AA Insurance Limited

Annual Financial Report

For the Year Ended
30 June 2014

Contents

AA INSURANCE LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2014

The Board of Directors present the annual report of AA Insurance Limited (the "Company") incorporating the financial statements and auditor's report for the year ended 30 June 2014.

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

Directors
The following persons were Directors of the Company during the financial year unless otherwise stated:

P R Brown
D C Casboult
G C Dransfield
B T Gibbons
E J Kulk
M R Winger

Registered Office
Level 17
99 Albert Street
Auckland

Auditor
KPMG
18 Viaduct Harbour Avenue
PO Box 1584
Auckland

Principal activities
The principal activities of the Company 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 2014 was $25,436,000 compared with $21,418,000 for the year ended 30 June 2013.

Matters subsequent to the end of the financial year

There is, at the date of this Report, no other matter or circumstance that has arisen since 30 June 2014 that has significantly affected, or may significantly affect:
(a) the Company's operations in future financial years;
(b) the results of those operations in future financial years; or
(c) the Company's state of affairs in future financial years.

Information on Directors in office at the date of this report

Ewoud Kulk BEcon, FAICD

Chairman, Non-executive Director

Ewoud Kulk was appointed to the AA Insurance Limited ("AAIL") Board on 5 February 2010 and appointed as Chairman at this date. Mr Kulk was Managing Director of the Australian General Insurance Group (1994 to 1998) and was appointed Group Director Asia Pacific for Royal and Sun Alliance Insurance Group Pty Limited in March 1998. He continued in that role until his retirement in September 2003. Mr Kulk was a director of Promina Group Limited at the date of the merger with Suncorp Group Limited. He is a non-executive director of the Suncorp Group and subsidiary companies, Chairman of both the Audit and Risk Committees and member of the Remuneration Committee. He is also a past president of the Insurance Council of Australia and has over 25 years experience in the insurance industry.

AA INSURANCE LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2014

Gary Dransfield MAICD

Non-executive Director

Gary Dransfield was appointed to the AAIL Board on 9 February 2012, and is the Chief Executive Officer for Vero Insurance New Zealand Limited. Mr Dransfield joined the Suncorp Group in August 2009. He has held senior management positions in the retail financial services industry for over 25 years. Mr Dransfield is a board member of the Insurance Council of New Zealand.

Peter Brown BSc (Hons), FNZSA, FIA, FIAA

Non-executive Director

Peter Brown was appointed to the AAIL Board on 9 February 2012, and is the Chief Financial Officer for Vero Insurance New Zealand Limited and its subsidiary Vero Liability Insurance Limited. Mr Brown has held a number of actuarial roles in both the general and life insurance areas over the last 30 years and he has also been involved in product development and strategic planning. Prior to his appointment as Chief Financial Officer, he was Vero's Chief Actuary.

Brian Gibbons ACA BCA

Non-executive Director

Brian Gibbons was appointed to the AAIL Board on 15 July 1994, and has been the Chief Executive Officer of the New Zealand Automobile Association (NZAA) since 1990. Mr Gibbons has extensive experience in the motor industry as well as extensive financial and business knowledge. Mr Gibbons is a board member of a number of NZAA subsidiaries and business partners including AA Life Services Limited, AA Battery Service Limited, NZAA Auto Glass Limited. Mr Gibbons is currently Deputy President Mobility FIA. He is a qualified Chartered Accountant, a Fellow of the NZ Institute of Management, and a Justice of the Peace.

Mark Winger LLB

Non-executive Director

Mark Winger was appointed to the AAIL Board on 22 April 2008. Mr Winger has extensive experience in commercial law, corporate law and trusts and is a senior partner in Auckland law firm Holmden Horrocks. Mr Winger has been legal adviser to the New Zealand Automobile Association, a member of its Board since its amalgamation in 1990, and is current Chairman of the NZAA Superannuation Fund. He is the Deputy Chairman of the Freemasons Roskill Foundation, a charitable Trust, and has had extensive involvement as a trustee providing governance and strategic direction to a wide range of family, investment, charitable, and educational trusts.

Don Casboult

Non-executive Director

Don Casboult was appointed to the AAIL Board on 1 January 2011. Mr Casboult has worked within AAMI, Promina and Suncorp Group for over 25 years, until June 2009 in a variety of executive management roles, including Executive General Manager of Marketing and Communications, Chief Marketing Manager and Group Operations Manager. He has extensive knowledge in business strategy and global insurance markets. Mr Casboult is currently Vice Chairman of Moonee Valley Racing Club in Victoria.

This report is made in accordance with a resolution of the Directors.

The Board of Directors of AA Insurance Limited authorised these financial statements for issue on 31 July 2014.

On behalf of the Board

Director   Director

Date 31/07/2014   Date 31 July 2014

Corporate Governance Statement

Introduction

AA Insurance Limited ("the Company") is a company which is incorporated in New Zealand. Vero Insurance New Zealand Limited has a 68% shareholding in the Company and The New Zealand Automobile Association Incorporated has a 32% shareholding. Vero Insurance New Zealand Limited's ultimate parent is Suncorp Group Limited, an Australian public company listed on the Australian Stock Exchange. The Company is governed by a Joint Venture Agreement between Vero Insurance New Zealand Limited and The New Zealand Automobile Association Incorporated. Under this agreement each shareholder appoints three directors to the Company's Board with each director having equal voting rights with the Chairman having the casting vote.

The Company is a licensed insurer under the Insurance (Prudential Supervision) Act 2010.

This corporate governance statement contains an outline of the principal corporate governance practices, policies and processes that have been established by the Company.

Board of Directors

At the time of this statement, the Board comprises three independent non-executive directors (Ewoud Kulk, Mark Winger and Don Casboult) and three non-executive directors who are not independent (Gary Dransfield, Peter Brown and Brian Gibbons). Ewoud Kulk is the Chairman of the Board. Brief details of directors' qualifications and experience are set out in the Directors' Report.

Although the Board has not adopted a tenure policy, the composition of the Board is subject to periodic review. The Board considers it important to maintain an appropriate mix between long-serving Directors with established knowledge of the Company's business and corporate history, and new Directors who bring fresh perspectives to the Board. There is a Board-approved process for nominating and appointing Directors.

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 general insurance industry and their duties as Directors.

Each Director has met the requirements and criteria set out in the Board-approved Fit and Proper Policy, which the Board is required to approve annually. The Board also approves the continuing fitness and propriety of the Directors.

Duties and Responsibilities of the Board

The Board of Directors has overall responsibility for the performance of the Company. The Board has delegated the day-to-day operation and management of the business of the Company to the Chief Executive.

The Company's constitution sets out the responsibilities of the Board and Directors and includes such matters as the appointment and removal of Directors, the minimum and maximum number of Directors, the quorum for Board meetings and the appointment of the Chairperson.

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, Board performance reviews and the criteria for determining Directors' independence. Provision is also made for the Board to delegate certain matters to committees of the Board.

Board meetings are held on a bi-monthly basis. The Board approves an annual programme of work and this is used as a guide to the preparation of each Board meeting agenda.

The Board approves the strategic direction of the Company and monitors executive management performance in the implementation and achievement of strategic and business objectives through the receipt of regular reports from management. Other matters that are approved by the Board include the Company's Risk Appetite Statement, Capital Management Plan, dividend payments, financial statements and solvency returns, major operating and capital expenditure which exceed management's limits and the financial performance outcomes for the Company's senior executives.

Governance

The Board of the Company has adopted a number of internal policies. These internal policies form part of the Company's compliance framework and also apply to Directors. These include a Code of Conduct, Conflicts of Interest Policy, Due Diligence Policy, Whistleblower Policy and a Fit and Proper Policy.

Board Audit Risk and Compliance 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 Risk and Compliance Committee ("BARCC"). The role of the BARCC 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 BARCC are contained in a Board-approved charter. The members of the BARCC are the full Board, chaired by Mark Winger, an independent non-executive director.

The BARCC is required to meet at least six times a year. The BARCC approves an annual programme of work and this is used as a guide to the preparation of each BARCC meeting agenda. The BARCC receives regular reports from senior executives including the Chief Risk Officer and the Chief Financial Officer of the Company. Regular reports are also received from Suncorp Group Internal Audit (which provides independent and objective internal audit services to the Company), and the Company's external auditors. Other attendees of BARCC meetings include the Company's Chief Executive, Suncorp Group Internal Audit, Internal Audit partners and the external auditors. The BARCC reviews and makes recommendations to the Board on matters such as the Company's Risk Appetite Statement, its Delegations of Authority, Capital Management Plan, financial statements and solvency returns. The BARCC regularly updates the Board on its activities and copies of its minutes are provided to the Board.

Under the terms of its charter, the BARCC is required to undertake an annual assessment of its effectiveness in meeting the requirements of its charter. The results are reported to the Board. The BARCC is also required to review its charter at least annually.

The Risk Committee is a management committee that oversees the management of certain risks arising from the activities of the Company. The committee has its own terms of reference and is chaired by the Chief Risk Officer. Matters are escalated to the BARCC on a bi-monthly basis.

Information on the Company's approach to Risk Management is contained in Note 6.

Independent auditor's report

To the shareholders of AA Insurance Limited

Report on the financial statements

We have audited the accompanying financial statements of AA Insurance Limited ("the company") on pages 9 to 49. The financial statements comprise the statement of financial position as at 30 June 2014, the statement of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Opinion

In our opinion the financial statements on pages 9 to 49:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the company as at 30 June 2014 and of its financial performance and cash flows for the year then ended.

Emphasis of matter

We draw attention to Notes 5 (ii), 9, 13 and 20 to the financial statements which explain the considerable uncertainties that exist in measuring gross outstanding claims liabilities and the associated reinsurance recoveries arising from the Canterbury earthquakes. Our opinion is not qualified in respect of this matter.

Report on other legal and regulatory requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by AA Insurance Limited as far as appears from our examination of those records.

