AA Insurance Limited

Financial report
for the financial year ended 30 June 2015

AA Insurance

AA Insurance Limited

Financial report

for the financial year ended 30 June 2015

Contents **Page**

Directors' report

The Board of Directors presents the Directors' report together with the financial report of AA Insurance Limited (the **Company**) for the financial year ended 30 June 2015.

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 whole of the financial year and up to the date of this report:

Non-executive
P R Brown
D C Casboult
G C Dransfield
B T Gibbons
E J Kulk (Chairman)
M R Winger

Registered office
Level 17
99 Albert Street
Auckland 1010
New Zealand

Auditor
KPMG
18 Viaduct Harbour Avenue
Auckland 1140
New Zealand

Dividends
During the financial year, the Company paid dividends totalling $25,000,000 (2014: $20,000,000). Further details of dividends paid are set out in Note 3 to the financial statements.

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 2015 was $36,947,000 for the Company compared with net profit after income tax of $25,436,000 for the previous year ended 30 June 2014.

Events subsequent to reporting date
There is, at the date of this Report, no matter or circumstance that has arisen since 30 June 2015 that has significantly affected, or may significantly affect:

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

Directors' report (continued)

Information on directors in office at the date of this report

Ewoud Kulk BEcon, FAICD

Chairman, Non-executive Director

Ewoud Kulk is Chairman of the Risk Committee and a Member of the Remuneration Committee and has been a director since December 2010 and director of Suncorp-Metway Limited since March 2007. Mr Kulk is Chairman of AA Insurance Limited (NZ), a director of the Westmead Millennium Institute, a past member of the NSW Council of the Australian Institute of Company Directors and a past president of the Insurance Council of Australia. He has over 25 years experience in the insurance industry. Mr Kulk was a director of Promina Group Limited at the date of the merger with Suncorp Group. He was Managing Director of the Australian General Insurance Group 1994-1998 and was Group Director Asia Pacific for Royal & Sun Alliance Insurance Group plc from March 1998 until his retirement in September 2003.

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 President 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 wide ranging involvement 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 Scheme. 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.

Directors' report (continued)

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 financial report of the Company was approved for issue by the Board on 23 July 2015.

Signed in accordance with a resolution of the directors.

Director	Director
23 July 2015	23 July 2015

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 Chairman.

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 Chairman 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.

Corporate governance statement (continued)

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, ICAAP, 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 auditor. Other attendees of BARCC meetings include the Company's Chief Executive, Suncorp Group Internal Audit, Internal Audit partners and the external auditor. The BARCC reviews and makes recommendations to the Board on matters such as the Company's Risk Appetite Statement, its Delegations of Authority, ICAAP, 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 23.

Independent auditor's report

To the shareholders of AA Insurance Limited

We have audited the accompanying financial statements of AA Insurance Limited ("the company") on pages 10 to 48. The financial statements comprise the statement of financial position as at 30 June 2015, the statements 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 and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards, 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 and fair presentation of the financial statements 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 assurance services. 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.

KPMG

Opinion

In our opinion, the financial statements on pages 10 to 48 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the financial position of AA Insurance Limited as at 30 June 2015 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Emphasis of matter

We draw attention to Notes 5, 11 and 16 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 that matter.

KPMG

23 July 2015
Auckland

Statement of comprehensive income
for the financial year ended 30 June 2015

	Note	2015 $'000	2014 $'000
Premium revenue	4	**269,325**	244,751
Outwards reinsurance premium expense		**(22,455)**	(22,178)
Net premium revenue		**246,870**	222,573
Claims expense	5	**(303,738)**	(253,501)
Reinsurance and other recoveries revenue	4, 5	**141,253**	97,459
Net incurred claims	5	**(162,485)**	(156,042)
Acquisition costs		**(19,282)**	(20,154)
Other underwriting expenses		**(28,811)**	(24,770)
Underwriting expenses		**(48,093)**	(44,924)
Underwriting result		**36,292**	21,607
Investment income on insurance funds	4.1	**4,093**	2,742
Investment expense on insurance funds		**(162)**	(151)
Insurance trading result		**40,223**	24,198
Investment income on shareholder funds	4.1	**8,718**	9,678
Investment expense on shareholder funds		**(352)**	(289)
Gain on defined benefit funds		**44**	100
Profit before tax		**48,633**	33,687
Income tax expense	7.1	**(11,686)**	(8,251)
Profit for the financial year attributable to owners of the Company		**36,947**	25,436
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains on defined benefit funds		**(229)**	(75)
Total other comprehensive income		**(229)**	(75)
Total comprehensive income for the financial year		**36,718**	25,361

KPMG

The statement of comprehensive income is to be read in conjunction with the accompanying notes.

Statement of financial position
as at 30 June 2015

	Note	2015 $'000	2014 $'000
Assets			
Cash and cash equivalents	8	**25,250**	5,765
Receivables and other assets	9	**121,943**	101,085
Investment securities	10	**198,586**	183,506
Reinsurance and other recoveries receivable	11	**152,524**	161,468
Deferred reinsurance premiums	12	**23,960**	17,903
Deferred acquisition costs	13	**10,410**	9,526
Plant and equipment		**1,122**	1,684
Deferred tax assets	7.4	**3,123**	1,756
Net defined benefit asset	17	**403**	588
Total assets		**537,321**	483,281
Liabilities			
Payables and other liabilities	14	**71,898**	34,734
Current tax liabilities	7.3	**1,901**	2,097
Unearned premium liabilities	15	**147,626**	133,936
Outstanding claims liabilities	16	**190,515**	199,674
Employee entitlements	17	**5,383**	4,808
Deferred tax liabilities	7.4	**2,915**	2,667
Total liabilities		**420,238**	377,916
Net assets		**117,083**	105,365
Equity			
Share capital	18	**64,215**	64,215
Retained profits		**52,868**	41,150
Total equity		**117,083**	105,365

The Board of Directors of AA Insurance Limited approved these financial statements for issue on 23 July 2015.

For, and on behalf of the Board

Director
23 July 2015

Director
23 July 2015

KPMG

The statement of financial position is to be read in conjunction with the accompanying notes.

