Vero Insurance New Zealand Limited

Annual Financial Report

For the Year Ended

30 June 2013

Contents

VERO INSURANCE NEW ZEALAND LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2013

The Board of Directors present the annual financial report of Vero Insurance New Zealand Limited and its subsidiaries ("the Company and the Group") incorporating the financial statements and auditor's report for the year ended 30 June 2013.

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

Directors
The following persons were Directors of the Company during the whole of the financial year and up to the date of this report:

G C Dransfield
E S Edgar
G T Ricketts
P J R Snowball
D J Turkington

Registered Office
Vero Centre
48 Shortland Street
Auckland 1142

Auditor
KPMG
18 Viaduct Harbour Avenue
Auckland 1140

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

Review of operations
The profit after income tax for the year ended 30 June 2013 was $76,170,000 for the Group compared with net profit after income tax of $34,611,000 for the previous year ended 30 June 2012. The profit after income tax for the year ended 30 June 2013 was $74,160,000 for the Company compared with net profit after income tax of $61,198,000 for the previous year ended 30 June 2012.

Matters subsequent to the end of the financial year

On 21 July 2013 a 6.5 magnitude earthquake struck central New Zealand. As at the date of this report the Group has received few reported claims.

It is not expected that there will be a material financial impact resulting from this event. There is, however, considerable uncertainty as it is possible that claims will be made for damage not yet identified, in particular among the Group's larger corporate risks.

There is, at the date of this Report, no other matter or circumstance that has arisen since 30 June 2013 that has significantly affected, or may significantly affect:

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

Information on directors in office at the date of this report

Gary C Dransfield
MAICD
Executive Director and Chief Executive Officer

Director since 2011. Mr Dransfield is a highly experienced financial services executive who joined the Suncorp Group in 2009. He has held senior management positions in the retail financial services industry over the last 25 years. Mr Dransfield is also a director of Vero Liability Insurance Limited, a wholly-owned subsidiary of Vero Insurance New Zealand Limited.

Mr Dransfield is a board member of the Insurance Council of New Zealand.

Sir Eion S Edgar KNZM
BCom, FACA, LL.D (Hon)
Non-executive Director

Director since 2010. Sir Eion has extensive corporate experience in New Zealand, with a strong background in investment, education, the arts, sport and philanthropy.

He is also a director Vero Liability Insurance Limited and Asteron Life Limited (a related company of Vero Insurance New Zealand Limited). He is Chairman of Forsyth Barr Group Limited, Queenstown Resort College Limited, the Winter Games NZ Charitable Trust and the Central Lakes Trust.

His previous roles have included Chairman of the New Zealand Stock Exchange, director of the Reserve Bank of New Zealand and the Accident Compensation Corporation, and Chancellor of the University of Otago.

Sir Eion is also Honorary President of the New Zealand Olympic Committee, a former National Business Review New Zealander of the Year and has been inducted into the New Zealand Business Hall of Fame.

Geoffrey T Ricketts CNZM
LLB (Hons), FInstD
Chairman and Non-executive Director

Director since 1992. Mr Ricketts is a commercial lawyer with extensive experience in New Zealand and Australia.

He is also a non-executive director of Suncorp Group Limited, the ultimate parent company of Vero Insurance New Zealand Limited, Heartland Bank Limited and a director of a number of private companies. He is chairman of Vero Liability Insurance Limited, Asteron Life Limited and The Todd Corporation Limited.

Mr Ricketts is a consultant to Russell McVeagh, Solicitors, where he was a partner for over 25 years.

Patrick J R Snowball
MA, Hon. LL.D
Non-executive Director

Director since 2010. Mr Snowball is an experienced financial services executive with extensive knowledge of the insurance industry, having overseen businesses in the United Kingdom, Ireland, Canada and Asia.

Mr Snowball is also the Managing Director and Chief Executive Officer of Suncorp Group Limited, the ultimate parent company of Vero Insurance New Zealand Limited.

His previous directorships have included Norwich Union plc, Aviva United Kingdom and Jardine Lloyd Thompson plc, and he has also held deputy chairman and chairman roles in the United Kingdom.

He was also on the FSA Practitioner Panel 2005 – 2007.

VERO INSURANCE NEW ZEALAND LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2013

Don J Turkington
BCA, MCom (Hons), PhD
Non-executive Director

Director since 2010. Dr Turkington also chairs the Vero Insurance New Zealand Limited Board Audit & Risk Committee and Vero Liability Insurance Limited Board Audit & Risk Committee.

