk management practices are functioning as intended</li> </ul>

## Notes to the financial statements (continued)

### 26.1 Risk management objectives and structure (continued)

The Company's Board has approved frameworks, policies and limits relating to key categories of risk faced by the Company. Management has the primary responsibility and accountability for embedding the risk management framework within the business operations of the Company. SNZ has a Chief Risk Officer who has the management responsibility for SNZ Chief Risk Office operations including Second Line of Defence risk, governance, regulatory affairs and compliance advice and services to SNZ. The Chief Risk Officer also provides specific conduct risk related oversight over the Company. The Chief Risk Officer:

- reports to the SNZ Chief Executive Officer and indirectly reports to the Suncorp Group Chief Risk Officer;
- provides risk and compliance services to VLIL;
- attends the AAIL Risk Committee meetings, AAIL BARCC and AAIL Board meetings and provides oversight of the AAIL risk and compliance function.

SNZ, VLIL and AAIL have in place a number of Management Committees, each with its own charter or terms of reference, to execute specified responsibilities in the risk framework.

These committees include an Asset and Liability Committee (**ALCO**), a Risk and Governance Committee (**RGC**), and a Customer Conduct Committee.

The primary role of the ALCO is to oversee the management of selected financial risks arising from the activities of the SNZ and VLIL businesses within the SNZ Boards and VLIL Board approved risk parameters: Insurance Risk (including the following economic aspects – Pricing, Reserving, Concentration and Reinsurance); Credit Risk; Market Risk; Asset and Liability Risk; and Liquidity Risk. The ALCO provides governance over aspects of the risk framework related to Finance Risk.

The RGC provides governance over the management of non-financial risks arising from the activities of the businesses within the SNZ Boards and VLIL Board approved risk parameters: Insurance Risk, Compliance Risk, Operational Risk and Strategic Risk.

The Customer Conduct Committee exists to assist senior management who oversee the management of conduct risk impacting on customers from an 'end-to-end' perspective, and make recommendations for improving customer outcomes and mitigating

SNZ's risk strategy is documented in the Board-approved SNZ Risk Management Programme (**RMP**). The RMP complies with the requirements for licensed insurers in New Zealand and operates in accordance with the ERMF. The RMP is subject to annual review and is submitted to the Reserve Bank of New Zealand for reference. Material changes to the RMP require RBNZ's prior consent.



## Notes to the financial statements (continued)

### 26.1 Risk management objectives and structure (continued)

AAIL has a Management Risk Committee whose primary role is to oversee the management of financial and non-financial aspects of risks arising from the activities of the business within the AAIL Board-approved risk parameters: Insurance Risk, Financial Risk, Operational and Compliance Risk and Strategic Risk.

The key risks addressed by the ERMF are described below.

Key risks	Definition
Credit and counterparty risk	The risk that the other party in an agreement will default / will not meet its contractual obligations in accordance with agreed terms.
Liquidity risk	The risk that the Group will be unable to service its cash flow obligations today or in the future.
Market risk	The risk of unfavourable changes in foreign exchange rates, interest rates, equity prices, credit spreads and market volatilities.
Asset and liability risk	The risk to earnings and capital from mismatches between assets and liabilities with varying maturity and repricing profiles and from mismatches in term.
Insurance risk	The risk that for any class of risk insured, the present value of actual claims payable will exceed the present value of actual premium revenues generated (net of reinsurance).
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes legal risk, but excludes strategic and reputational risks. This includes consideration of matters relating to external clients and business practices, including regulatory, statutory, fiduciary, and suitability requirements.
Compliance risk	The risk of legal or regulatory sanctions, financial loss, or loss to reputation which the Group may suffer as a result of its failure to comply with all applicable regulations, codes of conduct and good practice standards. This includes consideration of the creation and promotion of a culture of ethical conduct.
Strategic risk	The risk that the Group's business model or strategy is not viable due to external change and the execution of the Group's strategy.

Conduct risk is considered in the ERMF in the context of the organisation's risk culture, and relates to risk of inappropriate, unethical or unlawful behaviour on the part of Suncorp's employees and partners. Suncorp recognises that a strong organisational culture deriving from a clear and unambiguous tone from the top is a key enabler to managing conduct risk and maximising the outcomes for our customers, shareholders and employees. The Company has implemented a Conduct Risk Management Programme to provide a structured approach to conduct related matters.

Further information on the application of the Group's risk management practices is presented in the following sections:

- Note 26.2 Insurance risk management
- Note 26.3 to 26.5 Risk management for financial instruments: credit, liquidity and market risks. Financial instrument risk is not assessed on a look through basis.

## Notes to the financial statements (continued)

### 26.2 Insurance risk management

#### a) Policies and practices for mitigating insurance risk

Controls are implemented to manage the following components of insurance risk:

- pricing, including pricing strategies, technical pricing and pricing adequacy reviews;
- roles and responsibilities for pricing, the development and approval of new products and changes to existing products;
- processes that identify and respond to changes in the internal and external environment impacting insurance products;
- underwriting, including processes to consider aggregate exposures from a portfolio perspective to determine the actual exposure to particular risks or an event, monitoring of significant accumulation and concentration of risk, and guidelines around the utilisation of reinsurance in pricing and underwriting;
- delegated authorities for the acceptance, assessment and settlement of claims including operational and ex-gratia authority limits;
- procedures relating to the notification, assessment, evaluation, settlement and closure of claims, and processes to detect and reduce loss associated with claims risk; and
- reserving practices and procedures at individual claim and portfolio level.

Concentration of insurance risk is mitigated through diversification over classes of insurance business, industry segments and the use of reinsurer coverage. In relation to the use of reinsurer coverage catastrophe and facultative reinsurance contracts are purchased to ensure that any accumulation of losses from a single event or series of events is mitigated.

#### b) Terms and conditions of insurance business

Insurance contracts are generally entered into on an annual basis and at the time of entering into a contract all terms and conditions are negotiable or, in the case of renewals, renegotiated. Non-standard and long-term policies may only be written if expressly approved by a relevant delegated authority. There are no special terms and conditions in any non-standard contracts that would have a material impact on the consolidated financial statements.

### 26.3 Credit risk

The Group is exposed to and manages the following key sources of credit risk:

Key sources of credit risk	How are these managed
Premiums receivable	For instalment business, outstanding premiums on policies arise on those which are generally paid on a monthly instalment basis. Payment default will result in the termination of the insurance contract with the policyholders, eliminating both the credit risk and insurance risk for the unpaid balance. Where business is written through intermediaries, limited credit is provided under the terms and conditions of the agreement with the respective intermediary, with debtor control ensuring constant attention is paid to minimise overdue debts.
Investments in financial instruments	Investments in financial instruments in the investment portfolios are held in accordance with the investment mandates. Credit limits have been established within these mandates to ensure counterparties have appropriate credit ratings. A framework is in place that sets and monitors investment strategies and arrangements.
Reinsurance recoveries	Credit risk with respect to reinsurance programs is minimised by placement of cover with a number of reinsurers with strong credit ratings and in line with the applicable risk appetite statement. Eligible recoveries under reinsurance arrangements are monitored and managed internally and by specialised reinsurance brokers operating in the international reinsurance market.