KPMG

31 July 2014
Auckland

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2014

	Note	Year ended 30 June 2014	Year ended 30 June 2013 *Restated
		$000	$000
Gross earned premium	7 / 8	244,751	221,878
Outwards reinsurance premium expense	8	(22,178)	(21,217)
Net premium revenue	8	**222,573**	**200,661**
Gross incurred claims	9	253,501	193,165
Reinsurance and other claim recoveries	9	(97,459)	(55,541)
Net claims incurred	9	**156,042**	**137,624**
Acquisition costs		20,154	22,259
Other underwriting expenses		24,770	24,982
Underwriting expenses		**44,924**	**47,241**
Underwriting result		**21,607**	**15,796**
Net investment revenue	7	11,980	11,601
Gain/(Loss) on defined benefit plan	7	100	(1)
Net profit for the year from ordinary activities before income tax	10	**33,687**	**27,396**
Income tax expense	11	8,251	5,978
Net profit after income tax		**25,436**	**21,418**
Other comprehensive income/(loss)			
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains/(losses) on defined benefit plan	21	(75)	619
Income tax (expense)/credit on other comprehensive income	11 c) / 22	-	(173)
Total other comprehensive income/(loss)		**(75)**	**446**
Total comprehensive income for the year after income tax		**25,361**	**21,864**

*Refer to Note 2(h)

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

AA INSURANCE LIMITED

STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 30 JUNE 2014

	Note	As at 30 June 2014 $000	As at 30 June 2013 *Restated $000
Assets			
Cash and cash equivalents		3,279	2,824
Trade receivables	12	100,477	90,345
Other current assets	12	608	612
Reinsurance and other recoveries on outstanding claims liabilities	13	161,468	196,971
Deferred reinsurance premiums	14	17,903	21,598
Deferred acquisition costs	15	9,526	10,852
Financial assets at fair value through profit or loss	16	185,992	165,328
Plant and equipment	17	1,684	2,303
Superannuation benefit	21	588	563
Deferred tax assets	22	1,756	2,665
Total assets		**483,281**	**494,061**
Liabilities			
Payables and accruals	18	39,542	44,673
Unearned premium liabilities	19	133,936	114,302
Current tax liabilities		2,097	1,961
Outstanding claims liabilities	20	199,674	230,082
Deferred tax liabilities	22	2,667	3,039
Total liabilities		**377,916**	**394,057**
Net assets		**105,365**	**100,004**
Equity			
Share capital	23	64,215	64,215
Retained earnings	25	41,150	35,789
Total equity		**105,365**	**100,004**

*Refer to Note 2(h)

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

The Board of Directors of AA Insurance Limited approved these financial statements for issue on 31 July 2014
For, and on behalf of the Board

Director Director

Dated 31/07/2014 Dated 31 July 2014

KPMG

AA INSURANCE LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2014

	Note	Share capital $000	Retained Earnings $000	Total Equity $000
Balance at 1 July 2013 as restated*		64,215	35,789	100,004
Total comprehensive income for the year				
Profit for the year		-	25,436	25,436
Other comprehensive income, net of income tax				
Actuarial losses on defined benefit plan		-	(75)	(75)
Total comprehensive income for the year		-	25,361	25,361
Transactions with the owners, recorded directly in equity				
Dividend paid	25	-	(20,000)	(20,000)
Balance at 30 June 2014		64,215	41,150	105,365

	Note	Share capital $000	Retained Earnings $000	Total Equity $000
Balance at 1 July 2012 as restated*		64,203	33,925	98,128
Total comprehensive income for the year				
Profit for the year		-	21,418	21,418
Other comprehensive income, net of income tax				
Actuarial gains on defined benefit plan		-	446	446
Total comprehensive income for the year			21,864	21,864
Transactions with the owners, recorded directly in equity				
Share based payment transactions	23	12	-	12
Dividend paid	25	-	(20,000)	(20,000)
Balance at 30 June 2013 as restated*		64,215	35,789	100,004

*Refer to Note 2(h)

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

KPMG

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2014

	Note	Year ended 30 June 2014 $000	Year ended 30 June 2013 $000
Cashflows from operating activities			
Premiums received		252,731	221,787
Reinsurance and other recoveries received		134,605	102,765
Interest received		3,444	2,563
Dividend received		2,846	2,792
Claims paid		(285,551)	(240,232)
Outward reinsurance premiums paid		(19,052)	(21,678)
Acquisition costs paid		(18,828)	(20,796)
Income tax paid		(7,578)	(10,537)
Underwriting and other operating expenses paid		(27,154)	(20,222)
Net cash from operating activities	24	35,463	16,442
Cashflows from investing activities			
Payment for investment securities		(117,790)	(128,608)
Proceeds from sale of investment securities		103,122	133,394
Payments for purchases of plant & equipment		(370)	(394)
Proceeds from sale of plant and equipment		30	89
Net cash from investing activities		(15,008)	4,481
Cashflows from financing activities			
Payment of dividends		(20,000)	(20,000)
Net cash used in financing activities		(20,000)	(20,000)
Net increase in cash and cash equivalents		455	923
Cash and cash equivalents at the beginning of the year		2,824	1,901
Cash and cash equivalents at the end of the year		**3,279**	**2,824**

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

KPMG

KPMG

1. Reporting Entity

AA Insurance Limited (the "Company") is a company incorporated and domiciled in New Zealand. The Company is an insurance company based in Auckland. The Company is a profit oriented company.

The Company is a subsidiary of Vero Insurance New Zealand Limited. The ultimate holding company is Suncorp Group Limited ("Suncorp"), a company incorporated in Australia. "Suncorp Group" comprises Suncorp and its subsidiaries. Vero Insurance New Zealand Limited has a 68% shareholding in the Company and New Zealand Automobile Association Limited has a 32% shareholding.

The company is in the business of underwriting general insurance and the investment and administration of insurance funds.

2. Basis of Preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (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 financial statements have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the Insurance (Prudential Supervision) Act 2010. They also comply with International Financial Reporting Standards (IFRS). The Company is classified as an issuer for the purpose of the Financial Reporting Act 1993.

The financial statements were approved for issue by the Directors on 31 July 2014.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis with the principal exception being the measurement of financial instruments designated at fair value through profit or loss and the measurement of outstanding claims liabilities, reinsurance recoveries and defined benefit schemes as set out below.

The Statement of Financial Position has been prepared using the liquidity format of presentation.

(c) Functional currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The financial statements are presented in New Zealand dollars, which is the Company's functional and presentation currency.

(d) Rounding

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($'000) unless stated otherwise.

(e) Reporting period

The reporting period is from 1 July 2013 to 30 June 2014.

(f) Critical Accounting Estimates and Judgements

The Company makes estimates and judgements that affect the reported amounts of assets and liabilities within the next financial period. Estimates are continually evaluated and based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

Details of the uncertainties that exist in measuring gross incurred claims and reinsurance recoveries arising from the Canterbury earthquakes are explained in Note 20.

The quoted market prices for the financial instruments are readily available for the Company. However, the Company may hold certain financial instruments which are fair-valued using valuation techniques. Valuation techniques including models use observable data to the extent possible. However, areas such as credit risk, volatilities and correlations require management to make estimates. Changes or assumptions about these factors could affect the reported fair value of financial instruments.

(g) Comparatives

Certain comparatives have been restated to comply with current year presentation.

(h) New or amended standards adopted during the period

NZ IFRS 13 Fair Value Measurement: Sets out improvements to the definition of fair value and also sets out a single framework for measuring fair value and requires new disclosures. This standard became effective from 1 July 2013 and did not have a material impact on the Company's financial statements.

The Company has adopted the revised NZ IAS 19 *Employee Benefits* which amends the measurement and disclosures on defined benefit superannuation plans.

The adoption of the amended standard resulted in the Company replacing a net of investment tax discount rate with a gross of investment tax discount rate. Additionally, net interest costs on the net defined benefit liability has replaced interest costs on defined benefit obligation and expected return on fund assets.

The amendments to NZ IAS 19 have been applied retrospectively. The following table illustrates the effect on adoption on the statements of comprehensive income, for year ended 30 June 2013.

	Year ended 30 June 2013		
	Previously Reported $000	Change $000	Currently Reported $000
Gain/ (loss) on defined benefit fund	39	(40)	(1)
Net profit before income tax	**27,436**	**(40)**	**27,396**
Income tax expense	5,978	-	5,978
Net profit after income tax	**21,458**	**(40)**	**21,418**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Actuarial losses on defined benefit fund	1,148	(529)	619
Income tax credit on other comprehensive income	(321)	148	(173)
Other comprehensive income after income tax	**827**	**(381)**	**446**
Total comprehensive income after income tax	**22,285**	**(421)**	**21,864**

The following table illustrates the effect on adoption on the statement of financial position, for the comparative period.

	As at June 2013		
	Previously Reported $000	Change $000	Currently Reported $000
Assets			
Superannuation benefit	554	9	**563**
Equity			
Retained earnings	35,780	9	**35,789**

Other new reporting standards, amendments to standards and interpretations that became effective in the current financial year were not applicable to the Company or had no impact on these financial statements.

3. Significant Accounting Policies

The principal accounting policies adopted in the preparation of the general purpose financial report are set out below.

a) Principles of general insurance

An insurance contract is defined as a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

KPMG

The principal activities of the Company 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 from the prior year.

b) Gross premium revenue

Gross premium revenue comprises amounts charged to the policyholders, excluding taxes and levies collected on behalf of third parties. The earned portion of premiums received and receivable is recognised as revenue. Premium is earned from the date of attachment of risk over the indemnity period. Earned and unearned premium are determined using the 365ths method. The earning pattern is unchanged from the prior year.

At reporting date any proportion of premium revenue received and receivable but not earned in the profit and loss is recognised in the Statements of Financial Position as an unearned premium liability. The unearned premium liability represents premium revenue which will be earned in subsequent reporting periods.

c) Outwards reinsurance

Premium ceded to reinsurers is recognised as outwards reinsurance premium expense in the profit and loss from the attachment date over the period of indemnity of the reinsurance contract in accordance with the expected pattern of the incidence risk. The portion of outwards reinsurance premium unearned at balance date recognised as a deferred reinsurance asset and presented as deferred reinsurance premiums on the Statements of Financial Position.

d) Claims

Claims expense represents payment for claims and the movement in outstanding claims liabilities. Claims expenses are recognised in the profit and loss as losses are incurred, which is usually the point in time when the event giving rise to the claim occurs.

The central estimate of outstanding claims liabilities is the best estimate of the present value of future projected claim payments and associated claim handling costs in respect of claims reported but not yet paid, claims incurred but not reported ("IBNR") and claims incurred but not enough reported ("IBNER").

Standard actuarial methods are applied to all classes of business to assess the central estimate of outstanding claims liabilities. Features and trends of claim experience including claim frequencies, average claim sizes and individual claim estimates are analysed and assumptions about the future are selected. Projected future payments include an allowance for inflation and superimposed inflation and are discounted to present values by applying risk free discount rates. The details of discount and inflation rates are set out in Note 5.