Statement of changes in equity
for the financial year ended 30 June 2015

	Note	Share capital $'000	Retained profits $'000	Total $'000
Balance as at 1 July 2013		64,215	35,789	100,004
Profit for the financial year		-	25,436	25,436
Total other comprehensive income		-	(75)	(75)
Total comprehensive income for the financial year		-	25,361	25,361
Transactions with the owners, recorded directly in equity				
Dividends declared	3	-	(20,000)	(20,000)
Balance as at 30 June 2014		**64,215**	**41,150**	**105,365**
Profit for the financial year		**-**	**36,947**	**36,947**
Total other comprehensive income		**-**	**(229)**	**(229)**
Total comprehensive income for the financial year		**-**	**36,718**	**36,718**
Transactions with the owners, recorded directly in equity				
Dividends declared	3	**-**	**(25,000)**	**(25,000)**
Balance as at 30 June 2015		**64,215**	**52,868**	**117,083**

The statement of changes in equity is to be read in conjunction with the accompanying notes.

Statement of cash flows
for the financial year ended 30 June 2015

	Note	2015 $'000	2014 $'000
Cash flows from operating activities			
Premiums received		**273,573**	252,731
Claims paid		**(312,897)**	(285,551)
Interest received		**3,211**	3,444
Dividends received		**3,101**	2,846
Reinsurance and other recoveries received		**169,785**	134,605
Outward reinsurance premiums paid		**(23,901)**	(19,052)
Net movement in shared property reinstatement advances		**4,452**	-
Acquisition costs paid		**(20,166)**	(18,828)
Income tax (paid)/refunded*		**(13,001)**	(7,578)
Underwriting and other operating expenses paid		**(30,312)**	(27,154)
Net cash from operating activities	21	**53,845**	35,463
Cash flows from investing activities			
Proceeds from sale of investment securities		**169,504**	106,087
Payments for purchase of investment securities		**(178,624)**	(117,790)
Proceeds from sale of plant and equipment		**42**	30
Payments for purchases of plant & equipment and capitalised software costs		**(282)**	(370)
Net cash used in investing activities		**(9,360)**	(12,043)
Cash flows from financing activities			
Dividends paid to owners of the Company		**(25,000)**	(20,000)
Net cash used in financing activities		**(25,000)**	(20,000)
Net increase in cash and cash equivalents		**19,485**	3,420
Cash and cash equivalents at the beginning of the financial year		**5,765**	2,345
Cash and cash equivalents at the end of the financial year		**25,250**	5,765

* Income tax (paid)/refunded includes cash flows from tax offsets with New Zealand group companies

KPMG

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

Notes to the financial statements

1. Reporting entity

AA Insurance Limited (the **Company**) is a company incorporated and domiciled in New Zealand. Its registered office is level 17, AA Centre, 99 Albert Street, Auckland.

The Company is a profit oriented entity in the business of the underwriting of general insurance and the investment and administration of insurance funds. It operates exclusively in the direct sector of the general insurance market in New Zealand.

The Company's parent entity is Vero Insurance New Zealand Limited, with Suncorp Group Limited, a company incorporated in Australia, being the ultimate parent entity. Suncorp Group Limited and its subsidiaries are referred to as the **Suncorp Group**. Vero Insurance New Zealand Limited has a 68% shareholding in the Company and New Zealand Automobile Association Limited has a 32% shareholding.

2. Basis of preparation

The Company is a for-profit entity and the financial statements have been prepared on the historical cost basis unless the application of fair value measurements are required by the relevant accounting standards such as the measurement of financial instruments designated at fair value through profit or loss and the measurement of outstanding claims liabilities and reinsurance recoveries.

Significant accounting policies applied in the preparation of these financial statements are set out in Note 28. There have been no significant changes to accounting policies during the financial year.

The reporting period is from 1 July 2014 to 30 June 2015.

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

The accompanying statement of financial position has been prepared using the liquidity format of presentation.

2.1 Statement of compliance

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

2.2 New or amended standards adopted during the financial year

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.

2.3 Comparative information

Certain amounts and presentations in the comparative information have been restated (or reclassified) to conform to changes in the current financial year. The material changes are detailed below:

a) Reclassifications

Cash and deposits at call held within the Company's investment portfolios have been reclassified from investment securities to cash and cash equivalents. These balances are highly liquid and are able to be transferred into operating bank accounts within one day. The reclassification amounted to $2,486,000 as at 30 June 2014.

KPMG

Notes to the financial statements (continued)

b) Changes in presentation

Investment revenue has been split between investment income from insurance and shareholder funds in the statements of comprehensive income in accordance with the accounting policy outlined in Note 28.2d).

2.4 Use of estimates and judgements

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

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

a) Outstanding claims liability

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

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

The estimation of claims incurred but not reported (**IBNR**) and claims incurred but not enough reported (**IBNER**) are generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. IBNR and IBNER claims may often not be adequately reported until many years after the events giving rise to the claims have happened.

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

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

Details regarding actuarial estimates and judgements are detailed in Notes 5, 11 and 16. In particular details of the uncertainties that exist in measuring gross incurred claims arising from the Canterbury earthquakes are explained in Note 16.1.

b) Assets arising from reinsurance contracts and other recoveries

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

KPMG

Notes to the financial statements (continued)

3. Dividends

	2015		2014	
	¢ per share	$'000	¢ per share	$'000
Ordinary shares				
Final dividend	26	25,000	21	20,000
Total dividends recognised in equity attributable to owners of the Company	**26**	**25,000**	21	20,000

4. Revenue

	2015 $'000	2014 $'000
Insurance income		
Gross written premium	**283,015**	264,385
Movement in unearned premium	**(13,690)**	(19,634)
Premium revenue	**269,325**	244,751
Reinsurance and other recoveries revenue	**141,253**	97,459
Total insurance income	**410,578**	342,210
Investment income		
Interest income	**3,749**	3,578
Dividend income	**3,101**	2,846
Net gain on financial assets at fair value through profit or loss	**5,961**	5,996
Total investment income	**12,811**	12,420
Total revenue	**423,389**	354,630

4.1 Investment Income

	2015 $'000	2014 $'000
Investment income on insurance funds	**4,093**	2,742
Investment income on shareholder funds	**8,718**	9,678
Total investment income	**12,811**	12,420

KPMG

Notes to the financial statements (continued)

5. Net incurred claims

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

	Current Year $'000	Prior Year $'000	Total $'000
Year ended 30 June 2015			
Gross incurred claims and related expenses			
Undiscounted	**210,457**	**89,365**	**299,822**
Discount and discount movement	**(341)**	**4,257**	**3,916**
Gross incurred claims discounted	**210,116**	**93,622**	**303,738**
Reinsurance and other recoveries			
Undiscounted	**(45,644)**	**(90,135)**	**(135,779)**
Discount and discount movement	**167**	**(5,641)**	**(5,474)**
Reinsurance and other recoveries discounted	**(45,477)**	**(95,776)**	**(141,253)**
Net incurred claims	**164,639**	**(2,154)**	**162,485**
Year ended 30 June 2014			
Gross incurred claims and related expenses			
Undiscounted	190,076	61,986	252,062
Discount and discount movement	(236)	1,675	1,439
Gross incurred claims discounted	189,840	63,661	253,501
Reinsurance and other recoveries			
Undiscounted	(37,445)	(58,782)	(96,227)
Discount and discount movement	160	(1,392)	(1,232)
Reinsurance and other recoveries discounted	(37,285)	(60,174)	(97,459)
Net incurred claims	152,555	3,487	156,042

Details of the uncertainties that exist in measuring gross incurred claims and reinsurance recoveries arising from the Canterbury earthquakes are explained in Note 16.1.