## Notes to the financial statements (continued)

### 26.3 Credit risk (continued)

Concentration of credit risk arises when a number of financial instruments or contracts are entered into with the same counterparty or where a number of counterparties are engaged in similar business activities that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Concentration of credit risk is managed by individual counterparty and by credit rating. The Group and Company do not expect any counterparties to fail to meet their obligations given their credit ratings and therefore does not require collateral or other security to support credit risk exposures. Over-concentration of credit risk is avoided by placement of cover with a number of reinsurers as well as setting participation limits and minimum security requirements on the reinsurance programme. Reinsurance is placed only with companies with Standard & Poor's credit ratings (or equivalent if a Standard & Poor's rating is unavailable) of "A minus" or better in accordance with policy.

The carrying amount of the relevant asset classes in the statements of financial position represents the maximum amount of credit exposures.

For investment securities, credit ratings of counterparties for which credit risk is assessed only relate to the interest-bearing securities of the Group and Company which include interest-bearing securities held at fair value through profit or loss.

There has been no material change in the credit risk faced by the Group or Company or processes for managing the risk during the period. The Aggregate Risk Exposures Policy prescribes processes and requirements to comply with APRA Prudential Standard 3PS 221 'Aggregate Risk Exposures'. The Group has reporting obligations to the Suncorp Group for breaches of limits prescribed in the Policy. Currently the limits apply to aggregate exposures to each of the Australian major banks.

	Consolidated						
	Credit Rating				Non-investment grade	Not Rated	Total
	AAA	AA	A	BBB			
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2019</b>							
Cash and cash equivalents	-	45,740	20,017	-	-	-	65,757
Investment securities	75,196	521,299	270,513	23,359	-	-	890,367
Reinsurance and other recoveries	-	191,490	202,015	-	-	95,998	489,503
Accrued income	-	-	-	-	-	6,275	6,275
Premiums due	-	-	-	-	-	599,465	599,465
Amounts due from related parties	-	-	706	-	-	-	706
Amounts due from reinsurers	-	12,317	50,204	-	-	-	62,521
	75,196	770,846	543,455	23,359	-	701,738	2,114,594
<b>2018</b>							
Cash and cash equivalents	-	63,054	25,133	-	-	-	88,187
Investment securities	63,699	475,698	138,485	16,837	-	-	694,719
Reinsurance and other recoveries net of recoveries received in advance	-	360,267	308,188	-	-	96,013	764,468
Accrued income	-	-	-	-	-	5,086	5,086
Investment receivables	-	-	-	-	-	33	33
Premiums due	-	-	-	-	-	550,510	550,510
Amounts due from related parties	-	-	1,588	-	-	-	1,588
Amounts due from reinsurers	-	26,412	42,656	-	-	-	69,068
	63,699	925,431	516,050	16,837	-	651,642	2,173,659

## Notes to the financial statements (continued)

### 26.3 Credit risk (continued)

Company	Credit Rating						Total \$'000
	AAA \$'000	AA \$'000	A \$'000	BBB \$'000	Non- investment grade \$'000	Not Rated \$'000	
<b>2019</b>							
Cash and cash equivalents	-	36,495	15,363	-	-	-	51,858
Investment securities	52,250	353,662	180,633	13,354	-	-	599,899
Reinsurance and other recoveries	-	180,092	177,248	-	-	63,143	420,483
Accrued income	-	-	-	-	-	4,476	4,476
Premiums due	-	-	-	-	-	388,188	388,188
Amounts due from related parties	-	-	2,043	-	-	-	2,043
Amounts due from reinsurers	-	5,941	47,228	-	-	-	53,169
	<b>52,250</b>	<b>576,190</b>	<b>422,515</b>	<b>13,354</b>	<b>-</b>	<b>455,807</b>	<b>1,520,116</b>
<b>2018</b>							
Cash and cash equivalents	-	49,322	25,123	-	-	-	74,445
Investment securities	44,127	303,318	85,197	10,090	-	-	442,732
Reinsurance and other recoveries	-	353,326	273,966	-	-	62,469	689,761
Accrued income	-	-	-	-	-	3,350	3,350
Investment receivables	-	-	-	-	-	12	12
Premiums due	-	-	-	-	-	367,499	367,499
Amounts due from related parties	-	-	3,414	-	-	-	3,414
Amounts due from reinsurers	-	24,340	41,126	-	-	-	65,466
	<b>44,127</b>	<b>730,306</b>	<b>428,826</b>	<b>10,090</b>	<b>-</b>	<b>433,330</b>	<b>1,646,679</b>

All financial assets are neither past due nor impaired at balance date except for those disclosed in the following table. An amount is considered past due when a contractual payment falls overdue by one or more days. When an amount is classified as past due, the entire balance is disclosed in the past due analysis presented.

Consolidated	Neither past due nor impaired \$'000	Past due but not impaired				Total \$'000	
		0-3 mths \$'000	3-6 mths \$'000	6-12 mths \$'000	>12 mths Impaired \$'000		
<b>2019</b>							
Premiums due	572,876	22,842	3,736	4	-	7	599,465
<b>2018</b>							
Premiums due	531,540	17,982	972	11	-	5	550,510

## Notes to the financial statements (continued)

### 26.3 Credit risk (continued)

Company	Neither past due nor impaired \$'000	Past due but not impaired				Impaired \$'000	Total \$'000
		0-3 mths \$'000	3-6 mths \$'000	6-12 mths \$'000	>12 mths \$'000		
<b>2019</b>							
Premiums due	363,021	21,547	3,620	-	-	-	388,188
<b>2018</b>							
Premiums due	349,127	17,435	926	11	-	-	367,499

### 26.4 Liquidity risk

To ensure payments are made when they fall due, the Group and Company has the following key facilities and arrangements in place to mitigate liquidity risks:

- investment portfolio mandates provide sufficient cash deposits to meet day-to-day obligations;
- investment funds set aside within the portfolio can be realised to meet significant claims payment obligations;
- in the event of a major catastrophe, cash access is available under the terms of reinsurance arrangements;
- mandated liquidity limits;
- regularity of premiums received provides substantial liquidity to meet claims payments and associated expenses as they arise; and
- flexibility in investment strategies implemented for investment management to provide sufficient liquidity to meet claim payments as they fall due, based on actuarial assumptions.

There has been no material change in the liquidity risk faced by the Group or Company or the policies and processes for managing the risk during the period.

There is no liquidity risk in respect of the capital notes issued by the Company as the notes are perpetual and do not include any provisions entitling the Holders to require the notes to be redeemed, although the terms of the notes do provide the Company the option to redeem if certain conditions are met.

The table below summarises the maturity profile of certain financial liabilities based on the remaining undiscounted contractual obligations. It also includes the maturity profile for outstanding claims liabilities determined on the discounted estimated timing of net cash outflows.