A risk margin is added to the central estimate in determining the outstanding claims liabilities. The risk margin is designed to increase the probability of the outstanding claims liabilities proving ultimately to be adequate.

e) Reinsurance and other recoveries

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, IBNR and IBNER are recognised as revenue. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries receivable are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

f) Acquisition costs

Acquisition costs incurred in obtaining insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to revenue that will be recognised in the profit or loss in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

Deferred acquisition costs are recognised as assets in the event that the related unearned premiums exceed the sum of the deferred acquisition costs and the present value of both future expected claims and settlement costs, including an appropriate unit margin. Where there is a shortfall, the deferred acquisition cost is written down and if insufficient, an unexpired risk provision is recognised.

Other underwriting expenses are all expenses other than acquisition costs or claims expenses that are incurred in the course of the ordinary activities of general insurance insurers.

g) Deferred Reinsurance Premiums

Deferred reinsurance premiums are recognised as assets in the Statement 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.

h) Liability adequacy testing

Liability adequacy testing is performed in order to recognise any deficiencies in the profit or loss arising from the carrying amount of the unearned premium liability less any related deferred acquisition costs not meeting the estimated costs of future claims under current insurance contracts.

The estimated future claims under current insurance contracts are measured using the present value of the expected cash flows relating to future claims and associated expenses (discounted using a risk free discount rate) plus the additional risk margin to reflect the inherent uncertainty of those estimated cash flows.

Liability adequacy testing is performed at the level of a portfolio of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

i) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the profit or loss.

j) Financial assets

Financial assets are classified into one of the following categories upon initial recognition:

- Financial assets at fair value through the profit or loss
- Loans and receivables

At each reporting date measurement depends on the chosen classification.

(i) Financial assets at fair value through the profit or loss

Financial assets are invested to reflect the nature of the insurance liabilities. Financial assets are closely monitored to ensure that investments are appropriate given the expected pattern of future cash flows arising from insurance liabilities.

Initial recognition and subsequent measurement is at fair value in the Statement of Financial Position with any resultant unrealised gains and losses recognised in the profit or loss for the year.

(ii) Loans and receivables

Loans and receivables are measured at each reporting date at amortised cost using the effective interest method, less any impairment losses. This method allocates the estimated net future cash receipts over the expected life of the financial instrument.

(iii) Revenue Recognition

Interest income is accounted for on an earned basis. Dividend income is recognised when the right to receive payment is established.

(iv) General Insurance Activities

Financial assets backing general insurance liabilities

The Company has designated financial assets held in portfolios that match the average duration of a corresponding insurance liability as assets backing general insurance liabilities. Financial assets which back general insurance liabilities are initially recognised at fair value and subsequently measured at fair value through profit or loss. These financial assets have been designated at fair value through profit or loss as they are managed and their performance evaluated on a fair value basis for internal and external reporting in accordance with the investment strategy. These financial assets include investments and non-current receivables from policyholders, intermediaries and reinsurers, and investment related receivables.

Financial assets not backing general insurance liabilities

Financial assets that do not back general insurance liabilities include investments. Investments have been designated at fair value through profit or loss as they are managed and their performance evaluated on a fair value basis for internal and external reporting in accordance with the investment strategy.

(v) Determination of fair value

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

Cash assets and bank overdrafts - at face value of the amounts deposited or drawn;
Equities – by reference to the quoted market price; and
Corporate, government and semi government debt securities - by reference to quoted bid price.

(vi) Recognition and de-recognition

All purchases and sales of financial assets that require delivery of the asset within the time frame established or market convention are recognised at trade date, being the date on which the Company commits to buy or sell the asset. In cases where the period between trade and settlement exceeds this time frame, the transaction is recognised at settlement date.

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

k) Leased assets

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease. Where the Company receives a rent free period upon signing a lease, the financial benefit of this rent free period is apportioned evenly over the lease term. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of a penalty is recognised as an expense in the period which the termination takes place.

l) Taxation

(i) Income tax

The tax expense recognised for the year is based on the accounting surplus, adjusted for permanent and timing differences between accounting and New Zealand applicable tax law.

(ii) Goods and services tax ("GST")

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

(iii) Deferred tax

Deferred tax is provided in full, using the Balance Sheet approach and is recognised, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Statement of Financial Position.

Deferred tax assets and liabilities are determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and or recognised at the tax rates expected to apply when the assets are recovered or liabilities are settled.

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

m) Cash and cash equivalents

Cash and cash equivalents includes 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. Bank overdrafts are shown within financial liabilities in the Statement of Financial Position unless there exists a right of offset.

n) Trade and Other Receivables

Amounts due from policyholders, intermediaries and other receivables are recognised initially at fair value, being the amounts receivable. They are subsequently measured at amortised cost being the initial recognised amount and reducing it for impairment as appropriate.

A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect amounts receivable according to the original terms of the receivables. The impairment charge is recognised in the profit or loss for the year.

o) Payables

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

p) Plant & Equipment

An item of property, 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 Company and the cost of the item can be measured reliably.

Plant and equipment are carried at cost, less any subsequent accumulated depreciation and impairment losses. The depreciation rates used range from 3 to 10 years and are calculated on a straight-line basis. The depreciation rates are as follows:

- Computer Hardware 33%
- Furniture and Fittings 20%
- Office Equipment 10%-33%
- Motor Vehicles 14%-15%

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

q) Employee benefits

(i) Superannuation commitments

The Company contributes to the Vero & Asteron New Zealand Staff Pension Scheme. Contributions are charged to comprehensive income as the obligation to pay is incurred. Contributions outstanding at reporting date are treated as liabilities.

The defined benefit fund provides defined pension annuities and lump sum benefits based on years of service and final average salary.

The Company's net obligation in respect of defined benefit 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 Company, 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 Company 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 funds are recognised in profit and 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.

(ii) 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 Company 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, which has been accepted by the employee.

(iii) Wages, salaries and annual leave

Liabilities for unpaid wages, salaries and annual leave 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 the benefit calculations are formally documented and determined before signing the financial statements and past practice supports the calculation.

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.

(iv) Long service leave provision

A liability for long service leave is recognised in the Statement 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. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using Government bond rates with terms to maturity that match, as closely as possible, the estimated future cash outflows. Related on-costs such as payroll tax are also included in the liability.

(v) Share-based payments

Up until 2009 the Company participated in an equity-settled, share-based compensation plan, being the Executive Performance Share Plan ("EPSP").

Future vesting compensation
Shares granted under the Executive Performance Share Plan ("EPSP") vest over a pre-determined period from grant date which is generally three years. The value of these long term incentives is recognised as an expense in comprehensive income on a straight line basis over the vesting period.

The value is calculated as: fair value at grant date multiplied by the expected number of shares to be granted.

Where shares do not eventually vest, the treatment of the previously recognised expense depends upon the reason the shares did not vest:

- If a non-market condition is not satisfied (e.g. an unfulfilled service period) the expense is reversed in comprehensive income in the period when the condition was not satisfied; or
- If a market condition is not satisfied (e.g. Total Shareholder Return not being achieved) the expense is not reversed.

Fair value: The fair value of the shares is the market price of the shares adjusted for the terms and conditions upon which the shares were granted. This is measured using a Monte-Carlo simulation. Once determined, fair value does not change throughout the vesting period unless the terms and conditions of the grant are modified.

Number of shares: The number of shares reflects the best estimate of shares expected to vest at the end of the vesting period and this estimate is revised if indicated by subsequent information. Non-market conditions (e.g. fulfilment of service period) are taken into account when determining this best estimate, whilst market conditions (e.g. Total Shareholder Return not being achieved) are not. If shares do eventually vest, any unamortised balance is expensed at the end of the vesting period.

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.

r) Contributed Capital

(i) Ordinary shares

Ordinary shares are recognised as equity.

(ii) 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.

(iii) 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.

s) Provisions

A provision is a liability of uncertain timing or amount which is recognised in the Statements of Financial Position when:

- the Company has a present obligation (legal or constructive) as a result of a past event;
- it is probably that an outflow of economic benefits will be required to settle the obligation; and
- the amount can be reliably estimated

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

t) 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.

u) 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.

(i) Financial liabilities at fair value through profit or loss

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

- it is classified as held for trading; or
- upon initial recognition it is designated by the Company as at fair value through profit or loss.

(ii) Other financial liabilities

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

4. New Accounting Standards and Interpretations Not Yet Adopted

The following standards, amendments to standards and interpretations applicable to the Company have been issued but are not yet effective:

- *NZ IAS 32 Financial Instruments - Presentation*: Amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the NZ IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply to gross settlement mechanisms that are not simultaneous. The amendment is effective for financial periods beginning from 1 January 2014 and it is not expected that this amendment will have any impact on the Company's financial statements. A detailed analysis of the impact is yet to be performed.
- *NZ IFRS 9 Financial Instruments (2009) and (2010)*: introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces

KPMG

additional changes relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting. The amendment is effective for financial periods beginning from 1 January 2017. A detailed analysis of the impact is yet to be performed.

- Annual Improvements to IFRSs 2010-2013 Cycle: The International Accounting Standards Board has published a number of non-urgent but necessary amendments to IFRS. The amendments are effective from 1 July 2014. A detailed analysis of the amendments is yet to be performed.

5. Actuarial Assumptions and Methods

(i) Assumptions

The following assumptions have been made in determining net outstanding claims liabilities including claims arising from the Canterbury Earthquakes:

	2014	2013
Weighted average term to settlement	0.70 years	1.07 years
Inflation rate	2.0%	2.0%
Superimposed inflation rate	0%	0%
Discount rate	3.4%	3.3%
Discounted mean term	0.66 years	0.96 years
Claim handling expense ratio	5.9%	8.2%
Risk margin	14.1%	17.9%

(ii) Processes used to determine assumptions

The valuations included in the reported results are calculated using assumptions including:

(1) 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.

(2) Inflation and superimposed inflation

The inflation assumptions for the outstanding claim liabilities can be considered as the sum of economic inflation and superimposed inflation. The former would be typically based on consumer price inflation and/or increases in average weekly earnings.

Superimposed inflation reflects the past tendency for some costs to increase at a faster rate. Inflation assumptions are set at a class of business level and reflect past experience and future expectations.

Generally, no explicit assumption for inflation has been made. Instead, there is an implicit assumption that future inflation will be in line with past inflation. Where this is the case, an inflation assumption has been estimated after considering current information on a number of suitable indices.

(3) Discount rate

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

(4) Claims 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.

(5) Risk margin

The overall risk margin is determined allowing for diversification between business classes and the relative uncertainty of the outstanding claims estimate for each class.

The assumptions regarding uncertainty for each class were applied to the net central estimates, and the results were aggregated, allowing for diversification in order to arrive at an overall provision, which is intended to have a 90% (2013: 90%), probability of sufficiency.