Dr Turkington has had a wide ranging career including investment banking and stockbroking at Chief Executive Officer level, funds management at Chairman level, insurance, banking and manufacturing at board level and policy advice to governments.

His prior board experience includes boards of local branches of foreign public companies, public unlisted companies, private companies, not-for-profit organisations and government corporations. His expertise includes corporate advice and strategy, mergers and acquisitions, IPOs and government policy advice.

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

The Board of Directors of Vero Insurance New Zealand Limited authorised these financial statements for issue on 6 AUG 2013

On behalf of the board

Director

Date 6 AUG 2013

Director

Date 6 AUG 2013

VERO INSURANCE NEW ZEALAND LIMITED
CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2013

Vero Insurance New Zealand Limited ("the Company") is a company incorporated in New Zealand. The Company is a wholly-owned subsidiary of Suncorp Group Holdings (NZ) Limited, with the ultimate parent being Suncorp Group Limited, an Australian public company listed on the Australian Stock Exchange.

The Board of the Company is responsible for the corporate governance of the Company and is accountable to its shareholder for the performance of the Company.

This statement contains an outline of the principles, policies, procedures and practices that the Board and Management have implemented to govern the operations of the Board and Company.

In establishing this corporate governance framework, the Board has had regard to its responsibilities at law and various governance standards, including the Corporate Governance framework of its ultimate parent, Suncorp Group Limited, the Governance Guidelines for Licensed Insurers issued by the Reserve Bank of New Zealand in June 2011, and Corporate Governance in New Zealand: Principles and Guidelines - A Handbook for Directors, Executives and Advisers, March 2004.

The Board is committed to the highest standards of ethical behaviour. It has adopted a constitution which sets out the rights, powers and duties of the Company, the Board, each director and shareholder. Under this constitution, each director of the Company is required to act in the best interests of the Company. Other matters covered by the constitution include the appointment and removal of directors, the minimum number of directors, the quorum for Board meetings, meeting procedures, directors' interests, directors' remuneration and other benefits.

There are currently five directors on the Board, the majority of whom are independent, non-executive directors. The independent, non-executive directors are Mr Geoffrey Ricketts (Chairman of the Board), Sir Eion Edgar and Dr Don Turkington. Mr Patrick Snowball is a non-executive director while Mr Gary Dransfield is an executive director. Brief details of directors' qualifications and experience are set out in the Directors' Report.

Board members are appointed in accordance with a documented process and all appointments are subject to shareholder approval. There is a formal procedure in place for evaluating the performance of the Board and individual directors.

The Board has also adopted a Charter which sets out its role, composition and responsibilities. The Board approves the strategic direction of the company, capital management policies and plans, the Company's annual report and financial statements, risk appetite statement and business licence. The Board may also delegate certain powers, duties and responsibilities to one or more committees of the Board.

The Board has established an Audit and Risk Committee ("the BARC") to assist and support the Board in the conduct of certain of its duties and responsibilities. The primary role of the BARC is to assist the Board in fulfilling its statutory and fiduciary responsibilities with regard to the oversight of the Company's financial and operating control environment. The terms of reference of the BARC are contained in a separate Board-approved charter. The members of the BARC are Dr Don Turkington (Chairman of the BARC), Mr Geoffrey Ricketts, Sir Eion Edgar and Mr Patrick Snowball. All of the members of the BARC are non-executive directors of the Company and the majority are independent.

Various internal policies which form part of the Company's compliance framework also apply to Directors. These include a Code of Conduct, Conflicts of Interest Policy, Securities Trading Policy and a Fit and Proper Policy.

Independent auditor's report

To the shareholder of Vero Insurance New Zealand Limited

Report on the company and group financial statements

We have audited the accompanying financial statements of Vero Insurance New Zealand Limited ("the company") and the group, comprising the company and its subsidiaries, on pages 9 to 66. The financial statements comprise the statements of financial position as at 30 June 2013, 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, for both the company and the group.

Directors' responsibility for the company and group financial statements

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

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

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

Our firm has also provided other services to the company and group in relation to regulatory and general accounting 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 and group.

Opinion

In our opinion the financial statements on pages 9 to 66:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the company and the group as at 30 June 2013 and of the financial performance and cash flows of the company and the group for the year then ended.