Consolidated	Carrying amount \$'000	1 year or less \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
<b>2019</b>					
Amounts due to reinsurers	163,963	163,963	-	-	163,963
Trade creditors and accruals	120,457	112,045	4,389	4,023	120,457
Outstanding claims liabilities	804,841	423,851	368,837	12,153	804,841
Amounts due to related parties	26,533	26,533	-	-	26,533
	<b>1,115,794</b>	<b>726,392</b>	<b>373,226</b>	<b>16,176</b>	<b>1,115,794</b>
<b>2018</b>					
Amounts due to reinsurers	163,581	163,581	-	-	163,581
Trade creditors and accruals	92,049	82,759	4,389	4,901	92,049
Outstanding claims liabilities	1,101,844	723,134	362,072	16,638	1,101,844
Amounts due to related parties	12,359	12,359	-	-	12,359
	<b>1,369,833</b>	<b>981,833</b>	<b>366,461</b>	<b>21,539</b>	<b>1,369,833</b>

## Notes to the financial statements (continued)

### 26.4 Liquidity risk (continued)

Company	Carrying amount	1 year or less	1 to 5 years	Over 5 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2019</b>					
Amounts due to reinsurers	132,238	132,238	-	-	132,238
Trade creditors and accruals	93,664	93,664	-	-	93,664
Outstanding claims liabilities	617,268	332,634	280,992	3,642	617,268
Amounts due to related parties	22,817	22,817	-	-	22,817
	<b>865,987</b>	<b>581,353</b>	<b>280,992</b>	<b>3,642</b>	<b>865,987</b>
<b>2018</b>					
Amounts due to reinsurers	138,729	138,729	-	-	138,729
Trade creditors and accruals	64,513	64,513	-	-	64,513
Outstanding claims liabilities	908,595	610,153	287,175	11,267	908,595
Amounts due to related parties	12,423	12,423	-	-	12,423
	<b>1,124,260</b>	<b>825,818</b>	<b>287,175</b>	<b>11,267</b>	<b>1,124,260</b>

### 26.5 Market risk

The main source of market risk comes from the investment portfolios. The Group and Company's business has distinct investment portfolios, each with their own investment mandate. The investment mandates specify investment restrictions including but not limited to, asset class limits, authorised investments, duration limits, derivative restrictions, minimum credit ratings and counterparty credit limits.

The Group and Company's investment portfolio is split into insurance funds and shareholder funds.

The insurance funds investment portfolios support the outstanding claims liabilities of the business. The portfolios are managed over benchmarks set in a manner consistent with the expected duration of claims payments, ensuring any variations from a matched position are constrained. Investments held are fixed interest securities.

The shareholder funds are held for the investment of funds in support of share capital and retained profits. To provide better expected returns on capital, the investment mandate for these portfolios have a more diverse investment strategy, predominantly including fixed interest securities and cash. The investment mandates balance expected investment returns, volatility of expected investment returns and the impact of volatility on both the capital adequacy and profitability of the business.

Investment securities are measured at fair value and changes in fair value are recognised in the profit or loss.

There has been no material change in the market risk faced by the Group or Company, nor the policies and processes for managing the risk during the period.

## Notes to the financial statements (continued)

### a) Interest rate risk

Interest rate risk arises from the investments in fixed rate interest-bearing securities. Interest rates have an impact on the values of both assets and liabilities and the main sources of loss are adverse changes in the valuation of investments in interest-bearing securities and outstanding claims liabilities.

A change in the market value of investments in interest-bearing securities is immediately recognised in the profit or loss. The insurance funds hold significant interest-bearing securities in support of corresponding insurance provisions and are invested in a manner consistent with the expected duration of claims payments.

The valuation of the outstanding claims liabilities includes the discounting to present value at balance date of expected future claim payments. Any assessment of the impact of changes in interest rates on investment income must include the offsetting adjustment to claims expense for changes in discount rates adopted in outstanding claims valuations. A movement of 100 basis points (2018:100 basis points) is considered reasonably possible and has been applied to the sensitivity analysis. This is disclosed in Note 19.4(b), represented by the impact of change in discount rate.

This risk is managed by establishing investment portfolio mandates on the basis of the appropriate matching principles so as to ensure the impact on the operating result of changes in the general level of market interest rates is minimised.

Although potential dividend payments on the capital notes issued by the Company reference an underlying floating interest rate to determine their quantum, as the payments are discretionary and non-cumulative there is no interest rate risk in respect of the capital notes.

The sensitivity of profit or loss after tax to movements in interest rates in relation to interest-bearing financial assets held at the balance date is shown in the table below. There is no impact on equity reserves. It is assumed that all residual exposures for the shareholder after tax are included in the sensitivity analysis, that the percentage point change occurs at the balance date and there are concurrent movements in interest rates and parallel shifts in the yield curves. A movement of 100 basis points (2018:100 basis points) is considered reasonably possible and has been applied to the sensitivity analysis.

Consolidated	2019			2018		
	Exposure \$'000	Change in variable %	Profit (loss) after tax & equity \$'000	Exposure \$'000	Change in variable %	Profit (loss) after tax & equity \$'000
Fixed interest bearing investment securities	410,004	+1	(7,822)	402,758	+1	(7,156)
		-1	8,156		-1	7,459
	410,004			402,758		

  

Company	2019			2018		
	Exposure \$'000	Change in variable %	Profit (loss) after tax & equity \$'000	Exposure \$'000	Change in variable %	Profit (loss) after tax & equity \$'000
Fixed interest bearing investment securities	283,910	+1	(5,258)	258,811	+1	(4,479)
		-1	5,475		-1	4,661
	283,910			258,811		

## Notes to the financial statements (continued)

### a) Interest rate risk (continued)

At the reporting date, measurement of the cash and cash equivalents is not sensitive to movements in the interest rates and so a change in interest rates as at reporting date would have no impact on either profit or equity from the measurement of cash and cash equivalents for the current financial year.

Fixed interest-bearing investment securities are recognised on the statements of financial position 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 and equity.

### b) Foreign exchange risk

The Group and Company are exposed to foreign exchange risk arising from the minimum deposit premiums associated with the Suncorp Group's catastrophe reinsurance treaty. The Group and Company hedges the minimum deposit premiums for the upcoming year to address the foreign exchange risk.

All claim payments in relation to the Canterbury Earthquake claims are made in New Zealand dollars. However, the catastrophe reinsurance programme applicable to these events is denominated in Australian dollars. An Adverse Development Cover (ADC) placed to cover Suncorp's net exposure to losses arising from the February 2011 Canterbury earthquake is also denominated in Australian dollars.

The difference in currency used for paying claims and determining reinsurance recoveries means that movements in the AUD:NZD exchange rate can affect the net incurred claims position. Allowance is made for this foreign exchange risk through actuarial estimates of the net outstanding claims liability.

With effect from the 30 June 2013 financial year, the Suncorp Group catastrophe reinsurance treaty includes a fixed AUD:NZD exchange rate to eliminate this foreign exchange risk on subsequent events.

With the exception of the above, the Group and Company is not exposed to material foreign exchange risk.

### c) Credit spread risk

The Group and Company is exposed to credit spread risk through its investments in interest-bearing securities. This risk is mitigated by incorporating a diversified investment portfolio, establishing maximum exposure limits for counterparties and minimum limits on credit ratings.

The table below presents a sensitivity analysis on how credit spread movements could affect profit or loss for the exposure as at the balance date. There is no impact on equity reserves.