6. Profit before tax

	2015 $'000	2014 $'000
Profit before tax is arrived at after charging/(crediting) the following specific items:		
Bad and doubtful debt (recovery)/expense (Note 9)	**(2)**	2
Contributions to defined contribution superannuation schemes	**981**	897
Contributions to defined benefit superannuation schemes	**37**	53
Depreciation on plant and equipment	**792**	961
Employee benefits	**39,534**	37,155
(Gain)/loss on disposal of plant and equipment	**11**	(2)
Operating lease rental expenses	**2,544**	2,865

KPMG

Notes to the financial statements (continued)

7. Income tax

7.1 Income tax expense

	2015 $'000	2014 $'000
Profit before tax	**48,633**	33,687
Prima facie income tax @ 28% (2014: 28%)	**13,617**	9,432
Movement in income tax expense due to:		
Non-deductible expenditure	**34**	53
Imputation credits	**(338)**	(331)
Tax exempt revenue	**(1,562)**	(879)
Other	**(65)**	(28)
Adjustment for prior years	**-**	4
Income tax expense	**11,686**	8,251
Income tax expense recognised in profit consists of:		
Current tax expense		
Current year	**12,680**	7,710
Adjustments for prior financial years	**125**	4
	12,805	7,714
Deferred tax expense		
Current year	**(994)**	537
Adjustments for prior financial years	**(125)**	-
	(1,119)	537
Income tax expense	**11,686**	8,251

7.2 Imputation credits

	2015 $'000	2014 $'000
Imputation credits available for use in subsequent reporting periods	**10,543**	6,927

7.3 Current tax

	2015 $'000	2014 $'000
Balance at the beginning of the financial year	**2,097**	1,961
Income tax paid	**(13,001)**	(5,800)
Current year tax on operating profit	**12,680**	7,710
Adjustment for prior years	**125**	4
Transfers between Group companies	**-**	(1,778)
Balance at the end of the financial year	**1,901**	2,097

Notes to the financial statements (continued)

7.4 Deferred tax

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

	2015 $'000	2014 $'000
Deferred tax assets are attributable to		
Depreciable assets	**1,129**	821
Employee benefits	**1,424**	1,275
Other	**570**	(340)
Total deferred tax assets	**3,123**	1,756
Deferred tax liabilities are attributable to		
Deferred acquisition costs	**(2,915)**	(2,667)
Total deferred tax liabilities	**(2,915)**	(2,667)
Net deferred tax liabilities	**208**	(911)
Movements		
Deferred tax assets		
Balance at the beginning of the financial year	**1,756**	2,665
Movement recognised in profit or loss	**1,367**	(909)
Balance at the end of the financial year	**3,123**	1,756
Deferred tax liabilities		
Balance at the beginning of the financial year	**2,667**	3,039
Movement recognised in profit or loss	**248**	(372)
Balance at the end of the financial year	**2,915**	2,667

8. Cash and cash equivalents

	2015 $'000	2014 $'000
Cash at bank and in hand	**773**	3,279
Shared property reinstatement deposits (Note 14)	**4,452**	-
Cash held within investment funds	**20,025**	2,486
	25,250	5,765

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

Notes to the financial statements (continued)

9. Receivables

	2015 $'000	2014 $'000
Trade and other receivables		
Premiums due	103,880	94,440
Amounts due from related parties (Note 25)	15,945	3,193
Prepaid expenses	21	70
Amounts due from reinsurers	873	2,697
Provision for bad and doubtful debts	(6)	(8)
Total trade and other receivables	120,713	100,392
Other assets		
Accrued income	1,230	692
Other assets	-	1
Total other assets	1,230	693
Total receivables	121,943	101,085
Current	121,943	101,085
Total receivables	121,943	101,085
Movements in for provision for bad and doubtful debts		
Balance at the beginning of the financial year	(8)	(6)
Provision released/(recognised) during the financial year	2	(2)
Balance at the end of the financial year	(6)	(8)

10. Investment securities

	2015 $'000	2014 $'000
Financial assets at fair value through profit or loss		
Interest bearing securities		
Debentures and corporate bonds	20,648	26,569
Government and semi-government securities	22,217	20,651
Discounted securities	39,088	32,309
Total interest bearing securities	81,953	79,529
Unit trusts	116,633	103,977
Total investment securities	198,586	183,506

11. Reinsurance and other recoveries receivable

	2015 $'000	2014 $'000
Expected future reinsurance and other recoveries undiscounted	159,030	173,331
Discount to present value	(6,506)	(11,863)
Total reinsurance and other recoveries receivable	152,524	161,468
Current	74,612	69,590
Non-current	77,912	91,878
Total reinsurance and other recoveries receivable	152,524	161,468

Details of the uncertainties that exist in measuring reinsurance recoveries arising from the Canterbury earthquakes are explained in Note 16.1.

The balance of reinsurance and other recoveries disclosed above is gross of deferred reinsurance liabilities of $29.4m (refer to Note 14).