A risk margin at an approximate 90% POS (2013: 90%) has been applied to the net outstanding claims provision in respect of the 2010 and 2011 Canterbury earthquakes. The risk margin takes into account the retention and limits of the Suncorp Group catastrophe programme that applied in 2010 and 2011, and the timing of cash flows and currency exchange rates that are likely.

(iii) Impact of changes in assumptions

The following tables illustrate how changes in key assumptions would impact on reported profit, outstanding claims liabilities and equity of the Company for the year.

	2014		2013	
Variable	**Movements in variable**	**$000**	**Movements in variable**	**$000**
Average weighted term to settlement – years	0.5	-266.4	0.5	-212.7
	-0.5	268.3	-0.5	214.1
Inflation rates	1%	245.8	1%	311.2
	-1%	-246.7	-1%	-311.3
Discount rate	1%	-240.9	1%	-304.4
	-1%	244.8	-1%	310.2
Claims handling expense ratio	1%	360.6	1%	305.9
	-1%	-360.6	-1%	-305.9
Risk Margin	1%	334.9	1%	280.8
	-1%	-334.9	-1%	-280.8

(iv) Actuarial information

Karl Marshall of the Quantium Group is the Appointed Actuary for the Company and is a Fellow of the Society of Actuaries of New Zealand. Mr Marshall has no financial interest or other dealings with the Company.

Section 77(1) of the Insurance (Prudential Supervision) Act 2010 requires the Appointed Actuary to review the actuarial information contained in, or used in the preparation of, the financial statements.

The outstanding claims reserves disclosed for the Company have been calculated in accordance with the New Zealand Society of Actuaries Professional Standard No.4.1 "Valuation of General Insurance Claims". The effective date of the Appointed Actuary's advice is 30 June 2014.

The Appointed Actuary is satisfied that he has obtained all of the information and explanations required. He is 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 Actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liabilities. There were no qualifications contained in his actuarial advice. The key assumptions used in the compilations of the reserves as at 30 June 2014 have been outlined above.

In addition, the Company's BARCC receives a Financial Condition Report ("FCR") annually from the Appointed Actuary in accordance with the Insurance (Prudential Supervision) Act 2010. 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.

6. Risk Management

The Company's financial condition and operating activities are affected by a number of key financial risks including credit risk, market risk, interest rate risk, liquidity risk and currency risk and non-financial risks including insurance risk, operational and compliance risk and strategic risk. The Company has implemented a detailed risk management programme to mitigate those risks in accordance with the Suncorp Group Risk Management framework.

a) Company risk management roles and responsibilities

The Company's Board of Directors is responsible for implementing and assessing the effectiveness of risk management strategies and internal controls across the Company.

The Company's Board Audit, Risk & Compliance Committee ("BARCC") has delegated authority from the Board to approve and oversee the processes used to identify, evaluate and manage risk.

KPMG

The Company has a Chief Risk Officer ("CRO") who has the management responsibility for risk, compliance and related issues. This person reports to the BARCC via the Chief Executive.

The Risk Committee, led by the CRO, reviews the current risks identified within the business and also assesses the risk profile. Matters are escalated to BARCC as necessary by the Risk Committee.

b) Insurance risk - general insurance activities

The Company's insurance activities primarily involve the underwriting of risks and claim management. The Company employs a disciplined approach to underwriting and claim management.

(i) Risk management objectives and policies for mitigating insurance risk

The risk management activities include prudent underwriting, product design, pricing, acceptance and management of risk processes, together with claim management, reserving and investment. The objective of these disciplines is to enhance the financial performance of the Company's overall insurance operations. The Company generally conducts its own risk management functions, in accordance with the Company's Risk Management Programme.

The insurance risk exposures of underwriting strategy: risk selection, underwriting and pricing, claims management, reserving and performance measurement are managed and reported as part of the Risk Management Programme.

The key policies in place to mitigate risks arising from writing insurance contracts include the following:

- The maintenance and use of management information systems that provide up-to-date and reliable data on the risks to which the business is exposed;
- The use of actuarial models based on historical data to calculate premiums and monitor claims patterns;
- The setting of, and adherence to, underwriting guidelines that determine policies and procedures for acceptance of risk;
- The use of delegations to control risk classes and aggregate limits;
- The monitoring of natural disasters such as earthquakes, floods, storms and other catastrophes that can have a significant effect on the results of the Company. Exposure to such risks is monitored using catastrophe models;
- The use of reinsurance to limit the Company's exposure to large single claims and the accumulation of claims that arise from the same event;
- The monitoring of a reinsurer credit risk policy to control exposure to reinsurance counterparty default;
- The mix of assets in which the Company invests is driven by the nature and term of the insurance liabilities. The management of assets and liabilities is closely monitored to attempt to match the expected pattern of claim payments with the maturity dates of assets; and
- The reduction in variability in loss experience through diversification over classes of insurance business, better geographical segmentation and large numbers of uncorrelated individual risks.

In addition, the Company's BARCC receives a Financial Condition Report ("FCR") annually from the Appointed Actuary of the Company in accordance with the Insurance (Prudential Supervision) Act 2010. 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.

(ii) Terms and conditions of insurance business

The terms and conditions attaching to insurance contracts affect the level of insurance risk accepted by the Company. There are no special terms and conditions in any non-standard contracts that have a material impact on the financial statements.

(iii) Concentration of insurance risk

The Company's exposure is exclusively focused on the New Zealand market. Specific processes for monitoring identified concentrations are set out below:

Risk	***Source of concentration***	***Risk management measures***
An accumulation of risks arising from a natural peril	Insured property concentrations, for example, Wellington, Christchurch.	Accumulation risk modelling, reinsurance protection
A large property loss	Fire or collapse affecting one building or a group of adjacent buildings	Maximum acceptance limits, property risk assessment, reinsurance protection

(iv) Reinsurance programme principles

Reinsurance is purchased to make the Company's results more predictable by reducing the effect that individual large claims, and catastrophic events that lead to multiple claims, have on results. The Company's reinsurance arrangements use excess of loss treaty arrangements.

c) General risk management framework

The Company's financial condition and operating activities are affected by a number of key risks. The Company has implemented a Risk Management Programme to mitigate those risks.

The Company's BARCC has delegated authority from the Board to approve and oversee the processes used to identify, monitor, evaluate and manage risk and recommends the Company's risk appetite to the Board. Management has the primary responsibility and accountability for embedding the risk management framework within the business operations of the Company. Management oversees and approves the principles, policies, limits, frameworks and processes used by the Company to identify, assess, monitor and control/mitigate risk.

The Company has in place a structured approach to the identification and assessment of risk-profiles. Each business manager completes due diligence reporting on the risks that affect their respective business unit. Recognising that risk profiles change over time, management is required to monitor and manage these on an ongoing basis.

The company has a structured process in place to ensure it is fully compliant with its regulatory obligations and works closely with regulators to ensure its ability to comply with ongoing regulatory requirements

d) Equity retained for financial soundness

The amount of equity retained for the purpose of financial soundness is detailed in Note 33 to these financial statements.

e) Financial risk management

The Company's Risk Management Programme recognises the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

The Company has a Risk Management Programme in place in respect of all key risks. The universe of risks includes credit, market, and liquidity. The key objective of the framework is to ensure sufficient liquidity is maintained at all times to meet the company's obligations, including its settlement of insurance liabilities.

The key financial risks addressed by the Risk Management Programme include:

- Reinsurance and Counterparty risk - the risk that a borrower or counterparty will not meet its obligations in accordance with agreed terms. Credit risk arises as a result of receivables due from policyholders, the placement of reinsurance programmes with counterparties and investment in financial instruments.
- Market risk - the risk of adverse movements in interest rates, foreign exchange rates, equity prices, credit spreads and prices of other financial contracts including derivatives. Market risk arises from investment in financial instruments.
- Liquidity risk - the risk that the Company will be unable to meet its financial obligations when they fall due. Liquidity risk arises from the requirement to make claims payments and other financial obligations in a timely manner whilst looking to maximise returns from invested funds.

f) Credit risk

Credit risk is the risk that one party to a financial instrument or contracts will cause financial loss to the other party by failing to discharge an obligation. The Company's credit risk arises predominantly from investment activities, reinsurance activities and dealings with policyholders. The maximum exposure to credit risk is the fair value of individual financial assets.

The Company enters into reinsurance arrangements to preserve capital and manage earnings volatility from large individual or catastrophic claims. The Company's reinsurance arrangements are managed in accordance with the Company's Reinsurance Management Strategy. The credit risk associated with these arrangements is monitored and managed internally and by specialised reinsurance brokers operating within the international reinsurance markets.

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, by credit rating. The Company does 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 programme. Reinsurance is placed only with companies with Standard & Poor's credit ratings (or equivalent if a Standard & Poor's rating is unavailable) of at least "A minus" or that are on the Suncorp Group Reinsurance Team approved reinsurer list, in accordance with the Company's Reinsurance Management Strategy.

KPMG

Investments in financial instruments are held in accordance with the investment mandates. Credit limits have been established within these guidelines to ensure counterparties have appropriate credit ratings.

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

The following tables provide information regarding the aggregate credit risk exposure at the balance date in respect of the major classes of financial assets. The analysis classifies the assets according to Standard & Poor's counterparty credit ratings. AAA is the highest possible rating. Rated assets falling outside the range of AAA to BBB are classified as noninvestment grade.

	Credit Rating ($000)						
2014	**AAA**	**AA**	**A**	**BBB**	**Non investment grade**	**Not Rated**	**Total**
Cash and cash equivalents	-	3,279	-	-	-	-	3,279
Financial assets at fair value through profit or loss	-	154,193	30,921	878	-	-	185,992
Reinsurance and other recoveries	-	405	151,376	-	-	9,687	161,468
Trade receivables	-	80	5,810	-	-	94,587	100,477
	-	157,957	188,107	878	-	104,274	451,216

	Credit Rating ($000)						
2013	**AAA**	**AA**	**A**	**BBB**	**Non investment grade**	**Not Rated**	**Total**
Cash and cash equivalents	-	2,824	-	-	-	-	2,824
Financial assets at fair value through profit or loss	-	145,734	18,728	866	-	-	165,328
Reinsurance and other recoveries	-	985	186,633	-	-	9,353	196,971
Trade receivables	-	575	6,957	-	-	82,813	90,345
	-	150,118	212,318	866	-	92,166	455,468

The majority of the Not Rated balance is outstanding premiums on policies which are paid on a monthly instalment basis. Late payment of these amounts allows the Company to cancel the related insurance contract eliminating both the credit risk and insurance risk for the unpaid amounts.