Sensitivity of the Group and Company's credit exposure to a +/- 100 basis point (2018: 100 basis points) change in yield is as follows:

Consolidated	2019			2018		
	Exposure \$'000	Change in variable %	Profit (loss) after tax & equity \$'000	Exposure \$'000	Change in variable %	Profit (loss) after tax & equity \$'000
Discounted securities, corporate bonds and derivatives	677,932	+1	(5,579)	470,026	+1	(4,548)
		-1	5,809		-1	4,732
Government and local government securities	212,435	+1	(2,243)	224,693	+1	(2,608)
		-1	2,346		-1	2,726
	890,367			694,719		



## Notes to the financial statements (continued)

### c) Credit spread risk (continued)

Company	2019			2018		
	Exposure \$'000	Change in variable %	Profit (loss) after tax & equity \$'000	Exposure \$'000	Change in variable %	Profit (loss) after tax & equity \$'000
Discounted securities, corporate bonds and derivatives	436,412	+1 -1	(3,498) 3,637	289,484	+1 -1	(2,706) 2,812
Government and local government securities	163,487	+1 -1	(1,759) 1,838	153,248	+1 -1	(1,773) 1,849
	599,899			442,732		

### d) Equity price risks

The Group and Company hold investments that expose the Group to equity price risk. The profit or loss impact on equity price movement is determined by multiplying market value by the variable of +/- 500 basis points (2018: 500 basis points):

Consolidated	2019			2018		
	Exposure \$'000	Change in variable %	Profit (loss) after tax & equity \$'000	Exposure \$'000	Change in variable %	Profit (loss) after tax & equity \$'000
Domestic equities in unit trusts	15,658	+5 -5	564 (564)	11,752	+5 -5	423 (423)
Domestic fixed interest in unit trusts	56,210	+5 -5	2,024 (2,024)	42,410	+5 -5	1,527 (1,527)
International equities in unit trusts	22,227	+5 -5	800 (800)	15,877	+5 -5	572 (572)
International fixed interest in unit trusts	29,504	+5 -5	1,062 (1,062)	22,135	+5 -5	797 (797)
Domestic equities	445	+5 -5	16 (16)	458	+5 -5	16 (16)
	124,044			92,632		

Company	2019			2018		
	Exposure \$'000	Change in variable %	Profit (loss) after tax & equity \$'000	Exposure \$'000	Change in variable %	Profit (loss) after tax & equity \$'000
Domestic equities	445	+5 -5	16 (16)	458	+5 -5	16 (16)
	445			458		

## 26.6 Capital management

The Group and Company's capital management policies and objectives together with details of the amount of equity retained for the purpose of financial soundness are described in Note 22.

## Notes to the financial statements (continued)

### 27. Commitments of expenditure

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>Lease commitments</b>				
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	5,881	6,182	602	1,006
Later than one year but not later than 5 years	22,580	22,098	1,892	1,826
Later than 5 years	26,577	30,548	716	1,136
<b>Non cancellable operating leases</b>	<b>55,038</b>	<b>58,828</b>	<b>3,210</b>	<b>3,968</b>

The Group leases a number of commercial office premises and car parks throughout New Zealand with varying lease terms of up to 12 years from the date of inception with periodic rent reviews.

### 28. Related parties

#### 28.1 Controlling entities

Vero Insurance New Zealand Limited is a wholly owned subsidiary of Suncorp Group Holdings (NZ) Limited. The ultimate parent entity of the Company is Suncorp Group Limited, a company incorporated in Australia. All members of the Suncorp Group are considered to be related parties of the Group and Company. This includes the subsidiaries of Vero Insurance New Zealand Limited identified in Note 14.

Some of the Directors of the Company's subsidiary Vero Liability Insurance Limited (VLIL) are also Directors of Rasal Management Limited (Rasal). Rasal has a management agreement with VLIL to provide management services.

## Notes to the financial statements (continued)

### 28.2 Transactions and balances

Suncorp Group arranges reinsurance contracts with third parties on behalf of the Company and these transactions and balances have been included within the reinsurance transactions and balances recorded in the normal course of business.

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
<b>Premiums received</b>				
Fellow subsidiaries of the ultimate parent	102	120	85	104
<b>Premiums paid</b>				
Fellow subsidiaries of the ultimate parent	140	119	-	-
<b>Claims repair services</b>				
Fellow subsidiaries of the ultimate parent	18,720	20,015	4,490	5,018
<b>Reinsurance recoveries paid</b>				
Subsidiaries	-	-	26,813	34,853
Fellow subsidiaries of the ultimate parent	7	248	7	248
<b>Service and administration fees received</b>				
Subsidiaries	-	-	6,921	3,396
Fellow subsidiaries of the ultimate parent	1,316	1,914	1,275	1,893
Other related parties	209	238	-	87
<b>Service and administration fees paid</b>				
Subsidiaries	-	-	282	506
Fellow subsidiaries of the ultimate parent	147,909	163,342	132,517	148,906
Joint venture	728	113	-	-
<b>Management services and profit shares paid</b>				
Other related parties (Rasal)	2,802	2,454	-	-
<b>Reinsurance premiums paid</b>				
Fellow subsidiaries of the ultimate parent	14,634	13,432	12,732	11,819
<b>Forward foreign exchange contract settlement payment</b>				
Fellow subsidiaries of the ultimate parent	35,386	40,674	35,386	40,674
<b>Group tax loss offsets/tax transfers paid</b>				
Parent	55	21	55	21
<b>Capital Notes issued</b>				
Parent	-	59,191	-	59,191
<b>Share repurchase</b>				
Parent	-	59,191	-	59,191
<b>Dividends received/receivable</b>				
Subsidiaries	-	-	42,300	39,800
<b>Dividend paid</b>				
Parent	155,804	102,875	155,804	102,875

During the year ended 30 June 2018, a related entity Suncorp New Zealand Services Limited (SNZSL) was operationalised to act as the procurement and service company for certain Suncorp New Zealand companies. As a result, the Company is now recharged for certain shared operating costs instead of incurring them directly as in prior periods. These amounts are included in the "Service and administration fees paid" category in the preceding table.

## Notes to the financial statements (continued)

### 28.2 Transactions and balances (continued)

Aggregate amounts receivable from or payable to related parties as at 30 June 2019 and 30 June 2018 are as follows:

	Consolidated		Company	
	2019	2018	2019	2018
	\$'000	\$'000	\$'000	\$'000
<b>Amounts receivable from:</b>				
Parent	-	115	-	115
Subsidiaries	-	-	1,337	361
Fellow subsidiaries of the ultimate parent	706	1,473	706	2,938
<b>Total amounts receivable from related parties</b>	<b>706</b>	<b>1,588</b>	<b>2,043</b>	<b>3,414</b>
<b>Amounts payable to:</b>				
Subsidiaries	-	-	-	1,741
Fellow subsidiaries of the ultimate parent	24,630	10,859	22,817	10,682
Joint venture	109	35	-	-
Other related parties	1,794	1,465	-	-
<b>Total amounts payable to related parties</b>	<b>26,533</b>	<b>12,359</b>	<b>22,817</b>	<b>12,423</b>

All balances are unsecured, non-interest-bearing and repayable on demand.

The balance of \$376,000 for the Group and \$388,000 for the Company (2018: \$208,000 and \$39,000) payable to Capital S.M.A.R.T Repairs Australia Pty Limited, fellow subsidiary of the ultimate parent, is reported as part of the gross outstanding claims liabilities in Note 19.