KPMG

Notes to the financial statements (continued)

12. Deferred reinsurance premiums

	2015 $'000	2014 $'000
Balance at the beginning of the financial year	**17,903**	21,598
Reinsurance premium liability incurred	**28,512**	18,483
Reinsurance premium charged to profit or loss	**(22,455)**	(22,178)
Balance at the end of the financial year	**23,960**	17,903

13. Deferred acquisition costs

	2015 $'000	2014 $'000
Balance at the beginning of the financial year	**9,526**	10,852
Acquisition costs deferred	**20,166**	18,828
Amortisation charged to profit or loss	**(19,282)**	(20,154)
Balance at the end of the financial year	**10,410**	9,526

14. Payables and other liabilities

	2015 $'000	2014 $'000
Trade creditors and accruals	**10,062**	10,972
GST payable	**2,186**	2,102
Amounts due to reinsurers	**25,566**	21,503
Shared property reinstatement advances (Note 8)	**4,452**	-
Deferred reinsurance liabilities (Note 11)	**29,406**	-
Amounts due to related parties (Note 25)	**226**	157
Total payables and other liabilities	**71,898**	34,734
Current	**48,991**	34,734
Non-current	**22,907**	-
Total payables and other liabilities	**71,898**	34,734

Deferred reinsurance liabilities relates to the settlement of reinsurance in relation to the 2010/2011 Canterbury earthquakes by entities in the Suncorp Group ahead of the actual settlement of the underlying claims. It comprises $31.1m received/receivable from a fellow subsidiary of the ultimate parent (refer to Note 25.2), less $1.7m in relation to claims which were settled prior to 30 June 2015. As at 30 June 2015 $11.1m of this settlement is held by Vero Insurance New Zealand Limited pending onwards payment to the Company. This is disclosed as an amount receivable from the parent in Note 25.2.

15. Unearned premium liabilities

	2015 $'000	2014 $'000
Balance at the beginning of the financial year	**133,936**	114,302
Premiums written during the financial year (Note 4)	**283,015**	264,385
Premiums earned during the financial year (Note 4)	**(269,325)**	(244,751)
Balance at the end of the financial year	**147,626**	133,936

KPMG

Notes to the financial statements (continued)

15.1 Liability adequacy test

The liability adequacy test which was performed as at 30 June 2015 identified a surplus for the Company (30 June 2014: surplus).

16. Outstanding claims liabilities

16.1 Gross outstanding claims liabilities

	2015 $'000	2014 $'000
Gross central estimate - undiscounted	**155,601**	173,430
Discount to present value	**(6,207)**	(9,774)
Claim handling expenses	**35,748**	31,307
Risk margin	**5,373**	4,711
Gross outstanding claims liabilities	**190,515**	199,674
Current	**116,591**	117,098
Non-current	**73,924**	82,576
Gross outstanding claims liabilities	**190,515**	199,674

Despite significant progress in the settlement of 2010 and 2011 Canterbury earthquake claims, some uncertainty remains in the estimation of gross outstanding claims liabilities and the related reinsurance recoveries for these events. The uncertainty is large in dollar terms due to the volume, value and complexity of the outstanding earthquake claims relative to other outstanding claims on the balance sheet.

At balance date the central estimate of gross outstanding claims liabilities, plus the net risk margin, attributed to the Canterbury earthquakes totals $145 million (2014: $161 million).

The central estimate represents actuarial estimates, as at 30 June 2015, of what the Company ultimately has left to pay, prior to receiving any reinsurance recoveries in relation to these claims. Given the nature of the uncertainties associated with the remaining Canterbury earthquake claims, the actual claims experience may deviate, perhaps substantially, from the central estimate as at 30 June 2015.

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

Effective 19 June 2015, Suncorp Group Limited entered into an Adverse Development Cover (ADC) to cover Suncorp's net exposure to losses arising from the February 2011 Canterbury earthquake. The attachment point and the limit of the ADC are such that no net risk margin is required for the February 2011 event at the balance date.

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

Notes to the financial statements (continued)

16.2 Reconciliation of movement in discounted outstanding claims liabilities

	Note	2015 $'000	2014 $'000
Net outstanding claims liabilities at the beginning of the financial year		**38,206**	33,111
Prior periods			
Payments net of reinsurance recoveries		**(28,310)**	(26,084)
Movement in discounting		**365**	695
Margin release on prior periods		**(4,664)**	(3,669)
Incurred claims due to changes in assumptions and experience		**2,132**	6,630
Change in discount rate		**13**	(169)
Current period			
Net ultimate incurred costs		**164,639**	152,555
Payments net of reinsurance recoveries		**(134,390)**	(124,863)
Net outstanding claims liabilities at end of the financial year		**37,991**	38,206
Reinsurance and other recoveries receivable	11	**152,524**	161,468
Gross outstanding claims liabilities		**190,515**	199,674

Notes to the financial statements (continued)

16.3 Actuarial Assumptions and Methods

a) Assumptions

The following key assumptions have been applied in determining the net outstanding claims liabilities of the Company:

	2015	2014
Weighted average term to settlement (years)	**0.96**	0.70
Economic inflation rate	**2.3%**	2.0%
Superimposed inflation rate	**0.0%**	0.0%
Discount rate	**3.1%**	3.4%
Claim handling expense ratio	**9.2%**	5.9%
Risk margin	**16.5%**	14.1%

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.

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

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

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

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

Risk margin - The overall risk margin is determined 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 are applied to the net central estimates, and the results aggregated, allowing for diversification in order to arrive at an overall provision, which is intended to have a 90% (2014: 90%) probability of sufficiency (**POS**).

A net risk margin at an approximate 90% POS (2014: 90%) has been included in the net outstanding claims provision in respect of the 2010 and 2011 Canterbury earthquakes. The net risk margin takes into account: the retention and limits of the 2010 and 2011 Suncorp Group catastrophe programmes; the ADC contract for the February 2011 event; the timing of cash flows; and the currency exchange rates that are likely over the future payment period.

b) Impact of changes in assumptions

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

	Movement in variables	2015 $'000	2014 $'000
Weighted average term to settlement - years	+0.5	**(130)**	(266)
	-0.5	**130**	268
Inflation rate	+1%	**335**	246
	-1%	**(335)**	(247)
Discount rate	+1%	**(329)**	(241)
	-1%	**336**	245
Claim handling expense ratio	+1%	**348**	361
	-1%	**(348)**	(361)
Risk margin	+1%	**326**	335
	-1%	**(326)**	(335)
Average future AUD:NZD exchange rate	+1%	**205**	(40)
	-1%	**(205)**	41

c) Actuarial information

Karl Marshall, of The Quantium Group Pty Limited, is the Appointed Actuary for the Company. Mr Marshall is a Fellow of the New Zealand Society of Actuaries. Mr Marshall has no financial interest in the Company.

According to section 77(1) of the Insurance (Prudential Supervision) Act 2010 the Appointed Actuary must review the actuarial information 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 at 30 June 2015. The Appointed Actuary is satisfied that they have 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 compilation of the reserves as at 30 June 2015 have been outlined above.

In addition, the Company's Board Audit Risk and Compliance Committee (**BARCC**) receive a Financial Condition Report (**FCR**) annually from the Appointed Actuary of the Company in accordance with the Act. 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.