The carrying amount of the relevant assets classes in the Statement of Financial Position represents the maximum amount of credit exposures.

The following table provides information regarding the carrying value of the Company's financial assets that have been impaired and the ageing of those that are past due but not impaired at the reporting date. An amount is considered to be 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.

2014	Neither past due nor impaired	Past due but not impaired ($000) 0-3 mths	3-6 mths	6-12 mths	>12 mths	Impaired	Total
Reinsurance and other recoveries on outstanding claims liabilities	161,468	-	-	-	-	-	161,468
Trade receivables	100,351	118	-	-	-	8	100,477
	100,351	**118**	**-**	**-**	**-**	**8**	**100,477**

2013	Neither past due nor impaired	Past due but not impaired ($000) 0-3 mths	3-6 mths	6-12 mths	>12 mths	Impaired	Total
Reinsurance and other recoveries on outstanding claims liabilities	196,971	-	-	-	-	-	196,971
Trade receivables	90,232	107	-	-	-	6	90,345
	90,232	**107**	**-**	**-**	**-**	**6**	**90,345**

g) Market risk

The main source of market risk comes from the investment portfolios. The 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 Company's investment portfolio is split into Technical Reserves and Shareholders Funds.

The Technical Reserves 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. This is managed via an interest rate risk hedge portfolio between benchmark and liabilities. Assets held are fixed interest securities and cash.

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 this portfolio has a more diverse investment strategy predominantly including fixed interest, cash and equities. 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.

Investments 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 Company or the policies and processes for managing the risk during the period.

(i) Interest rate risk

Interest rate risk arises from the investments in interest bearing securities. Interest rates have an impact on both the value of 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 for the year. 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 of expected future claim payments at the reporting date. 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.

This risk is managed by establishing investment 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.

The sensitivity of profit or loss after tax and equity reserves to movements in interest rates in relation to interest-bearing financial assets held at the reporting date is shown in the table below. 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 reporting date and there are concurrent movements in interest rates and parallel shifts in the yield curves. The risks faced for deriving sensitivity information did not change from the previous period. Given the volatility experienced in the market during the last year, a movement of 100 basis points (2013: 100 basis points) is considered reasonably possible and has been applied to the sensitivity analysis.

	2014				2013			
	Exposure at Jun-14 $000	Movement in variable %	Profit / (Loss) after tax $000	Equity $000	Exposure at Jun-13 $000	Movement in variable %	Profit / (Loss) after tax $000	Equity $000
Interest bearing Investment Assets	80,572	1	(486)	(486)	62,541	1	(772)	(772)
		-1	458	458		-1	723	723
Subordinated Debt	1,443	1	(0)	(0)	3,252	1	(0)	(0)
		-1	0	0		-1	0	0
	82,015				65,793			

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 had no impact on either profit or equity from the measurement of cash and cash equivalents for the current financial year.

Interest-bearing investment securities are recognised on the Statement 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 either profit or equity.

(ii) Foreign exchange risk

During 2010 and 2011, upper limits within the Suncorp Group's catastrophe reinsurance treaty were denominated in Australian dollars. Incurred costs in respect of the February 2011 Canterbury Earthquake are estimated to exceed the AU$2.5b limit of the treaty and movements in the AUD:NZD exchange rate affects the reinsurance recovery percentage. This results in foreign exchange risk for the Group and Company until such time that total claims paid for the February 2011 event exceed AU$2.5b. Allowance is made for this foreign exchange risk through actuarial estimates of the net outstanding claim liability. The current year's catastrophe reinsurance treaty includes a fixed AUD:NZD exchange rate to eliminate this foreign exchange risk on future events.

(iii) Other market risks

Other market risks are the risk of a loss of current and future earnings from adverse movements in the changes in market prices due to factors other than interest rates and foreign exchange. Those factors may be specific to the individual financial instrument or its issuer, or factors that affect all similar financial instruments traded in the market. The main "other market risks" that the Company's investment portfolios are exposed to is credit spread risk.

Credit spread risk is the risk of loss in current and future earnings from adverse moves in credit spreads. Credit spread risk is determined by capital market sentiment or factors affecting all issuers in the market and not necessarily due to factors specific to an individual issuer. The main source of loss is adverse changes in the valuation of investments in interest-bearing securities. A change in the market value of investments in interest-bearing securities is immediately recognised in the profit or loss. The investment portfolios hold significant interest-bearing securities in support of corresponding insurance provisions. The portfolio is heavily weighted towards investments with a high quality investment grade.

This risk is managed by incorporating a diverse holding of investments in the Company's investment portfolios, establishing maximum exposure limits for counterparties. Investments are also subject to minimum credit rating criteria. The table provided under the heading of 'Credit risk' provides information in relation to aggregate credit exposure of the Company's investment portfolio by credit rating at the reporting date.

Sensitivity of the business' credit exposure to a +/- 100 basis point (2013: 100 basis points) change in yield is as follows:

	2014				2013			
	Exposure at Jun-14	Movement in variable	Profit / (Loss) after tax	Equity	Exposure at Jun-13	Movement in variable	Profit / (Loss) after tax	Equity
	$000	%	$000	$000	$000	%	$000	$000
Discounted securities and corporate bonds	61,364	1	(325)	(325)	50,526	1	(549)	(549)
		-1	307	307		-1	514	514
Government/ Semi-Government Exposure	20,651	1	(160)	(160)	15,267	1	(222)	(222)
		-1	150	150		-1	207	207
	82,015				65,793			

(iv) Equity price risks

The Company holds unit trust investments that expose the Company to equity price risk. The profit and loss impact on equity price movement is determined by multiplying market value by the variable of +/- 200 basis points (2013: 200 basis points):

	2014				2013			
	Exposure at Jun-14	Movement in variable	Profit / (Loss) after tax	Equity	Exposure at Jun-13	Movement in variable	Profit / (Loss) after tax	Equity
	$000	%	$000	$000	$000	%	$000	$000
Domestic Equities	71,449	2	1,029	1,029	69,999	2	1,008	1,008
		-2	(1,029)	(1,029)		-2	(1,008)	(1,008)
International Equities	32,528	2	468	468	29,536	2	425	425
		-2	(468)	(468)		-2	(425)	(425)
	103,977				99,535			

(h) Liquidity risk

The ability to make claims payments in a timely manner is critical to the Company's business. The investment portfolio mandates provide sufficient cash deposits to meet day-to-day obligations. Investment funds are set aside within the investment portfolio in support of expected commitments and, to accommodate significant claims payment obligations. In addition, under the terms of the Company's reinsurance arrangements, immediate access to cash is available in the event of a major catastrophe.

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

The following table 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.

2014	Carrying amount $000	1 year or less $000	1 to 5 years $000	Over 5 years $000	Total Cash Flows $000
Amounts due to reinsurers	21,503	21,503	-	-	21,503
Trade creditors and accrued expenses	18,039	18,039	-	-	18,039
Gross Outstanding claims liabilities	199,674	117,098	72,492	10,084	199,674
	239,216	156,640	72,492	10,084	239,216

KPMG

2013	Carrying amount $000	1 year or less $000	1 to 5 years $000	Over 5 years $000	Total Cash Flows $000
Amounts due to reinsurers	22,072	19,226	2,846	-	22,072
Trade creditors and accrued expenses	22,601	22,601	-	-	22,601
Gross Outstanding claims liabilities	230,082	103,521	111,860	14,701	230,082
	274,755	145,348	114,706	14,701	274,755

i) Accounting classification and fair values

The fair values of financial assets and liabilities, together with the carrying amount shown in the Statement of Financial Position, are as follows:

2014	Designated at Fair Value	Loans and Receivables	Other Financial Liabilities	Carrying amount	Fair Value
	$000	$000	$000	$000	$000
Cash at bank and in hand	-	3,279	-	3,279	3,279
Receivables	-	100,477	-	100,477	100,477
Other current assets	-	608	-	608	608
Financial assets	185,992	-	-	185,992	185,992
	185,992	**104,364**	**-**	**290,356**	**290,356**
Payables and accruals	-	-	(39,542)	(39,542)	(39,542)
Unearned premium liabilities	-	-	(133,936)	(133,936)	(133,936)
	-	**-**	**(173,478)**	**(173,478)**	**(173,478)**

2013	Designated at Fair Value	Loans and Receivables	Other Financial Liabilities	Carrying amount	Fair Value
	$000	$000	$000	$000	$000
Cash at bank and in hand	-	2,824	-	2,824	2,824
Receivables	-	90,345	-	90,345	90,345
Other current assets	-	612	-	612	612
Financial assets	165,328	-	-	165,328	165,328
	165,328	**93,781**	**-**	**259,109**	**259,109**
Payables and accruals	-	-	(44,673)	(44,673)	(44,673)
Unearned premium liabilities	-	-	(114,302)	(114,302)	(114,302)
	-	**-**	**(158,975)**	**(158,975)**	**(158,975)**

KPMG

7. Revenue

	Year ended 30 June 2014 $000	Year ended 30 June 2013 *Restated $000
Gross earned premium revenue	244,751	221,878
Net premium revenue	**222,573**	**200,661**
Reinsurance and other claim recoveries	**97,459**	**55,541**
Investment revenue:		
-Interest income	3,578	3,143
-Dividend income	2,846	2,792
- Net gain on financial assets at fair value through profit or loss	5,996	6,100
Investment management fees	(440)	(434)
Total net investment revenue	**11,980**	**11,601**
Gain on defined benefit	100	(1)
Total revenue	**332,112**	**267,802**

*Refer to Note 2(h)

8. Net Premium Revenue

	Year ended 30 June 2014 $000	Year ended 30 June 2013 $000
Gross written premium	264,385	230,538
Movement in unearned premium	(19,634)	(8,660)
Gross earned premium revenue	**244,751**	**221,878**
Outward reinsurance premium expense	(22,178)	(21,217)
Total net premium revenue	**222,573**	**200,661**

KPMG

9. 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.

	2014			2013		
	Prior $000	Current $000	Total $000	Prior $000	Current $000	Total $000
Gross incurred claims						
Undiscounted	61,986	190,076	252,062	14,839	171,924	186,763
Discount	1,675	(236)	1,439	6,646	(244)	6,402
	63,661	**189,840**	**253,501**	**21,485**	**171,680**	**193,165**
Reinsurance and other recoveries						
Undiscounted	(58,782)	(37,445)	(96,227)	(16,803)	(33,399)	(50,202)
Discount	(1,392)	160	(1,232)	(5,460)	121	(5,339)
	(60,174)	**(37,285)**	**(97,459)**	**(22,263)**	**(33,278)**	**(55,541)**
Net incurred claims	**3,487**	**152,555**	**156,042**	**(778)**	**138,402**	**(137,624)**

Details of the uncertainties that exist in measuring gross incurred claims and reinsurance recoveries arising from the Canterbury earthquakes are explained in Note 20.