### 28.3 Key management personnel

The Key Management Personnel (KMP) compensation is provided by the Group or by a related party of the ultimate parent entity. Remuneration provided other than by a Suncorp Group entity located in New Zealand is not included in this disclosure. This applies to M A Cameron for the years ended 30 June 2019 and 30 June 2018 and Dr D F McTaggart for the year ended 30 June 2019. They were remunerated by a related party of the ultimate parent outside of New Zealand and did not receive any compensation specifically related to their activities as a KMP of the Company. The KMP compensation is as follows:

	Consolidated		Company	
	2019	2018	2019	2018
	\$'000	\$'000	\$'000	\$'000
Short-term employee benefits	12,305	11,394	6,739	6,599
Post employment benefits	328	272	328	220
Long-term benefits	531	441	531	441
Termination benefits	-	529	-	529
Share based payment	1,341	1,476	1,341	1,476
<b>Total Compensation</b>	<b>14,505</b>	<b>14,112</b>	<b>8,939</b>	<b>9,265</b>

Compensation of KMP has been determined in accordance with their roles within Suncorp Group. In some cases employee service contracts do not include any compensation, including bonuses, specifically related to the role of KMP of the Company and to allocate a figure may be misleading. In some cases there is no link between KMP compensation and performance of the Company. Therefore, in such cases as there is no reasonable basis for allocating a KMP compensation amount to the Company, the entire compensation of the KMP has been disclosed above.

## Notes to the financial statements (continued)

### 29. Auditor's remuneration

	Consolidated		Company	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
During the year the auditor of the Company was paid for the following services:				
<b>Audit fees</b>				
Audit of annual accounts of the Company	588	606	588	606
Audit of annual accounts of the Company's subsidiaries	250	250	-	-
<b>Non-audit fees</b>				
Assurance engagements on RBNZ solvency returns of the Company	169	129	169	129
Assurance engagements on RBNZ solvency returns of the Company's subsidiaries	153	119	-	-
Agreed upon procedure engagements over profit share calculations	15	15	15	15
Tax advisory services	-	2	-	-
<b>Total auditor's remuneration</b>	<b>1,175</b>	<b>1,121</b>	<b>772</b>	<b>750</b>

### 30. Contingent liabilities

There are outstanding legal and other claims and possible claims against the Group (other than claims under contracts of insurance), the aggregate amount of which cannot be readily quantified. Where considered appropriate, legal advice has been obtained. The Group does not consider the outcome of any such claims known to exist at the date of this report, either individually or in aggregate, is likely to have a material effect on its operations or financial position. The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

### 31. Significant accounting policies

The Group's significant accounting policies set out below have been consistently applied by all Group entities to all periods presented in these consolidated financial statements.

#### 31.1 Basis of consolidation

The Group's consolidated financial statements are financial statements of the Company and all its subsidiaries presented as those of a single economic entity. Intra-group transactions and balances are eliminated on consolidation.

##### a) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date when control commences until the date when control ceases.

Investments in subsidiaries held by the Company are accounted for at cost in the separate financial statements of the Company less any impairment charges.

##### b) Non-controlling interests

Non-controlling interests occur when the Group does not hold 100% of the shares or units in a subsidiary. They represent the external equity or liability interests in non-wholly owned subsidiaries. Non-controlling interests are recognised as equity. Related items of income and expense are recognised in the profit or

## Notes to the financial statements (continued)

loss at their gross amounts, with the offsetting amount attributable to non-controlling interests disclosed separately in the profit or loss.

### 31.2 Business combinations

The acquisition method of accounting is used to account for business combinations by the Group. The cost of an acquisition is measured as the fair value of the assets transferred, liabilities incurred, and equity instruments issued by the Group at the acquisition date. Acquisition-related costs are expensed in the period in which they are incurred. Where equity instruments are issued in an acquisition, their value is the published market price at the acquisition date. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

The acquiree's identifiable assets acquired, liabilities assumed, contingent liabilities, and any non-controlling interests are measured at their fair values at the acquisition date. If the consideration transferred and any non-controlling interest in the acquiree is greater than the fair value of the net amounts of the identifiable assets acquired and liabilities assumed, the excess is recorded as goodwill; otherwise, the difference is recognised immediately in the profit or loss after a reassessment of the identification and measurement of the net assets acquired.

### 31.3 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity associated investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### 31.4 Foreign currency

Transactions denominated in foreign currencies are initially translated to New Zealand dollars at the spot exchange rates ruling at the date of the transaction. Foreign currency monetary assets and liabilities at the end of the reporting period are translated to New Zealand dollars at the spot rates of exchange current on that date. The resulting differences on monetary items are recognised in the profit or loss as exchange gains and losses in the financial year in which the exchange rates change. Foreign currency non-monetary assets and liabilities that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency non-monetary assets and liabilities that are stated at fair value are translated to New Zealand dollars at foreign exchange rates ruling at the dates the fair value was determined.

### 31.5 Revenue and expense recognition

#### a) Premium revenue

Premium revenue comprises amounts charged to policyholders. Premiums exclude applicable levies and charges such as fire service levies collected on behalf of third parties, and is recognised net of goods and services tax. Premiums are recognised as revenue in accordance with the pattern of the underlying risk exposure from the date of attachment over the period of the insurance policy, which is usually one year.

Premiums on unclosed business are brought to account by reference to the prior years' experience and information that has become available between the reporting date and the date of completing the consolidated financial statements.

#### b) Claims expense

Claims expense represents payments for claims and the movement in outstanding claims liabilities. Claims represent the benefits paid or payable to the policyholder on the occurrence of an event giving rise to a loss or accident according to the terms of the policy. Claims expenses are recognised in profit or loss as losses are incurred, which is usually the point in time when the event giving rise to the claim occurs.

## Notes to the financial statements (continued)

### c) Reinsurance

#### *Reinsurance commission revenue*

Commission received from reinsurers is recognised as revenue systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which it relates. This pattern of amortisation corresponds to the pattern of recognising the corresponding premium revenue.

#### *Reinsurance and other recoveries revenue*

Reinsurance and other recoveries receivable are measured as the present value of the expected future receipts, calculated on the same basis as outstanding claims liabilities.

#### *Outwards reinsurance expense*

Premiums ceded to reinsurers are recognised as an expense from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence of risk.

Reinsurance premiums are deferred and recognised as an asset where there are future economic benefits to be received from reinsurance premiums.

### d) Investment revenue

Interest income on financial assets or liabilities at amortised cost is recognised in profit or loss using the effective interest method. Interest income and expense on financial assets or liabilities at fair value are recognised in profit or loss when earned or incurred.

Dividends and distribution income are recognised when the right to receive income is established.

Investment revenue is classified as either investment income on insurance funds or shareholder funds. Investment income on insurance funds represents revenue derived from financial assets backing general insurance liabilities as detailed in Note 31.10(d) while investment income from shareholder funds represents revenue from financial assets that do not back general insurance liabilities.

## 31.6 Income tax

Income tax payable on profits, based on New Zealand applicable tax law, is recognised as an expense in the period in which profits arise.