Canterbury earthquakes

We draw attention to Notes 5(ii)(5), 9, 13 and 22 to the financial statements which explain the considerable uncertainties that exist in measuring gross outstanding claims liabilities and the associated reinsurance recoveries arising from the Canterbury earthquakes. Our opinion is not qualified in respect of this matter.

Report on other legal and regulatory requirements

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

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

KPMG

6 August 2013
Auckland

VERO INSURANCE NEW ZEALAND LIMITED

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2013

	Note	Consolidated		Company	
		Year ended 30 June 2013 $000	Year ended 30 June 2012 $000	Year ended 30 June 2013 $000	Year ended 30 June 2012 $000
Gross earned premium	7	1,122,314	989,976	820,433	715,843
Outwards reinsurance premium expense	8	(279,292)	(279,959)	(240,998)	(242,084)
Net premium revenue	8	**843,022**	**710,017**	**579,435**	**473,759**
Claims expense	9	(788,425)	(1,430,910)	(585,679)	(1,248,182)
Reinsurance and other recoveries revenue	7, 9	307,011	939,763	267,023	907,524
Net incurred claims	9	**(481,414)**	**(491,147)**	**(318,656)**	**(340,658)**
Acquisition costs		(227,991)	(158,208)	(184,066)	(107,490)
Other underwriting expenses		(81,412)	(63,208)	(51,034)	(40,783)
Underwriting expenses		**(309,403)**	**(221,416)**	**(235,100)**	**(148,273)**
Reinsurance commission revenue	7	6,619	6,166	4,778	4,677
Underwriting result		**58,824**	**3,620**	**30,457**	**(10,495)**
Service charges on defined benefit fund	23e)	2,106	1,772	2,067	1,674
Gain on sale of investment in subsidiary		1,893	-	2,545	-
Net investment revenue	7	40,298	39,233	54,931	73,815
Net profit for the year before income tax	10	**103,121**	**44,625**	**90,000**	**64,994**
Income tax expense	11a)	(26,951)	(10,014)	(15,840)	(3,796)
Net profit for the year after income tax		**76,170**	**34,611**	**74,160**	**61,198**
Other comprehensive income/(loss) **Items that will not be reclassified subsequently to profit or loss**					
Actuarial gains/(losses) on defined benefit plans	23f)	9,332	(19,454)	8,184	(18,857)
Income tax (expense)/credit on other comprehensive income	11c)	(2,613)	5,447	(2,292)	5,280
Other comprehensive income/(loss) for the year after income tax		**6,719**	**(14,007)**	**5,892**	**(13,577)**
Total comprehensive income for the year after income tax		**82,889**	**20,604**	**80,052**	**47,621**
Net profit for the year attributable to:					
Parent		69,255	28,096	74,160	61,198
Non-controlling interests		6,915	6,515	-	-
Net profit for the year		**76,170**	**34,611**	**74,160**	**61,198**
Total comprehensive income for the year attributable to:					
Parent		75,710	14,271	80,052	47,621
Non-controlling interests		7,179	6,333	-	-
Total comprehensive income for the year		**82,889**	**20,604**	**80,052**	**47,621**

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

VERO INSURANCE NEW ZEALAND LIMITED

STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2013

	Note	Consolidated		Company	
		As at 30 June 2013 $000	As at 30 June 2012 $000	As at 30 June 2013 $000	As at 30 June 2012 $000
Assets					
Cash and cash equivalents		9,964	9,555	6,438	6,025
Trade receivables	12	521,181	490,563	424,316	397,515
Other current assets	12	10,937	7,837	9,101	6,528
Reinsurance and other recoveries	13	1,883,381	2,750,263	1,862,060	2,728,926
Deferred reinsurance premiums	14	250,349	338,996	217,545	300,259
Deferred acquisition costs	15	109,119	104,267	89,286	82,705
Current tax assets	11e)	-	-	5,852	5,721
Financial assets	16	861,722	731,386	581,997	455,293
Property, plant and equipment	17	11,896	12,865	9,039	9,410
Investment in subsidiary companies	18	-	-	37,586	37,748
Intangible assets	19	84,934	88,302	85,458	86,340
Net deferred tax asset	11f)	-	23,960	704	29,273
Total assets		**3,743,483**	**4,557,994**	**3,329,382**	**4,145,743**
Liabilities					
Payables	20	335,818	436,153	295,579	385,299
Current tax liabilities	11e)	1,590	4,506	-	-
Unearned premium liabilities	21	580,399	528,238	419,213	377,923
Outstanding claims liabilities	22	2,216,493	3,048,714	2,108,393	2,946,499
Net deferred tax liability	11f)	3,710	-	-	-
Superannuation commitments	23	33,313	44,751	33,867	44,118
Total liabilities		**3,171,323**	**4,062,362**	**2,857,052**	**3,753,839**
Net assets		**572,160**	**495,632**	**472,330**	**391,904**
Equity					
Share capital	24	275,940	275,566	275,940	275,566
Retained earnings		264,381	188,671	196,390	116,338
Total equity attributable to owners of the Company		**540,321**	**464,237**	**472,330**	**391,904**
Non-controlling interests		31,839	31,395	-	-
Total equity		**572,160**	**495,632**	**472,330**	**391,904**