Notes to the financial statements (continued)

17. Employee benefit obligations

	2015 $'000	2014 $'000
Employee entitlements	**5,383**	4,808
Defined benefit obligation asset	**(403)**	(588)
Total employee benefits obligation	**4,980**	4,220
Current	**5,383**	4,808
Non-current	**(403)**	(588)
Total employee benefits obligation	**4,980**	4,220

18. Share capital

	2015 Shares No. (000)	2015 Shares $'000	2014 Shares No. (000)	2014 Shares $'000
Issued and fully paid ordinary shares	**97,334**	**63,718**	97,334	63,718
Shareholder contribution under equity settled employee share plans	**-**	**497**	-	497
Total share capital	**97,334**	**64,215**	97,334	64,215

The Company does not have authorised capital or par value in respect of its issued shares. All shares are fully paid.

As at 30 June 2015, the Company had 66,186,860 ordinary shares with no par value issued to Vero Insurance New Zealand Limited (2014: 66,186,860) and 31,146,760 issued to New Zealand Automobile Association Limited (2014: 31,146,760). All shares rank equally with one vote attached to each fully paid ordinary share.

Notes to the financial statements (continued)

19. Capital management

19.1 Capital management policies and objectives

The capital management strategy of the Company is to optimise shareholder value by managing the level, mix and use of capital resources. The primary objective is to ensure there are sufficient capital resources to maintain and grow the business, in accordance with risk appetite. The Company's Internal Capital Adequacy Assessment Process (**ICAAP**) provides the framework to ensure that it is capitalised to meet internal and external requirements. The ICAAP is reviewed regularly and, where appropriate, adjustments are made to reflect changes in the capital needs and risk profile of the Company.

The Company is a licensed insurance company in accordance with the Insurance (Prudential Supervision) Act 2010 (the **Act**). The Company manages its capital in accordance with the requirements of the Act and the Solvency Standard for Non-life Insurance Business (the **Solvency Standard**) issued by the Reserve Bank of New Zealand.

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 its financial soundness, and the basis for determining the amount are set out below.

The Company satisfied all externally imposed capital requirements which it was subject to during the year ended 30 June 2015.

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 Board Audit Risk and Compliance Committee oversee the capital computations and maintain 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 and the reinsurance program investment strategy.

19.2 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 in Note 19.3 below.

KPMG

Notes to the financial statements (continued)

19.3 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 below:

	2015 $'000	2014 $'000
Actual solvency capital	**75,944**	77,093
Minimum solvency capital	**57,294**	54,669
Solvency Margin	**18,650**	22,424
Solvency Ratio	**1.33**	1.41

20. Credit rating

The Company has received an A+ credit rating from Standard & Poor's (2014: A+) which provide an indication of the Company's ability to pay current and future claims.

21. Notes to the statement of cash flows

	2015 $'000	2014 $'000
Profit for the period after tax	**36,947**	25,436
Non-cash items		
Movement in financial assets at fair value through profit or loss	**(5,961)**	(5,996)
Depreciation expense	**792**	961
Loss/(Profit) on disposal of plant and equipment	**11**	(2)
Movement in defined benefit fund	**(229)**	(75)
Change in assets and liabilities		
Increase in receivables	**(20,858)**	(10,128)
Decrease in reinsurance and other recoveries	**8,944**	35,503
(Increase)/decrease in deferred reinsurance premiums	**(6,057)**	3,695
(Increase)/decrease in deferred acquisition expenses	**(884)**	1,326
(Increase)/decrease in deferred tax asset	**(1,367)**	909
Decrease/(increase) in net defined benefit fund asset	**185**	(25)
Increase/(decrease) in payables and other liabilities	**37,164**	(4,670)
Increase in unearned premiums	**13,690**	19,634
(Decrease)/increase in taxation payable	**(196)**	136
Decrease in outstanding claims	**(9,159)**	(30,408)
Increase/(decrease) in employee benefit obligations	**575**	(461)
Increase/(decrease) in deferred tax liability	**248**	(372)
Net cash from operating activities	**53,845**	35,463

KPMG

Notes to the financial statements (continued)

22. Financial instruments

22.1 Comparison of fair value to carrying amounts

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

Investments traded in an active market are valued with reference to the closing quoted market price.

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

Financial assets and liabilities that are not recognised and measured at fair value include cash and cash equivalents, trade and other receivables and payables. The basis of recognition and measurement of these financial assets and liabilities is described in Note 28. Their carrying value is a reasonable approximation of their fair value.

22.2 Fair value hierarchy

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

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

Level 2

Holdings in unit trusts are valued using quoted prices in a non active market.

All other level 2 securities held by the Company represent investment securities valued using a market comparison technique. For investment securities the fair value is calculated using observable inputs from a non active market for an identical security with the valuation reflecting the exit price for the security.

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
As at 30 June 2015				
Financial assets				
Investment securities	**4,736**	**193,850**	**-**	**198,586**
As at 30 June 2014				
Financial assets				
Investment securities	28,830	154,676	-	183,506

The fair value hierarchy of term deposits and transferable certificates has been reclassified from Level 1 to Level 2 due to the investments not being traded in an active market.

KPMG

Notes to the financial statements (continued)

22.3 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:

2015	Designated at Fair Value $'000	Loans and Receivables $'000	Other Financial Liabilities $'000	Carrying amount $'000	Fair Value $'000
Cash and cash equivalents	-	25,250	-	25,250	25,250
Receivables	-	121,943	-	121,943	121,943
Investment securities	198,586	-	-	198,586	198,586
	198,586	147,193	-	345,779	345,779
Payables and other liabilities	-	-	(71,898)	(71,898)	(71,898)
2014					
Cash and cash equivalents	-	5,765	-	5,765	5,765
Receivables	-	101,085	-	101,085	101,085
Investment securities	183,506	-	-	183,506	183,506
	183,506	106,850	-	290,356	290,356
Payables and other liabilities	-	-	(34,734)	(34,734)	(34,734)

23. Risk management

23.1 Risk management objectives and structure

The Company recognises that effective risk management is considered to be critical to the achievement of the Company's objectives. The Company's Board Audit Risk & Compliance Committee (**BARCC**) is responsible for assisting the Company's Board in fulfilling its responsibilities with respect to the oversight of all categories of risk, which includes the identification, assessment and management of risk, and adherence to risk management and other policies and procedures.