Deferred income tax is provided in full and is recognised on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation of plant and equipment, revaluation of certain financial assets and liabilities, including derivative contracts, provision for employee entitlements, deferred acquisition costs, tax losses carried forward and in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. The rates enacted or substantially enacted at the reporting date are used to determine deferred income tax.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised.

The tax effect of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Where an item, which gives rise to a temporary difference, is recognised in or against equity, the deferred tax is also recognised in or against equity.

## Notes to the financial statements (continued)

### a) Goods and services tax

Revenue, expenses, assets and liabilities are recognised net of the recoverable amount of goods and services tax (**GST**), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or the amount of expense.

Net earned premium is net of the GST component of premium. Receivables and payables are stated inclusive of GST where applicable. The net amount of GST recoverable from, or payable to, the tax authority is included as an asset or liability in the statements of financial position.

### 31.7 Cash and cash equivalents

Cash and cash equivalents include cash on hand, other short-term highly liquid investments with original maturities of three months or less from the acquisition date, and deposits at call which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

For the purposes of the statements of cash flows, cash and cash equivalents consists of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are shown within liabilities in the statements of financial position unless a right of offset exists.

### 31.8 Receivables and other assets

Amounts due from policyholders, intermediaries and other receivables are initially recognised at fair value, being the amounts receivable. They are subsequently measured at amortised cost, using the effective interest method, less any impairment losses. Any impairment charge is recognised in the profit or loss. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts receivable according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. Non-current receivables are discounted using interest rates on government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash inflows.

### 31.9 Payables and other liabilities

These amounts represent liabilities for goods and services provided to the Group prior to the end of the period, which are unpaid.

### 31.10 Financial assets

The Company determines whether each financial asset's contractual cash flows are solely principal payments and interest (**SPPI**) and how the financial asset is managed.

#### a) Financial assets at fair value through profit or loss

A financial asset at fair value through profit or loss is a financial asset that meets either of the following conditions:

- It is classified as held for trading; or
- Upon initial recognition it is classified by the Group as at fair value through profit or loss.

Financial assets where contractual cash flows are not SPPI are classified at fair value through profit or loss (**FVTPL**). Assets that are SPPI but managed on a fair value basis are also classified at FVTPL. Where financial assets other than FVTPL back liabilities at fair value through profit or loss, this would create an accounting mismatch and the financial assets can be designated as at FVTPL to remove this mismatch.

Financial assets at FVTPL are initially recognised on the trade date at fair value. Transaction costs are recognised in the profit or loss as incurred. Subsequently, the assets are measured at fair value on each reporting date based on the quoted market price where available. Where a quoted price is not available one of the following valuation techniques are used to value the assets at reporting date: recent arm's length transactions, discounted cash flow analysis, option pricing models or other valuation techniques commonly used by market participants.



## Notes to the financial statements (continued)

### a) Financial assets at fair value through profit or loss (continued)

Fair value for the various types of financial assets is determined as follows:

- Listed unit trusts and shares - by reference to the quoted market price.
- Listed government and semi government securities - by reference to the quoted market price.
- Unlisted investments - at valuation based on recent arm's length transactions, reference to other instruments that have substantially the same characteristics, discounted cash flow analysis and other pricing models. The assumptions and valuations inputs in applying these market standard valuation methodologies are determined using observable market inputs, which include, but are not limited to, benchmark yields, reported trades of similar or identical instruments, broker-dealer quotes and reference data including market research.

Movements in fair value are taken immediately to the profit or loss.

### b) Financial assets at amortised cost

Financial assets at amortised cost, which include policyholder and other loan receivables, are financial assets with fixed and determinable payments that are not quoted in an active market. They are initially recognised on the date they are originated. They are initially measured at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method less any accumulated impairment losses.

An allowance for expected credit losses (**ECL**) is recognised for all debt instruments not held at fair value through profit or loss. Further information on ECL and impairment provisioning is provided in Note 31.12.

### c) Derecognition of financial assets

Financial assets are derecognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and all risk and rewards of ownership have been substantially transferred.

### d) General insurance activities

Certain assets are assessed under NZ IFRS 4 *Insurance Contracts* (those assets that are held to back general insurance liabilities), and under NZ IFRS 9 (those assets not backing general insurance liabilities).

#### *Financial assets backing general insurance liabilities*

The assets of the Group are assessed under NZ IFRS 4 *Insurance Contracts* to be assets that are held to back general insurance liabilities (referred to as insurance funds) and assets that represent shareholder funds.

The Group has designated financial assets held in portfolios intended to match the average duration of a corresponding insurance liability as assets backing general insurance liabilities. These financial assets include investment securities and are mandatorily measured at FVTPL.

All investment securities held to back general insurance liabilities are highly liquid securities. Despite some of these securities having maturity dates beyond the next twelve months, as they are highly liquid in nature and are actively traded, they have been classified as current.

#### *Financial assets not backing general insurance liabilities*

Financial assets that do not back general insurance liabilities include investments and loans and receivables. These investments are mandatorily measured at FVTPL. Loans and receivables are measured at amortised cost.

## Notes to the financial statements (continued)

### 31.11 Financial liabilities

Financial liabilities are initially recognised at fair value plus transaction costs that are directly attributable to the issue of the financial liability, except for financial liabilities at fair value through profit or loss which exclude transaction costs. A financial liability is derecognised when it is extinguished, that is, when the obligation specified in the contract is discharged or cancelled or expires.

Financial liabilities are classified into one of the following categories upon initial recognition. At each reporting date measurement depends upon the chosen classification.

#### a) Financial liabilities at fair value through profit or loss

A financial liability at fair value through profit or loss is a financial liability within the following categories:

- held for trading;
- derivative; or
- at fair value through profit or loss.

#### b) Financial liabilities at amortised cost

Financial liabilities, other than financial liabilities at fair value through profit or loss, are subsequently measured at amortised cost using the effective interest method.

### 31.12 Impairment

An allowance is recognised for expected credit losses (**ECL**) for all debt instruments not held at fair value through profit or loss. ECL are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows include cash inflows from the sale of collateral held or other credit enhancements (if any) that are integral to the contractual terms.

For cash and cash equivalents, receivables and other assets, and reinsurance and other recoveries (the debtors), the Company applies a simplified approach in calculating ECL. Under the simplified approach the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at each reporting date. The Company determines the ECL based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors (i.e., probability of default) and the economic environment.

Assets of the Group are assessed for indicators of impairment at each reporting date. Indicators include both internal and external factors. If any such indication exists, the asset's recoverable amount is estimated.

Goodwill acquired in a business combination, assets that have an indefinite useful life and intangible assets not yet available for use have their recoverable amount estimated annually.

An impairment loss is recognised whenever the asset's carrying amount exceeds its recoverable amount. Impairment losses are recognised in the profit or loss unless the asset has previously been revalued. In that case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through other comprehensive income. After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units) – this may be an individual asset or a group of assets.

For the purpose of assessing impairment of goodwill, goodwill is allocated to cash-generating units representing the Group's investment in each of its business lines, which are its primary reporting segments. Impairment losses, if any, recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then, to reduce the carrying amount of the other assets in the unit on a pro rata basis.

## Notes to the financial statements (continued)

### a) Calculation of recoverable amount

The recoverable amount of the Group's loans and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate computed at initial recognition of these financial assets. Receivables with a short duration are not discounted. The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The unwinding of the discount from initial recognition of impairment through to recovery of the written down amount is recognised through interest income.