10. Net Profit Before Income Tax

	Note	Year ended 30 June 2014 $000	Year ended 30 June 2013 Restated* $000
Profit before income tax is arrived at after charging/(crediting) the following specific items:			
Depreciation on plant and equipment	17	961	1,046
(Profit)/Loss on disposal of plant and equipment		(2)	14
Employee benefits		38,105	37,534
Movement in provision for bad and doubtful debts	12	2	(29)
Gain on defined benefit plan	21	(100)	1
Operating lease rental expenses		2,865	2,692

*Refer to note 2(h)

KPMG

11. Income Tax

	Year ended 30 June 2014	Year ended 30 June 2013 *Restated
	$000	$000
a) Income tax expense		
Current tax	7,710	7,213
Deferred tax expense (Note 22)	537	(1,236)
Under/(over) provided in prior year - current	4	(36)
- deferred (Note 22)	-	37
Income tax expense	**8,251**	**5,978**
b) Numerical reconciliation of income tax expense to prima facie tax payable		
Net profit before tax	33,687	27,396
Prima facie income tax @ 28%	9,432	7,671
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible expenditure	53	35
Tax exempt revenue	(879)	(1,312)
Imputation credits	(331)	(273)
Under provision in prior year	4	1
Other	(28)	(144)
Income tax expense	**8,251**	**5,978**

c) Deferred tax expense/(benefit) recognised in other comprehensive income		
Actuarial gains/(losses) on defined benefit funds	-	**173**

*Refer to note 2(h)

d) Imputation credit balances		
Imputation credits available at the end of the year	**7,043**	**8,690**

e) Taxation payable		
Taxation payable at the beginning of the year	1,961	5,272
Income tax paid net of refunds	(5,800)	(3,652)
Tax paid - group tax offset	(1,778)	(6,836)
Current year tax on operating profits	7,710	7,213
Adjustment for prior years to income tax expense	4	(36)
Taxation payable at the end of the year	**2,097**	**1,961**

KPMG

12. Receivables

	As at 30 June 2014 $000	As at 30 June 2013 $000
Trade receivables		
Premium due from policyholders	94,440	82,784
Receivable from investment funds	155	34
Amounts due from reinsurers	5,890	7,533
Provision for impairment	(8)	(6)
Total trade receivables	**100,477**	**90,345**
Other current assets		
Accrued income & prepayments	608	612
Total other current assets	**608**	**612**
Total receivables	**101,085**	**90,957**
Current	101,085	90,957
Non- Current	-	-
Total	**101,085**	**90,957**
Movements in for provision for impairment		
Balance at beginning of the year	(6)	(35)
Provision recognised during the year	(2)	29
Balance at end of the year	**(8)**	**(6)**

13. Reinsurance and Other Recoveries

	As at 30 June 2014 $000	As at 30 June 2013 $000
Reinsurance and other recoveries receivable		
Expected undiscounted outstanding reinsurance and other recoveries	173,331	210,183
Discount to present value	(11,863)	(13,212)
Reinsurance and other recoveries receivable	**161,468**	**196,971**
Reinsurance and other recoveries receivable at beginning of year	196,971	242,498
Reinsurance and other recoveries receivable during the year	68,018	29,754
Reinsurance and other recoveries received from prior years	(103,521)	(75,281)
Reinsurance and other recoveries receivable at the end of year	**161,468**	**196,971**
Current	69,590	69,783
Non Current	91,878	127,188
Total	**161,468**	**196,971**

Details of the uncertainties that exist in measuring reinsurance recoveries arising from the Canterbury earthquakes are explained in Note 20.

KPMG

14. Deferred Reinsurance Premiums

	As at 30 June 2014 $000	As at 30 June 2013 $000
Deferred Reinsurance Premiums at the beginning of the year	21,598	28,356
Reinsurance premium liabilities incurred	18,483	14,459
Reinsurance premium expensed during the year	(22,178)	(21,217)
Deferred reinsurance premiums at the end of the year	**17,903**	**21,598**
Current	17,903	18,752
Non Current	-	2,846
Total	**17,903**	**21,598**

15. Deferred Acquisition Costs

	As at 30 June 2014 $000	As at 30 June 2013 $000
Deferred acquisition costs at beginning of year	10,852	12,315
Acquisition costs deferred	18,828	20,796
Amortisation charged to profit and loss	(20,154)	(22,259)
Deferred acquisition costs at the end of year	**9,526**	**10,852**

A liability adequacy test ("LAT") assesses whether the net unearned premium liability less any related deferred acquisition costs is sufficient to cover future claims costs for in-force policies. Future claims costs are calculated as the present value of the expected cash flows relating to future claims, and includes a risk margin to reflect inherent uncertainty in the central estimate. The test is based on prospective information and so is dependent on certain assumptions and judgements.

The Company assesses the liability adequacy test on groups of contracts subject to broadly similar risks and managed together as a single portfolio. The Company had a surplus as at 30 June 2014 (2013: surplus).

16. Financial Assets

Financial assets classified as fair value through profit or loss

	As at 30 June 2014 $000	As at 30 June 2013 $000
Other interest bearing securities	34,795	18,787
Fixed interest-corporate bonds	26,569	31,739
Government/semi government securities	20,651	15,267
Unit trusts	103,977	99,535
Total financial assets at fair value through the profit or loss	**185,992**	**165,328**

Other interest bearing securities includes subordinated debt of $1,443,000 (2013:$3,252,000).

KPMG

Fair Values

All investments are initially recorded at fair value and are subsequently remeasured to fair value at each reporting date. Investments traded in an active market are valued with reference to the closing bid price.

The significant majority of other investments are valued using independently sourced valuations that do not involve the exercise of judgement by management.

The Company classifies fair values of financial instruments using the following fair value hierarchy in order to reflect the significance of inputs used in their estimation:

- **Level 1** - inputs that are quoted prices in active markets for identical financial instruments.
- **Level 2** - inputs other than quoted prices included within Level 1 that are observable for the financial instruments, either directly or indirectly.
- **Level 3** - inputs for the financial instruments that are not based on observable market data.

2014	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
	$000	$000	$000	$000	$000
Financial assets at fair value through profit or loss	185,992	31,316	154,676	-	185,992

2013	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
	$000	$000	$000	$000	$000
Financial assets at fair value through profit or loss	165,328	19,000	146,328	-	165,328

The level 2 securities held by the Company represent investment securities and derivative assets/liabilities 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. For derivatives the fair value is based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.

The Company reassess the fair value hierarchy of investments at each reporting date. The fair value hierarchy of unit trusts investments has been re-classed from level 1 to level 2 for year ended 30 June 2013 and 2014 due to these investments not being traded in an active market.

17. Plant and Equipment

For the year ended 30 June 2014	A $000	B $000	C $000	Total $000
At 1 July 2013				
Cost	1,207	3,202	921	5,330
Accumulated depreciation	(814)	(1,901)	(312)	(3,027)
Net book value	**393**	**1,301**	**609**	**2,303**
Additions	122	148	100	370
Disposals	(1)	(3)	(24)	(28)
Depreciation expense	(305)	(522)	(134)	(961)
At 30 June 2014				
Cost	1,320	3,325	926	5,571
Accumulated depreciation	(1,111)	(2,401)	(375)	(3,887)
Net book value	**209**	**924**	**551**	**1,684**

For the year ended 30 June 2013	A $000	B $000	C $000	Total $000
At 1 July 2012				
Cost	1,173	3,094	898	5,165
Accumulated depreciation	(558)	(1,341)	(209)	(2,108)
Net book value	**615**	**1,753**	**689**	**3,057**
Additions	148	133	114	395
Disposals	(37)	(1)	(65)	(103)
Depreciation expense	(333)	(584)	(129)	(1,046)
At 30 June 2013				
Cost	1,207	3,202	921	5,330
Accumulated depreciation	(814)	(1,901)	(312)	(3,027)
Net book value	**393**	**1,301**	**609**	**2,303**

A- Computer Hardware
B- Furniture and Fittings including Office Equipment
C- Motor Vehicles

18. Payables

	As at 30 June 2014 $000	As at 30 June 2013 $000
Trade creditors and accruals	11,883	16,365
Amounts due to reinsurers	21,503	22,072
Employee entitlements	5,553	5,434
Amounts due to related parties (Note 28)	603	802
Total payables	**39,542**	**44,673**
Current	39,542	41,827
Non-current	-	2,846
Total payables	**39,542**	**44,673**

Employee entitlements at 30 June 2013 included a provision for an office closure of $488,000.

19. Unearned Premium Liabilities

	As at 30 June 2014 $000	As at 30 June 2013 $000
Unearned premium liability as at beginning of year	114,302	105,642
Movement in unearned premium		
Deferral of premium on contracts written during the year	133,936	114,302
Earning of premiums deferred in prior years	(114,302)	(105,642)
Unearned premium liabilities as at end of year	**133,936**	**114,302**

20. Outstanding Claims Liabilities

a) Outstanding claims liabilities

	As at 30 June 2014 $000	As at 30 June 2013 $000
Central estimate of outstanding claims liabilities	173,430	213,654
Discount to present value	(9,774)	(12,109)
Claim handling expenses	31,307	23,509
Risk margin	4,711	5,028
Outstanding claims liabilities	**199,674**	**230,082**
Current	117,098	103,521
Non current	82,576	126,561
Total	**199,674**	**230,082**

KPMG

b) Reconciliation of movement in discounted outstanding claims liability

	Year ended 30 June 2014 $000	Year ended 30 June 2013 $000
At beginning of year	**33,111**	**32,955**
Prior years		
Payments net of reinsurance recoveries	(26,084)	(23,484)
Movement in discounting	695	708
Margin release on prior years	(3,669)	(4,204)
Incurred claims due to changes in assumptions and experience	6,630	2,849
Change in discount rate	(169)	(131)
Movement in risk margins	-	-
Current year		
Net ultimate incurred costs	152,554	138,402
Payments net of reinsurance recoveries	(124,862)	(113,984)
At end of year	**38,206**	**33,111**
Outstanding reinsurance and other recoveries (as per note 13)	161,468	196,971
Outstanding claims liabilities	**199,674**	**230,082**

There remains considerable uncertainty surrounding the measurement of gross claims liabilities and the related reinsurance recoveries for the Canterbury earthquakes. The uncertainty arises from a number of factors including; a lack of historical data; longer than normal claims development periods; the presence and frequency of aftershocks; the allocation of claim costs between events; inflation; complexities associated with determining key actuarial assumptions including the selection of a risk margin, discount rates and inflationary assumptions; clarification regarding EQC recoveries; and uncertainty surrounding applicable building standards.