The Company has a Risk Management Framework in place. It is subject to an annual review, updated for material changes as they occur and is approved by the Board. The Risk Management Framework comprises:

- the risk appetite framework and its link to strategic business and capital plans. Risk Appetite is set at Board level.
- accountabilities and governance arrangements for the management of risk within the Three Lines of Defence model.
- risk management processes.

Notes to the financial statements (continued)

23.1 Risk management objectives and structure (continued)

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

Line of Defence	Responsibility of	Accountable for
First – Manage risk and comply with Company frameworks, policies and the Company's risk appetite	All business areas (and staff)	• Identify and manage the risks inherent in their operations including control testing • Ensure compliance with all legal and regulatory requirements and Company policies • Promptly escalate any significant actual and emerging risks for management attention
Second – Independent function which owns and monitors the application of risk framework, and measures and reports on risk performance and compliance	Risk function	• Design, implement and manage the ongoing maintenance of risk framework and related policies • Advise and partner with the business in the design and execution of risk framework and practices • Develop, apply and execute risk framework for the respective business areas • Facilitate the reporting of the appropriateness and quality of risk management
Third – Independent assurance over internal controls and risk management practices	Internal auditors and specific obligations of the Appointed Actuaries.	• Decides the level and extent of independent testing required to verify the efficacy of internal controls • Validates the overall risk framework • Provides assurance that the risk management practices are functioning as intended

Management recommends to the Board, and the Board has approved, various frameworks, policies and limits relating to key categories of risk faced by the Company. Management has the primary responsibility and accountability for embedding the risk management framework within the business operations of the Company. The Company has a Chief Risk Officer (**CRO**) who has the management responsibility for risk, compliance and related issues of the Company.

The Company has in place a Management Risk Committee, with its own charter. The primary role of the Management Risk Committee is to oversee the management of financial and non-financial aspects of risks arising from the activities of the business within the Company Board approved risk parameters: Insurance Risk, Financial Risk, Operational and Compliance Risk and Strategic Risk.

KPMG

Notes to the financial statements (continued)

23.1 Risk management objectives and structure (continued)

A Risk Management Strategy (**RMS**) approved by the BARCC and endorsed by the Board is prepared. This is subject to annual review and is submitted to the Reserve Bank of New Zealand. The RMS describes the strategy adopted by the Board for managing risk, including the risk appetite, policies, procedures, management responsibilities and controls.

The key risks addressed by the Risk Management Framework are described below.

Key risks	Definition
Credit risk (counterparty risk)	The risk that a counterparty will not meet its obligations in accordance with agreed terms
Liquidity risk	The risk that the Company will be unable to service its cash flow obligations today or in the future
Market risk (including interest rate and exchange rate risk)	The risk of unfavourable changes in foreign exchange rates, interest rates, equity prices, credit spreads, commodity prices, and market volatilities
Insurance risk	The risk of financial loss and the inability to meet liabilities due to inadequate or inappropriate insurance product design, pricing, underwriting, reserving, claims management and/or reinsurance management
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events beyond our control
Compliance risk	The risk of legal or regulatory sanctions, financial loss, or loss to reputation which the Company may suffer as a result of its failure to comply with all applicable legislation, regulations, industry codes and Company policy
Strategic risk	The risk of loss arising from uncertainty about the future operating environment, including capital, commercial, reputation, corporate governance and obsolescence risk

Notes to the financial statements (continued)

23.2 Company insurance risk management

a) Policies and practices for mitigating insurance risk

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

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

Concentration of insurance risk is mitigated through diversification over geographical segments, the use of reinsurer coverage and ensuring there is an appropriate mixture of business. Treaty reinsurance contracts are purchased to ensure that any accumulation of losses from a single event is mitigated.

b) Terms and conditions of insurance business

Insurance contracts are generally entered into on an annual basis and at the time of entering into a contract all terms and conditions are negotiable or, in the case of renewals, renegotiated.

23.3 Credit risk

The Company is exposed to and manages the following key sources of credit risk.

Key sources of credit risk	How are these managed
Premiums receivable	Payment default will result in the termination of the insurance contract with the policyholders, eliminating both the credit risk and insurance risk for the unpaid balance.
Investments in financial instruments	Investments in financial instruments in the investment portfolios are held in accordance with the investment mandates. Credit limits have been established within these guidelines to ensure counterparties have appropriate credit ratings.
Reinsurance recoveries	Eligible recoveries under reinsurance arrangements are monitored and managed internally and by specialised reinsurance brokers operating in the international reinsurance market.

For investment securities, credit ratings of counter parties for which credit risk is assessed only relate to the interest bearing securities of the Company.

KPMG

Notes to the financial statements (continued)

23.3 Credit risk (continued)

	Credit Rating						
	AAA	AA	A	BBB	Non-investment grade	Not Rated	Total
2015	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	**-**	**25,250**	**-**	**-**	**-**	**-**	**25,250**
Investment securities	**7,226**	**45,549**	**27,572**	**1,606**	**-**	**-**	**81,953**
Reinsurance and other recoveries net of recoveries received in advance	**-**	**488**	**123,030**	**-**	**-**	**10,694**	**134,212**
Investment revenue receivable	**-**	**-**	**-**	**-**	**-**	**1,230**	**1,230**
Premiums due	**-**	**-**	**-**	**-**	**-**	**103,880**	**103,880**
Amounts due from related parties	**-**	**-**	**15,945**	**-**	**-**	**-**	**15,945**
Amounts due from reinsurers	**-**	**282**	**592**	**-**	**-**	**-**	**874**
	7,226	**71,569**	**167,139**	**1,606**	**-**	**115,804**	**363,344**
2014							
Cash and cash equivalents	-	5,765	-	-	-	-	5,765
Investment securities	-	47,730	30,921	878	-	-	79,529
Reinsurance and other recoveries	-	405	151,376	-	-	9,687	161,468
Investment revenue receivable	-	-	-	-	-	692	692
Premiums due	-	-	-	-	-	94,440	94,440
Amounts due from related parties	-	-	3,193	-	-	-	3,193
Amounts due from reinsurers	-	80	2,617	-	-	-	2,697
	-	53,980	188,107	878	-	104,819	347,784

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

		Past due but not impaired					
	Neither past due nor impaired	0-3 mths	3-6 mths	6-12 mths	>12 mths	Impaired	Total
2015	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Premiums due	**103,824**	**50**	**-**	**-**	**-**	**6**	**103,880**
2014							
Premiums due	94,314	118	-	-	-	8	94,440

Notes to the financial statements (continued)