### b) Reversal of impairment

An impairment loss for an asset other than goodwill is reversed in following periods if there are indications that the impairment loss previously recognised no longer exists or has decreased. The impairment loss is reversed in the profit or loss only to the extent that it increases the asset back to its original carrying amount before any impairment was recorded. An impairment loss recognised for goodwill is not reversed.

### 31.13 Lease transactions

Payments made under operating leases are expensed on a straight-line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

### 31.14 Plant and Equipment

#### a) Recognition and initial measurement

An item of plant and equipment is recognised (capitalised) as an asset if it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Plant and equipment is initially measured at cost, which comprises:

- purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- the initial estimate of the costs of removal and site restoration, if any.

#### b) Subsequent measurement

Subsequent additional costs are only capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the Group in future years. Where these costs represent separate components, they are accounted for as separate assets and are separately depreciated over their useful lives. Costs that do not meet the criteria for subsequent capitalisation are expensed as incurred.

The Group has elected to use the cost model (as opposed to the revaluation model) to measure plant and equipment after recognition. The carrying amount is the initial cost less accumulated depreciation and any accumulated impaired losses.

## Notes to the financial statements (continued)

### c) Depreciation

The depreciable amount of each item of plant and equipment is depreciated over its estimated useful life to the Group. The straight-line method of depreciation is adopted for all assets. Assets are depreciated from the date they become available for use. Where parts of an item of plant and equipment have different useful lives, they are accounted for as separate items of plant and equipment. Useful lives and depreciation methods are reviewed at each annual reporting period. Residual values, if significant, are reassessed annually.

The following depreciation rates have been used:

- Computer Hardware 33%
- Furniture and Fittings 20%
- Office Equipment 10%-33%
- Leasehold Alterations 20%
- Motor Vehicles 14%-26%

### d) Retirement

The carrying amount of plant and equipment is derecognised upon disposal or where no future economic benefits are expected from its use. The gain or loss arising from the derecognition is recognised in the profit or loss when the item is derecognised and calculated as the difference between the carrying amount of the asset at the time of derecognition and the net proceeds of derecognition.

## 31.15 Intangibles

### a) Initial recognition and measurement

Intangible assets, other than goodwill, are stated at cost less any accumulated amortisation and any accumulated impairment losses. Cost comprises all directly attributable costs necessary to purchase, create, produce, and prepare the asset to be capable of operating in the manner intended by management. Where an intangible asset is acquired in a business combination, the cost of that asset is its fair value at the acquisition date.

Expenditure on internally generated goodwill and brands is recognised in the profit or loss as an expense as incurred.

Intangibles comprise computer software and goodwill.

### b) Subsequent expenditure

Subsequent expenditure on intangible assets (not acquired in a business combination) is capitalised only when it increases the originally assessed future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

### c) Amortisation

Amortisation is charged to the profit or loss in a manner that reflects the pattern in which the asset's future economic benefits are expected to be consumed over the estimated useful lives of intangible assets, unless such lives are indefinite. An intangible asset is regarded as having an indefinite useful life when, based on all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group. Where the asset is deemed to have an indefinite life, it is not amortised but tested for impairment at least on an annual basis.

Where applicable, intangible assets are amortised from the date they are available for use and the amortisation period and method are reviewed on an annual basis.

The useful life of software has been assessed as three to five years and it is amortised on a straight line basis over this period.

### d) Goodwill

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investment in associates. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

## Notes to the financial statements (continued)

### 31.16 Employee benefit obligations

#### a) Short term employee benefits

##### *Annual leave*

Liabilities for annual leave due within 12 months are recognised in the statements of financial position. The liability is measured at undiscounted amounts using pay rates expected to be effective when the liability is to be paid in respect of employees' services up to the reporting date. Related on-costs such as payroll tax are also included in the liability.

##### *Sick leave*

Sick leave entitlements are non-vesting and are paid only upon valid claims for sick leave by employees. No liability for sick leave has been recognised as experience indicates that on average, sick leave taken each financial year is less than the entitlement accruing in that period. This experience is expected to recur in future financial years.

##### *Short term bonus plans*

A liability is recognised for short term bonus plans when a constructive obligation exists.

##### *Other leave and non-monetary benefits*

The cost associated with parental leave as well as non-monetary benefits such as car-parking, payments of professional memberships and discounts is recognised in the period in which the employee takes the benefits. A liability is not recognised for any non-accumulating benefits employees have not taken during the period.

#### b) Post-employment benefits (superannuation)

The Group contributes to both defined contribution and defined benefit superannuation funds. Contributions are charged to the profit or loss as the obligation to pay is incurred. Contributions outstanding at reporting date are treated as liabilities and prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments are available.

For defined contribution funds, the Group pays contributions to publicly or privately administered pension insurance funds on a mandatory, contractual or voluntary basis. The Group's legal or constructive obligation is limited to these contributions. The defined benefit superannuation funds provide defined pension annuities and lump sum benefits based on years of service and final average salary.

The Group's net obligation in respect of defined benefit superannuation funds is calculated separately for each fund by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any fund assets.

The calculation of defined benefit obligations is performed annually by independent actuaries using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of the economic benefits available in the form of any future refunds from the fund or reductions in the future contributions to the fund. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on fund assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability/(asset), taking into account any changes in the net defined benefit liability/(asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit superannuation funds are recognised in the profit or loss.

When the benefits of a fund are changed or when a fund is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss in the period in which they arise.

## Notes to the financial statements (continued)

### c) Other long term employee benefits

#### *Long service leave*

A liability for long service leave is recognised in the Statements of Financial Position. The liability is measured as the value of expected future payments to be made in respect of services provided by employees up to the reporting date.

#### *Annual Leave*

A liability for annual leave which will not be settled within 12 months after the reporting date is recognised in the statements of financial position. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

### d) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

## 31.17 Deferred insurance activities

### a) Deferred acquisition costs (DAC)

Acquisition costs include commissions and other selling and underwriting costs incurred in obtaining general insurance premiums. Acquisition costs are deferred and recognised as an asset when they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in profit or loss in subsequent reporting periods.

DAC are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate.

DAC are recognised as assets to the extent that the related unearned premiums exceed the sum of the DAC and the present value of both future expected claims and settlement costs, including an appropriate risk margin. Where there is a shortfall, the DAC asset is written down and if insufficient, an unexpired risk liability is recognised.

### b) Deferred reinsurance premiums

Deferred reinsurance premiums are recognised as assets in the statements of financial position. The amortisation of deferred reinsurance premiums is in accordance with the pattern of reinsurance service received. The amount deferred represents the future economic benefit to be received from reinsurance contracts.

## 31.18 Outstanding claims liabilities

The outstanding claims liability is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date and includes an additional risk margin to allow for the inherent uncertainty in the central estimate.

Standard actuarial methods are applied to all classes of business to assess the net central estimate of outstanding claims liabilities. The outstanding claims liability is heavily dependent on assumptions and judgements. The details of actuarial assumptions and the process for determining the risk margins are set out in Note 19.4.