At balance date gross outstanding claims liabilities for the Company include $161 million (30 June 2013: $195 million) which is the central estimate of outstanding claims liabilities arising from the Canterbury earthquakes, plus the net risk margin. The central estimate represents actuarial projections as at 30 June 2014 of what the Company ultimately expects to pay, prior to receiving any reinsurance recoveries, in relation to these claims. The net risk margin represents additional provisions required to meet expected claim payments with a 90% probability of sufficiency. The actuarial projections are based on the known facts and circumstances and assumptions regarding future events and key variables as detailed in Note 5.

Given the nature and number of uncertainties associated with the Canterbury earthquakes, our actual claims experience may deviate, perhaps substantially, from the gross outstanding claims liabilities and related reinsurance recoveries recorded at 30 June 2014. Any changes to estimates will be recorded in the accounting period when they become known.

21. Superannuation Commitments

The Company participates in the Vero & Asteron New Zealand Staff Pension Scheme. The defined benefit fund provides benefits to members on retirement, disability or death. All new employees are currently being offered membership of accumulation funds rather than the defined benefit fund.

(a) Surplus / (deficit) position

The following table shows the position recognised in relation to defined benefit fund as at balance date.

	30 June 2014			30 June 2013 *Restated		
	Surplus $000	**Deficit $000**	**Net $000**	**Surplus $000**	**Deficit $000**	**Net $000**
Vero & Asteron New Zealand Staff Pension Scheme	588	-	588	563	-	563
Total surplus / (deficit)	**588**	**-**	**588**	**563**	**-**	**563**

*Refer to Note 2(h)

The characteristics of the defined benefit 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 Superannuation Schemes Act 1989 governs the superannuation industry and provides the framework within which superannuation schemes operate. The Act requires an actuarial valuation to be performed for each defined benefit superannuation scheme at least every three years.
- The Trustees of the scheme are responsible for the governance of the scheme. 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 scheme assets when required in accordance with the scheme rules;
  - Management and investment of the scheme assets; and
  - Compliance with superannuation law and other applicable regulations.
- The Financial Markets Authority licenses and supervises regulated superannuation schemes.
- There are a number of risks to which the scheme exposes the Company. The more significant risks relating to the defined benefits are:
  - Investment risk – The risk that investment returns will be lower than assumed and the Company will need to increase contributions to offset this shortfall.
  - Mortality risk – The risk that the members of the scheme will live longer than assumed, increasing the number of pension payments and thereby requiring additional company contributions.
  - Legislative risk – The risk is that legislative changes could be made which increase the cost of providing the defined benefits.
- Other Suncorp Group entities participate in the fund, the amounts included in these financial statements relate to the Company's share in relation to the members that are attributable to the Company. The Company is not liable for any deficits or contributions attributable to other Suncorp Group entities.
- There were no fund amendments, curtailments or settlements during the year.

(b) Present value of defined benefit fund

	30 June 2014 $000	30 June 2013 *Restated $000
Fair value of assets at the end of year	1,347	1,272
Defined Benefit obligations at the end of the year	(953)	(895)
Adjustment for contributions tax	194	186
Net asset recognised in the Statement of Financial Position	**588**	**563**

*Refer Note 2(h)

KPMG

(c) Reconciliation of Movements

Changes in the fair value of plan assets	30 June 2014 $000	30 June 2013 *Restated $000
Balance at the beginning of the year	1,272	1,684
Interest Income	60	58
Actual return on fund assets les interest income	(23)	(156)
Contributions by Company	75	69
Benefits paid	(26)	(372)
Premiums and expenses paid	(11)	(11)
Balance at the end of the year	**1,347**	**1,272**

*Refer Note 2(h)

Changes in the present value of defined benefit fund obligations	30 June 2014 $000	30 June 2013 *Restated $000
Balance at the beginning of the year	(895)	(1,721)
Current service cost	(27)	(70)
Interest expense	(41)	(58)
Actuarial gains / (losses)arising in changes from demographic assumptions	-	(68)
Actuarial gains / (losses)arising in changes from financial assumptions	(10)	232
Actuarial gains / (losses)arising in changes from liability experience	(17)	407
Benefits paid	26	372
Premiums and expenses paid	11	11
Balance at the end of the year	**(953)**	**(895)**

*Refer Note 2(h)

(d) Categories of fund assets

Major categories of fund assets as a percentage of total fund assets	30 June 2014 %	30 June 2013 %
Equity	32.0	37.5
Fixed Income	36.0	42.5
Property	0.0	0.0
Other	20.0	15.0
Cash	12.0	5.0
	100.0	**100.0**

A review of the strategic asset allocation is undertaken every two years with the last review being completed in 2013. The strategic asset allocation is implemented via investment mandates with external fund managers which sets a target weighting across asset classes as well as benchmark return objectives.

KPMG

(e) Principal actuarial assumptions

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

	30 June 2014	30 June 2013
	%	%
Discount rate	4.65	4.7
Future salary increases	3.5	3.5

Mortality assumptions are based on the New Zealand Life Tables 2010-2012 with a one year age setback and an age related future mortality improvement scale, starting from 2011 (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 of the defined benefit funds obligation is 13 years (2013 15 years).

(f) Sensitivity Analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding all other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	30 June 2014	
	Increase	Decrease
	$000	$000
Discount rate movement (100 basis points)	(140)	206
Future salary increases (100 basis points)	64	(56)
One year movement in life expectancy	17	(21)

g) 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 the 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 note 21(e) above.

The Actuarial recommendations of the employer contribution rates are 20% of pensionable salaries plus attributable share of $950,000. The Company intends to contribute $66,000 to the defined benefit funds in the financial year ending 30 June 2015 in line with the actuaries' latest recommendations.

22. 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. The offset amounts are as follows:

	As at 30 June 2014	As at 30 June 2013
	$000	$000
Total deferred tax assets	1,756	2,665
Total deferred tax liabilities	2,667	3,039
Net deferred tax liability at the end of year	**911**	**374**

The net movement on the deferred income tax account is as follows:

	As at 30 June 2014 $000	As at 30 June 2013 $000
Brought forward balance at the beginning of year	374	1,399
Charge/(credit) to profit and loss - current year	537	(1,235)
Charge/(credit) to profit and loss - prior year	-	37
Charge/(credit) to Other Comprehensive Income	-	173
Carried forward balance at the end of year	**911**	**374**

The movement in deferred tax assets and liabilities during the year, taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets:

	Accelerated Tax Depreciation $000	Unrealised gains/(losses)on equities $000	Provision for employee benefits $000	Other *Restated $000	Total $000
At 30 June 2012	**1,295**	**-**	**1,139**	**193**	**2,627**
(Charge)/credit to profit or loss	(35)	125	19	139	248
Prior year adjustment transferred to current tax liabilities	-	-	(37)	-	(37)
Charge to Other Comprehensive Income		-	-	(173)	(173)
At 30 June 2013	**1,260**	**125**	**1,121**	**159**	**2,665**
(Charge)/credit to profit or loss	(439)	(625)	154	1	(909)
At 30 June 2014	**821**	**(500)**	**1,275**	**160**	**1,756**

*Refer Note 2(h)

Deferred tax liabilities:

	Outstanding claims reserves $000	Deferred acquisition costs $000	Unrealised gains/(losses) on equities $000	Other $000	Total $000
At 30 June 2012	**-**	**3,449**	**577**	**-**	**4,026**
Charge/(credit) to profit or loss	-	(410)	(577)	-	(987)
At 30 June 2013	**-**	**3,039**	**-**	**-**	**3,039**
Charge/(credit) to profit or loss	-	(372)	-	-	(372)
At 30 June 2014	**-**	**2,667**	**-**	**-**	**2,667**

KPMG

23. Share Capital

	2014 Shares No. (000)	2014 Shares $000	2013 Shares No. (000)	2013 Shares $000
Issued and fully paid ordinary shares	97,334	63,718	97,334	63,718
Shareholder contribution under employee share plans	-	497	-	497
Total share capital	**97,334**	**64,215**	**97,334**	**64,215**

As at 30 June 2014, the Company had 66,186,860 ordinary shares with no par value issued to Vero Insurance New Zealand Limited (2013: 66,186,860) and 31,146,760 ordinary shares with no par value issued to New Zealand Automobile Association Limited (2013: 31,146,760). All shares rank equally with one vote attached to each fully paid ordinary share.

24. Reconciliation of Profit after income tax for the year to the Net Cash Flows from Operating Activities

	Year Ended 30 June 2014 $000	Year Ended 30 June 2013 *Restated $000
Profit after income tax	25,436	21,418
Movement in financial assets at fair value through profit or loss	(5,996)	(6,100)
Depreciation expense	961	1,046
(Profit)/Loss on disposal of plant and equipment	(2)	14
Share based payments	-	12
Movement in defined benefit fund	(75)	446
Change in operating assets and liabilities		
Increase in receivables	(10,132)	(7,055)
Decrease/(increase) in other current assets	4	(581)
Decrease in reinsurance and other recoveries	35,503	45,527
Decrease in deferred reinsurance premiums	3,695	6,758
Decrease in deferred acquisition expenses	1,326	1,462
Increase/(decrease) in taxation payable	136	(3,311)
Decrease in deferred tax asset	909	110
Decrease in payables	(5,131)	(4,840)
Increase in unearned premiums	19,634	8,660
Decrease in outstanding claims	(30,408)	(45,371)
Increase in superannuation commitments	(25)	(1,187)
Decrease in deferred tax liability	(372)	(987)
Net cash flow from operating activities	**35,463**	**16,442**

*Refer Note 2(h)

25. Retained Earnings

	As at 30 June 2014 $000	As at 30 June 2013 $000
Balance at beginning of year	35,789	33,925
Dividends paid during financial year	(20,000)	(20,000)
Actuarial (loss)/gain on defined benefit plan	(75)	446
Net profit for the year	25,436	21,418
Balance at the end of year	**41,150**	**35,789**

	$000	$000
Dividends paid during financial year	20,000	20,000
Shares	97,334	97,334
Dividend per share	**20.55 cents per share**	**20.55 cents per share**

26. Contingent Liabilities

The Company has no material contingent liabilities at 30 June 2014 (30 June 2013: $Nil).