23.4 Liquidity risk

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

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

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

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

2015	Carrying amount $'000	1 year or less $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
Amounts due to reinsurers	**25,566**	**18,924**	**6,642**	**-**	**25,566**
Trade creditors and accruals	**10,062**	**10,062**	**-**	**-**	**10,062**
GST payables	**2,186**	**2,186**	**-**	**-**	**2,186**
Outstanding claims liabilities	**190,515**	**116,591**	**65,141**	**8,783**	**190,515**
Amounts due to related parties	**226**	**226**	**-**	**-**	**226**
Employee entitlements	**5,383**	**5,383**	**-**	**-**	**5,383**
	233,938	**153,372**	**71,783**	**8,783**	**233,938**
2014					
Amounts due to reinsurers	21,503	21,503	-	-	21,503
Trade creditors and accruals	10,972	10,972	-	-	10,972
GST payables	2,102	2,102	-	-	2,102
Outstanding claims liabilities	199,674	117,098	72,492	10,084	199,674
Amounts due to related parties	157	157	-	-	157
Employee entitlements	4,808	4,808	-	-	4,808
	239,216	156,640	72,492	10,084	239,216

Notes to the financial statements (continued)

23.5 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 Funds and Shareholder Funds.

The Technical Funds investment portfolios support the outstanding claims liabilities and unearned premiums 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 is 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.

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

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

a) 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 and loss. The insurance funds hold significant interest-bearing securities in support of corresponding insurance provisions and are invested in a manner consistent with the expected duration of claims payments.

The valuation of the outstanding claims liabilities includes the discounting to present value at balance date of expected future claim payments. Any assessment of the impact of changes in interest rates on investment income must include the offsetting adjustment to claims expense for changes in discount rates adopted in outstanding claims valuations.

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

KPMG

Notes to the financial statements (continued)

a) Interest rate risk (continued)

The sensitivity of profit or loss after tax to movements in interest rates in relation to interest-bearing financial assets held at the balance date is shown in the table below. There is no impact on equity reserves. It is assumed that all residual exposures for the shareholder after tax are included in the sensitivity analysis, that the percentage point change occurs at the balance date and there are concurrent movements in interest rates and parallel shifts in the yield curves. Given the volatility experienced in the market during the last year, a movement of 100 basis points (2014:100 basis points) is considered reasonably possible and has been applied to the sensitivity analysis.

	2015			2014		
	Exposure	Change in variable	Profit (loss) after tax	Exposure	Change in variable	Profit (loss) after tax
	$'000	%	$'000	$'000	%	$'000
Interest bearing investment securities	81,953	+1	(478)	79,529	+1	(486)
		-1	473		-1	458
	81,953			79,529		

At the reporting date measurement of the cash and cash equivalents is not sensitive to movements in the interest rates and so a change in interest rates as at reporting date would have 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.

b) Foreign exchange risk

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

The difference in currency used for paying claims and determining reinsurance recoveries means that movements in the AUD:NZD exchange rate can affect the net incurred claims position. This foreign exchange rate risk also applies to any commutations or recoveries received in advance from the Australian-denominated reinsurance programme. Allowance is made for this foreign exchange risk through actuarial estimates of the net outstanding claims liability.

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

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

c) Other market risk

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.

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

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

Notes to the financial statements (continued)

Sensitivity of the Company's credit exposure to a +/- 100 basis point (2014: 100 basis points) change in yield is as follows:

	2015			2014		
	Exposure	Change in variable	Profit (loss) after tax	Exposure	Change in variable	Profit (loss) after tax
	$'000	%	$'000	$'000	%	$'000
Discounted securities and corporate bonds	59,736	+1	(384)	58,878	+1	(325)
		-1	376		-1	307
Government and local government securities	22,217	+1	(94)	20,651	+1	(160)
		-1	97		-1	150
	81,953			79,529		

d) Equity price risk

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 (2014: 200 basis points):

	2015			2014		
	Exposure	Change in variable	Profit (loss) after tax	Exposure	Change in variable	Profit (loss) after tax
	$'000	%	$'000	$'000	%	$'000
Domestic equities in unit trusts	76,277	+2	1,098	71,449	+2	1,029
		-2	(1,098)		-2	(1,029)
International equities in unit trusts	40,356	+2	581	32,528	+2	468
		-2	(581)		-2	(468)
	116,633			103,977		

23.6 Capital management

The Company's capital management policies and objectives together with details of the amount of equity retained for the purpose of financial soundness are described in Note 19.

24. Commitments of expenditure

	2015 $'000	2014 $'000
Lease commitments		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	2,899	2,542
Later than one year but not later than 5 years	8,857	9,083
Later than 5 years	144	77
Non cancellable operating leases	11,900	11,702

The Company leases a number of commercial office premises and car parks throughout New Zealand with varying lease terms of up to 7 years from the date of inception with periodic rent reviews.

KPMG

Notes to the financial statements (continued)

25. Related parties

25.1 Controlling entities

The ultimate parent of the Company is Suncorp Group Limited.

The parent of the Company is Vero Insurance New Zealand Limited and it has a 68% shareholding in the Company. New Zealand Automobile Association Limited has the remaining 32% shareholding in the Company.

25.2 Transactions and balances

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

	2015 $'000	2014 $'000
Premiums received		
Other - Shareholder	**229**	170
Premiums paid		
Parent	**5,102**	8,306
Fellow subsidiaries of the ultimate parent	**87**	85
Reinsurance recoveries received		
Parent	**105,631**	94,763
Fellow subsidiaries of the ultimate parent	**31,063**	-
Accounting and administration services paid		
Parent	**6,531**	6,516
Fellow subsidiaries of the ultimate parent	**387**	340
Services fee		
Other - Shareholder	**6,780**	6,528
Group tax loss offsets paid		
Fellow subsidiaries of the ultimate parent	**-**	1,778
Dividend paid		
Parent	**17,000**	13,600
Other - Shareholder	**8,000**	6,400

Aggregate amounts receivable from or payable to related parties as at 30 June 2015 and 30 June 2014 are as follows:

	2015 $'000	2014 $'000
Amounts receivable from:		
Parent	**15,945**	3,193
Total amounts receivable from related parties	**15,945**	3,193
Amounts payable to:		
Fellow subsidiaries of the ultimate parent	**89**	13
Other related parties	**137**	144
Total amounts payable to related parties	**226**	157

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

Notes to the financial statements (continued)

25.3 Key management personnel

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

	2015 $'000	2014 $'000
Short-term employee benefits	**2,243**	2,477
Long-term benefits	**313**	211
Total Compensation	**2,556**	2,688

26. Auditor's remuneration

	2015 $'000	2014 $'000
During the year the auditor of the Company was paid for the following services:		
Audit fees		
Audit of annual accounts of the Company	**98**	96
Non-audit fees		
Assurance engagements on RBNZ solvency returns	**59**	58
Total auditor's remuneration	**157**	154

27. Contingent liabilities

There were no contingent liabilities as at 30 June 2015 (2014: Nil).