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

The Board of Directors of Vero Insurance New Zealand Limited approved these financial statements for issue on 6 AUG 2013

For, and on behalf of the Board

Director

Dated 6 AUG 2013

Director

Dated 6 AUG 2013

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VERO INSURANCE NEW ZEALAND LIMITED

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2013

	Note	Consolidated: Equity attributable to owners of the Company			Non-controlling Interest	Total
		Share Capital $000	Retained Earnings $000	Total $000	Equity $000	Equity $000
Balance at 1 July 2012		275,566	188,671	464,237	31,395	495,632
Profit for the year		-	69,255	69,255	6,915	76,170
Other comprehensive income		-	6,455	6,455	264	6,719
Total comprehensive income for the year		-	75,710	75,710	7,179	82,889
Transactions with owners, recorded directly in equity						
Share-based payment transactions	24	374	-	374		374
Shares issued	24	-	-	-		-
Dividends paid		-	-	-	(6,400)	(6,400)
Disposal of subsidiary with non-controlling interest		-	-	-	(335)	(335)
Balance as at 30 June 2013		**275,940**	**264,381**	**540,321**	**31,839**	**572,160**

	Note	Consolidated: Equity attributable to owners of the Company			Non-controlling Interest	Total
		Share Capital $000	Retained Earnings $000	Total $000	Equity $000	Equity $000
Balance at 1 July 2011		209,965	174,400	384,365	33,062	417,427
Profit for the year		-	28,096	28,096	6,515	34,611
Other comprehensive loss		-	(13,825)	(13,825)	(182)	(14,007)
Total comprehensive income for the year		-	14,271	14,271	6,333	20,604
Transactions with owners, recorded directly in equity						
Share-based payment transactions	24	601	-	601	-	601
Shares issued	24	65,000	-	65,000	-	65,000
Dividends paid		-	-	-	(8,000)	(8,000)
Balance as at 30 June 2012		**275,566**	**188,671**	**464,237**	**31,395**	**495,632**

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

VERO INSURANCE NEW ZEALAND LIMITED

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2013

	Note	Company		
		Share Capital $000	Retained Earnings $000	Total Equity $000
Balance at 1 July 2012		275,566	116,338	391,904
Profit for the year		-	74,160	74,160
Other comprehensive income		-	5,892	5,892
Total comprehensive income for the year		**-**	**80,052**	**80,052**
Transactions with owners, recorded directly in equity				
Share-based payment transactions	24	374	-	374
Shares issued	24	-	-	-
Balance as at 30 June 2013		**275,940**	**196,390**	**472,330**

	Note	Company		
		Share Capital $000	Retained Earnings $000	Total Equity $000
Balance at 1 July 2011		209,965	68,717	278,682
Profit for the year		-	61,198	61,198
Other comprehensive loss		-	(13,577)	(13,577)
Total comprehensive income for the year		**-**	**47,621**	**47,621**
Transactions with owners, recorded directly in equity				
Share-based payment transactions	24	601	-	601
Shares issued	24	65,000	-	65,000
Balance as at 30 June 2012		**275,566**	**116,338**	**391,904**

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

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VERO INSURANCE NEW ZEALAND LIMITED