27. Commitments for Expenditure

	As at 30 June 2014 $000	As at 30 June 2013 $000
Lease commitments		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	2,542	2,798
Later than one year but not later than 5 years	9,083	9,573
Later than 5 years	77	2,986
Non cancellable operating leases	**11,702**	**15,357**

The Company leases a number of commercial office premises and car parks throughout New Zealand with varying lease terms of up to 6 years from the date of inception with periodic rent reviews.

KPMG

28. Related Parties

a) Controlling entities

Vero Insurance New Zealand Limited has a 68% shareholding in the Company along with New Zealand Automobile Association Limited which has a 32% shareholding. The ultimate controlling entity is Suncorp Group Limited ("Suncorp").

All members of the Suncorp Group, comprising Suncorp and its controlled entities, are considered to be related parties of the Company.

b) Transactions and balances

Suncorp 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.

All management fees are charged on an arm's length basis. All transactions were conducted in the normal course of business and under normal terms and conditions.

Relationship	Nature of Transaction	Year ended 30 June 2014 $000	Year ended 30 June 2013 $000
Parent	-Accounting and administration services	(6,516)	(7,661)
	-Group Tax Offset	-	(5,256)
	-Reinsurance (net of recoveries)	86,456	63,042
	-Dividend Paid	(13,600)	(13,600)
Subsidiary of Ultimate Parent	-Accounting and administration services	(340)	(747)
	-Group Tax Offset	(1,778)	(1,581)
	-Life and disability premiums	(85)	(67)
Other - Shareholder	-Service Fee	(6,528)	(5,939)
	-Premiums	170	180
	-Dividend Paid	(6,400)	(6,400)

Aggregate amounts receivable from or payable to and principal transactions with related parties in the Suncorp Group were as follows:

Amounts due from / (due to) related parties:	As at 30 June 2014 $000	As at 30 June 2013 $000
Parent	3,193	4,809
Subsidiary of Ultimate Parent	(13)	(2)
Other - Shareholder	(144)	(88)
Total amounts due from / (due to) related parties	**3,036**	**4,719**

All balances are unsecured, non-interest bearing and repayable on demand in local currency. Amounts due from Parent includes net reinsurance receivable of $3,782,000 (2013: $5,609,000). Amounts due from Subsidiary of Ultimate Parent includes $12,000 administration fees (2013: $Nil).

Case estimate on Reinsurance Recovery is not included as related party transactions or balance as these are estimation and provisional figures.

KPMG

c) *Key Management Personnel*

Key Management Personnel ("KMP") are those persons who have authority and responsibility for planning, directing and controlling the activities of AA Insurance, directly and indirectly. KMP include all directors of the Company (executive and non-executive), the Chief Executive Officer ("CEO") and Senior Executives who report to the CEO.

Loans to Key Management Personnel
Unsecured loans to executive officers issued during the year ended 30 June 2014 amounted to $Nil (2013: $7,000). No interest is payable by the executive officers and the loans are repayable in cash. At 30 June the balance outstanding was $Nil (2013:$3,550).

Key Management Personnel Compensation	As at 30 June 2014 $000	As at 30 June 2013 $000
Short-term employee benefits	2,477	2,318
Other long term benefits	211	232
Total Compensation	**2,688**	**2,550**

29. Share Based Payments

Following the acquisition of Promina Group by Suncorp in March 2007, the executives of the Company obtained the right to participate in a Suncorp share plan. Shares offered in these share plans are granted by Suncorp over its own shares to employees of Suncorp subsidiaries.

Shares required for the share plan are acquired by an unrelated special purpose trustee and/or custodial companies in ordinary trading on the Australian Securities Exchange.

Features of the plan are as follows:

Executive Performance Share Plan ("EPSP")

Eligibility	Executive Officers
Basis of Share Offers	Offers under this Plan can be made on commencement of employment however offers are also made on an annual basis. The value of shares offered is determined by the Suncorp Board based on the participating Executive Officer's level of remuneration and individual performance. Share offers are subject to performance criteria.
Price	The price of shares acquired for any offer is based on the Volume Weighted Average Price of Suncorp's shares over a five day period preceding the date of the offer.
Vesting	Vesting of shares is subject to satisfaction of performance criteria over the performance period.
Performance Criteria	The criteria is based on total shareholder returns ("TSR") achieved by the Suncorp Group over a performance period compared to the TSR of a comparator group comprising the Top 50 Industrial *companies* in the S&P/ASX 100, excluding listed property trusts. No shares are vested unless the Group's TSR ranking at the end of a performance period is above the 50th percentile of the comparator group. If the Suncorp Group's TSR ranking is less than the 50th percentile no shares will vest, at the 50th percentile 50% of shares will vest and at or above the 75th percentile 100% of the shares will vest. Between the 50th and 75th percentiles, an additional 2% of the shares will vest for each 1% increase (on a straight line basis) in the Group's TSR ranking above the 50th percentile. A performance period generally commences on the date of offer to participate in the Plan and the first performance measurement point is three years after the offer date. The Executive Officer has the right to elect to receive an allocation of shares at the end of the performance period, based on the performance result described above, or extend the performance period a further two years. If the Executive Officer elects to accept the year three performance result, any shares subject to that same offer that are not allocated are forfeited.

	After year three, performance measurements are undertaken on a six monthly basis, in March and September each year, up to the end of year five. Executive Officers electing to extend the performance period from three to five years waive their right to make any further election in regard to acceptance of a performance result (and therefore cannot have shares allocated) until the end of year five. The Executive Officer's entitlement to an allocation of shares at the end of year five will be based on the highest performance measurement result recorded at any of the prescribed performance measurement points over the period from the end of year three to the end of year five inclusive. Shares not allocated at the end of year five are forfeited.
Minimum holding period	No minimum holding period applies once shares have been allocated unless otherwise determined by the Suncorp Board.
Plan Maximum Limit	Shares must not be issued under this Plan if the number to be issued would exceed 5% of total shares on issue for Suncorp when aggregated with the number of shares acquired or issued during the previous five years pursuant to any employee share or option Plan of Suncorp.
Dividend entitlements	Full entitlement from date of allocation (vesting).
Voting rights	Voting rights are held by the Plan Trustee until shares have vested with the participating employee.

The amount included in the Statement of Comprehensive Income in relation to the deferred ordinary shares allocated under EPSP for the year ended 30 June 2014 was $Nil (2013: $12,000).

30. Auditor's Remuneration

	Year ended 30 June 2014 $000	Year ended 30 June 2013 $000
During the year the auditor's of the company were paid for the following services:		
Assurance services		
Audit fees – KPMG	96	94
Other fees – KPMG	58	104
Total auditors' remuneration	**154**	**198**

Other fees paid to the auditor relates to work on the Solvency Returns and other agreed upon procedures engagements.

31. Segment Reporting

The Company operates exclusively in the direct sector of the general insurance market. The Company operates predominately within New Zealand.

32. Credit Rating

The Company has received an A+ credit rating from Standard & Poors. The credit rating is an indication of the Company's ability to pay current and future claims.

KPMG

33. Capital Management

(a) Capital management policies and objectives

The Company's capital management strategy is to optimise shareholder value by managing the level, mix and use of capital resources. The main objectives are to support the Company's credit rating, ensure sufficient capital resources to maintain the business and operational requirements, retain sufficient capital to exceed externally imposed capital requirements, and ensure the Company's ability to continue as a going concern.

With the implementation of the Insurance (Prudential Supervision) Act 2010 ("the Act") all general insurance entities carrying on insurance business in New Zealand are required to be licensed by the Reserve Bank of New Zealand. The Company was granted a full licence in May 2013 and is now managing capital in accordance with the requirements of the Act.

The Company is 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 company as appropriate to ensure their financial soundness, and the basis for determining the amount are set out below.

The Company satisfied all externally imposed capital requirements which they were subject to during the period ended 30 June 2014.

The Company has embedded in its capital management framework the necessary tests to ensure continuous and full compliance with the solvency standard.

The Company's BARCC oversees the capital computations and maintains the optimal capital structure by advising the Board on dividend payments and share issues. In addition, the Company manages its required level of capital through analysis and optimisation of the product and asset mix, reinsurance program, catastrophe exposure and investment strategy.

(b) Capital composition

The Company manages its capital by considering both regulatory and economic capital. The primary source of capital used is total equity attributable to owners. Total equity attributable to owners equates to "capital" as defined in the solvency standard and shown below.

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 Company is detailed on below:

	Year ended 30 June 2014 $000	Year ended 30 June 2013 $000
Actual Solvency Capital	77,093	76,083
Minimum Solvency Capital	54,669	54,211
Solvency Margin	**22,424**	**21,872**
Solvency Ratio	**1.41**	**1.40**

34. Events Occurring After Reporting Date

On 31 July 2014 the Directors resolved to pay, fully imputed Ordinary Dividends of $25,000,000 being 25.68 cents per share.

There has not been any other matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

QUANTIUM

29 July 2014

The Board of Directors
AA Insurance Limited
AA Centre, Level 11
99 Albert Street
Auckland 1010
New Zealand

Dear Sirs

Appointed Actuary – Report Required under Section 78 of the Act

Section 78 of the Act specifies those matters that much be addressed, namely;

(a) I am the Appointed Actuary of AA Insurance Limited (**AAIL**); and

(b) I have reviewed the actuarial information contained in, or used in the preparation of the financial statements of AAIL. The review has been carried out in accordance with the applicable solvency standard. For the avoidance of doubt, actuarial information means:
- Information relating to AAIL's calculations of premiums, claims, reserves, insurance rates, and technical provisions; and
- Information relating to assessments of the probability of uncertain future events occurring and the financial implications for the insurer if those events do occur; and
- Information specified in an applicable solvency standard as being actuarial information for the purposes of this section; and

(c) The scope and limitations of the review will be detailed in Section 1 of the Financial Condition Report (**FCR**) as at 30 June 2014; and

(d) I have no relationship with AAIL other than that of Appointed Actuary; and

(e) I have obtained all information and explanations that I require; and

(f) In my opinion and from actuarial perspective:
- The actuarial information contained in the financial statements has been appropriately included in those statements; and
- The actuarial information used in the preparation of the financial statements has been used appropriately; and

(g) No condition has been imposed under Section 21(2)(b) as at 30 June 2014; and

(h) No condition has been imposed under Section 21 (2)(c) as at 30 June 2014.

Yours sincerely

Karl Marshall
Appointed Actuary, AA Insurance Limited
Fellow of the New Zealand Society of Actuaries
Tel: +61 2 9292 6431