28. Significant accounting policies

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

28.1 Foreign currency

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

KPMG

Notes to the financial statements (continued)

28.2 Revenue and expense recognition

a) Premium Revenue

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

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

b) Claims expense

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

c) Reinsurance

Reinsurance and other recoveries revenue

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

Outwards reinsurance expense

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

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

d) Investment Revenue

Interest income is recognised in profit or loss using the effective interest method.

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

Investment revenue is classified as either investment income on insurance funds or shareholder funds. Investment income on insurance funds represents revenue derived from financial assets backing general insurance liabilities as detailed in Note 28.7(c) while investment income from shareholder funds represents revenue from financial assets that do not back general insurance liabilities.

KPMG

Notes to the financial statements (continued)

28.3 Income tax

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

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

The principal temporary differences arise from depreciation of property, plant and equipment, revaluation of certain financial assets and liabilities, provision for employee entitlements, deferred acquisition costs and tax losses carried forward. The rates enacted or substantially enacted at the reporting date are used to determine deferred income tax.

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

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

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

a) Goods and service tax

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

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

28.4 Cash and cash equivalents

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

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

28.5 Receivables

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

28.6 Payables

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

KPMG

Notes to the financial statements (continued)

28.7 Financial assets

A financial asset is recognised in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Initial recognition is at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset except for financial assets at fair value through profit or loss which exclude transaction costs.

All purchases and sales of financial assets that require delivery of the asset within the time frame established by regulation or market convention are recognised at trade date, being the date on which the Company commits to buy or sell the asset. 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 risk and rewards of ownership.

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

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

At each reporting date measurement depends upon the chosen classification.

a) Financial assets at fair value through profit or loss

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

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

The assets are valued at fair value at each reporting date based on the current quoted market price where available. Where a quoted price is not available one of the following valuation techniques are used to value the assets at reporting date: recent arms length transactions, discounted cash flow analysis, option pricing models or other valuation techniques commonly used by market participants.

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

b) 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.

c) General insurance activities

Financial assets backing general insurance liabilities

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

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

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

Financial assets not backing general insurance liabilities

Financial assets that do not back general insurance liabilities include investments and loans and receivables. 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. Loans and receivables related to investments are measured at each reporting date at amortised cost using the effective interest method.

Notes to the financial statements (continued)

28.8 Financial liabilities

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

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

a) Financial liabilities at fair value through profit or loss

A financial liability at fair value through profit or loss is a financial liability 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.

b) Financial liabilities at amortised cost

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

28.9 Lease transactions

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

28.10 Property, Plant and Equipment

a) Recognition and initial measurement

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.

Property, plant and equipment is initially measured at cost, which comprises:

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

b) Subsequent measurement

Subsequent additional costs are only capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the Company in future years. Where these costs represent separate components, they are accounted for as separate assets and are separately depreciated over their useful lives. Costs that do not meet the criteria for subsequent capitalisation are expensed as incurred. The Company has elected to use the cost model (as opposed to the revaluation model) to measure property, plant and equipment after recognition. The carrying amount is the initial cost less accumulated depreciation and any accumulated impaired losses.

KPMG

Notes to the financial statements (continued)

c) Depreciation

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

The following depreciation rates have been used:

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

d) Retirement

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

28.11 Impairment

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

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

a) Calculation of recoverable amount

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

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

b) Reversal of impairment

An impairment loss for an asset is reversed in following periods if there are indications that the impairment loss previously recognised no longer exists or has decreased. The impairment loss is reversed, in the profit and loss, only to the extent that it increases the asset back to its original carrying amount before any impairment was recorded.

KPMG

Notes to the financial statements (continued)

28.12 Employee benefit obligations

a) Short term employee benefits

Wages, salaries and annual leave

Liabilities for unpaid wages, salaries and annual leave due within 12 months are recognised in the statement 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.

b) Post-employment benefits (superannuation)

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

For defined contribution funds, the Company pays contributions to publicly or privately administered pension insurance funds on a mandatory, contractual or voluntary basis. The Company's legal or constructive obligation is limited to these contributions.

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 fund is calculated 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.

Notes to the financial statements (continued)

c) Other long term employee benefits

Long service leave

A liability for long service leave is recognised in the 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.

Annual Leave

A liability for annual leave which will not be settled within 12 months after the reporting date 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.

d) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The 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.

28.13 Deferred insurance activities

a) Deferred acquisition costs (DAC)

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

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

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

b) Deferred reinsurance premiums

Deferred reinsurance premiums are recognised as assets in the 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.

28.14 Outstanding claims liabilities

The outstanding claims liability is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date and includes an additional risk margin to allow for the inherent uncertainty in the central estimate. Standard actuarial methods are applied to all classes of business to assess the net central estimate of outstanding claims liabilities. The outstanding claims liability is heavily dependent on assumptions and judgements. The details of actuarial assumptions and the process for determining the risk margins are set out in Note 16.3 a).

Notes to the financial statements (continued)

28.15 Unearned premium liabilities

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

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

28.16 Contributed capital

a) Ordinary shares

Ordinary shares are recognised as equity.

b) 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.

c) 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.

28.17 Contingent liabilities and contingent assets

Contingent liabilities are not recognised in the statement 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 statement 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.

28.18 Changes in accounting estimates

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

28.19 New accounting standards and interpretations not yet adopted

NZ IFRS 9 Financial Instruments was issued and introduces changes in the classification and measurement of financial assets and financial liabilities, impairment of financial assets and new rules for hedge accounting. This standard becomes mandatory for the Company's 30 June 2019 financial statements. The potential effects on adoption of the standard are currently being assessed. It is available for early adoption but has not been applied by the Company in this financial report.

29. Subsequent events

On 23 July 2015 the Directors resolved to pay fully imputed Ordinary Dividends of $35,000,000 being 35.96 cents per share.

There were no other material events post 30 June 2015 which would require adjustment to the amounts reflected in the 30 June 2015 financial statements or disclosures thereto.

KPMG

QUANTIUM

24 July 2015

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 2015; 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 2015; and

(h) No condition has been imposed under Section 21 (2)(c) as at 30 June 2015.

Yours sincerely

Karl Marshall

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