## Notes to the financial statements (continued)

### 31.19 Unearned premium liabilities

Premium revenue received and receivable but not earned is recognised as unearned premium liabilities.

The carrying value of unearned premium liabilities is assessed at each reporting date by carrying out a liability adequacy test (LAT). This test assesses whether the net unearned premium liabilities less any DAC is sufficient to cover future claims costs for in-force insurance contracts. Future claims costs are calculated as the present value of the expected cash flows relating to future claims, and include a risk margin to reflect the inherent uncertainty in the central estimate. The assessment is carried out on the entire portfolio of contracts. If a LAT deficiency occurs at a company level, it is recognised in the profit or loss with a write-down of the DAC asset. Any remaining balance is recognised as an unexpired risk liability in the statements of financial position.

### 31.20 Contributed capital

#### a) Ordinary shares

Ordinary shares are recognised as equity.

#### b) Capital notes

Capital notes are recognised as equity where there is no contractual obligation to deliver cash or another financial asset in settlement of the notes. Capital notes are measured based on the consideration received net of issue costs. Interest paid in respect of capital notes recognised in equity is recognised as distributions from equity.

#### c) Transaction costs

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit. Transaction costs in excess of the proceeds of the equity instruments issued, or where no proceeds are raised, are recognised as an expense.

#### d) Capital contributions to subsidiaries

Contributions of capital to subsidiaries in the form of equity settled share based payments, are recognised as an increase in equity of the fair value of instruments provided at grant date.

#### e) Dividends

Provision is made for the amount of any dividend declared, determined or publicly recommended by the Directors on or before the end of the financial year but not distributed at reporting date.

Where a dividend is declared post reporting date but prior to the date of the issue of the financial reports, disclosure of the declaration is made in the financial statements but no provision is made.

### 31.21 Interest in joint venture

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

The interest in the joint venture is accounted for using the equity method. It is initially recognised at cost, which includes transaction cost. Subsequent to initial recognition, the financial statements include the Group's share of the profit or loss of the joint venture, until the date on which joint control ceases.

### 31.22 Contingent liabilities and contingent assets

Contingent liabilities are not recognised in the statements of financial position but are disclosed in the financial statements, unless the possibility of settlement is remote, in which case no disclosure is made. If settlement becomes probable and the amount can be reliably estimated, a provision is recognised.

Contingent assets are not recognised in the statements of financial position but are disclosed in the financial statements when inflows are probable. If inflows become virtually certain, an asset is recognised.

The amount disclosed as a contingent liability or contingent asset is the best estimate of the settlement or inflow.

## Notes to the financial statements (continued)

### 31.23 Changes in accounting estimates and errors

#### a) Estimates

If a change in an accounting estimate gives rise to a change in an asset or liability, or relates to equity, it is recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change. Otherwise, it is recognised prospectively by including it in the profit or loss in the period of the change and future periods, as applicable.

#### b) Errors

Material prior period errors are corrected retrospectively (to the earliest date practicable) in the next issued financial statements by:

- restating the comparative amounts for the prior period(s) presented in which the error occurred; or
- if the error occurred before the earliest prior period presented, restating the opening balances of assets, liability and equity for the earliest prior period presented.

For retrospective application comparative information presented for a particular prior period need not be restated if restating the information is impracticable. When comparative information for a particular prior period is not restated, the opening balance of retained earnings for the next period is restated for the cumulative effect of the error before the beginning of that period.

### 31.24 New accounting standards and interpretations not yet adopted

#### a) NZ IFRS 16 Leases

NZ IFRS 16 *Leases* (NZ IFRS 16) was issued in February 2016 and will replace NZ IAS 17 *Leases* (NZ IAS 17) and related Interpretations. NZ IFRS 16 introduces a single on-balance sheet lease accounting model for lessees which will remove the operating or finance lease distinction for lessees under NZ IAS 17. Lessor accounting remains similar to the current standard and lessors will continue to classify leases as finance and operating.

Under NZ IFRS 16, the Company will recognise a right-of-use (ROU) asset representing its right to use the underlying asset, and a lease liability representing the present value of future lease payments. Consequently, the Company will recognise depreciation of the ROU asset and interest expense on the lease liability in the Statement of Comprehensive Income. In comparison to NZ IAS 17, the expense profile will be larger in the earlier stages of the lease. This is due to the interest expense being determined on the lease liability which amortises over the lease term and depreciation on the ROU asset is in accordance with the methods prescribed under NZ IAS 16 *Property, Plant and Equipment*.

The ROU asset and lease liability is recognised for all leases with the exception of short-term leases (less than 12 months) and leases of low-value items which are exempted under NZ IFRS 16.

#### *Transition*

The Company has elected to transition to NZ IFRS 16 on 1 July 2019 using the modified retrospective approach. Therefore, the cumulative effect of adopting NZ IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings on 1 July 2019, with no restatement of comparative information.

In accordance with the modified retrospective approach, the ROU asset can be determined on a lease by lease basis as either an amount equal to the lease liability or as if NZ IFRS 16 has always been applied. The difference between the ROU asset and the lease liability will be recognised as an adjustment to the Company's retained earnings as at 1 July 2019.



## Notes to the financial statements (continued)

### a) NZ IFRS 16 Leases (continued)

Based on the elected transition method, the Company and Group respectively will recognise a lease liability of approximately \$49 million and \$3 million, and a corresponding ROU asset of approximately \$38 million and \$3 million. Amounts already recognised in the statement of financial position at 30 June 2019 for the Company and Group respectively (i.e., straight-line lease liabilities) of nil and \$9 million are derecognised and offset against the ROU asset on transition, resulting in a reduction in retained earnings (net of tax) of approximately nil and \$1 million.

The Company's lease portfolio includes real estate leases.

The Company's future minimum lease payments under non-cancellable operating leases are disclosed in Note 27.

### b) NZ IFRS 17 Insurance Contracts

NZ IFRS 17 *Insurance Contracts* (NZ IFRS 17) will replace NZ IFRS 4 *Insurance Contracts* for annual periods beginning on or after 1 January 2021, becoming mandatory for the Company and Group's financial statements for the year ending 30 June 2022. However, in June 2019 the International Accounting Standards Board (IASB) released an exposure draft, *Amendments to IFRS 17*, proposing various amendments to IFRS 17 which includes deferring the effective date by one year to 1 January 2022. The IASB aims to finalise these amendments in mid-2020, with the expectation that the XRB will also adopt this one year deferral for NZ IFRS 17.

Under NZ IFRS 17, on initial recognition, a group of insurance contracts are measured based on the fulfilment cashflows (present value of estimated future cash flows with a provision for risk) and the contract service margin (CSM), the unearned profit that will be recognised over the cover period. Subsequent to initial recognition, the liability for the group of insurance contracts comprises the liability for the remaining coverage (fulfilment cash flows and CSM) and the liability for incurred claims (fulfilment cash flows for claims and expenses already incurred but not yet paid).

NZ IFRS 17 will materially change the recognition and measurement of insurance contracts and the corresponding presentation and disclosures in the Company and Group's financial statements. The potential effects on adoption of the standard are currently being assessed.

## 32. Subsequent events

There were no material events post 30 June 2019 which would require adjustment to the amounts reflected in the 30 June 2019 financial statements or disclosures thereto.