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2013

	Note	Consolidated		Company	
		For the year ended 30 June 2013	For the year ended 30 June 2012	For the year ended 30 June 2013	For the year ended 30 June 2012
		$000	$000	$000	$000
Cash flows from operating activities					
Premiums received		1,137,878	1,009,183	833,596	728,984
Reinsurance and other recoveries received		1,185,493	1,303,929	1,140,693	1,268,717
Interest received		35,512	31,210	26,440	21,078
Dividends received		2,569	3,321	31,810	47,000
Claims paid		(1,620,646)	(1,810,708)	(1,423,785)	(1,633,544)
Outwards reinsurance premiums paid		(302,729)	(291,145)	(262,909)	(251,843)
Acquisition costs paid		(226,224)	(208,543)	(185,869)	(168,863)
Income tax (paid)/refunded		(4,895)	(7,916)	10,306	20,924
Underwriting and other operating expenses paid		(68,255)	(46,658)	(36,627)	(25,652)
Net cash inflow/(outflow) from operating activities	25	**138,703**	**(17,327)**	**133,655**	**6,801**
Cash flows from investing activities					
Payments for purchase of investment securities		(707,487)	(834,495)	(496,235)	(567,505)
Proceeds from sale of investment securities		578,450	761,020	365,009	460,711
Net proceeds on disposal of subsidiary		2,849	-	2,707	-
Payments for purchase of plant & equipment and capitalised software costs		(5,897)	(6,933)	(5,150)	(4,718)
Proceeds from sale of plant and equipment		526	856	427	606
Net cash outflow from investing activities		**(131,559)**	**(79,552)**	**(133,242)**	**(110,906)**
Cash flows from financing activities					
Proceeds from issue of shares		-	65,000	-	65,000
Dividends paid		(6,735)	(8,000)	-	-
Net cash (outflow)/inflow from financing activities		**(6,735)**	**57,000**	**-**	**65,000**
Net increase/(decrease) in cash and cash equivalents		**409**	**(39,879)**	**413**	**(39,105)**
Cash and cash equivalents at the beginning of the year		9,555	49,434	6,025	45,130
Cash and cash equivalents at the end of the year		**9,964**	**9,555**	**6,438**	**6,025**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

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1. Reporting Entity

Vero Insurance New Zealand Limited ("the Company") is a company incorporated in New Zealand. The Company operates in New Zealand with its head office in Auckland, New Zealand and its registered office at 48 Shortland Street, Auckland.

The Company is a wholly owned subsidiary of Suncorp Group Holdings (NZ) Limited, with the ultimate parent being Suncorp Group Limited, an Australian public company listed on the Australian Stock Exchange.

The consolidated financial statements of the Company comprise the Company and its subsidiaries (together referred to as the "Group").

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

2. Basis of Preparation

(a) Statement of compliance

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

The financial statements were approved for issue by the Directors on 6 AUG 2013

(b) Basis of measurement

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

(c) Functional currency

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

(d) Rounding

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

(e) Reporting period

The reporting period is from 1 July 2012 to 30 June 2013.

(f) Comparatives

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

(g) Critical Accounting Estimates and Judgements

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

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

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

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

KPMG

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

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

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

Details regarding actuarial estimates and judgements are detailed in Notes 5, 13, 15 and 22. In particular details of the uncertainties that exist in measuring gross incurred claims arising from the Canterbury earthquakes are explained in Note 22.

Assets arising from reinsurance contracts and other recoveries
Estimates of reinsurance and other recoveries 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.

Details of the uncertainties that exist in measuring reinsurance recoveries arising from the Canterbury earthquakes are explained in Note 22.

Impairment of goodwill
The Group assesses whether goodwill is impaired at least annually. The assessment involves estimations of the recoverable amount of the cash-generating units to which the goodwill is allocated. Refer to Note 19.

3. Significant Accounting Policies

The principal accounting policies adopted in the preparation of the general purpose financial report are set out below. These policies have been consistently applied to all periods presented unless otherwise stated.

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

(a) Principles of Consolidation

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

(i) Subsidiaries

Subsidiaries are entities that are controlled by the Group. Subsidiaries are consolidated from the date that control commences until the date that control ceases. Control is the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

(ii) Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(iii) Non-controlling Interests

Non-controlling interests occur when the Group does not hold 100% of the shares or units in a subsidiary. They represent the external equity or liability interests in non-wholly owned subsidiaries. Non-controlling interests are recognised as equity. Related items of income and expense are recognised in the profit and loss at their gross amounts, with the offsetting amount attributable to non-controlling interests disclosed separately in the profit and loss.

(iv) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies, generally accompanying a shareholding of between 20 per cent to 50 per cent of the voting rights. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted investees. Applying the equity accounted basis, the Group's interest in the entity is initially recorded at cost and is adjusted thereafter for changes in the Group's share of the net assets of the entity. Investments in associates are accounted for by the parent entity using the cost method. If the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate. Investments in associates are assessed for impairment at each reporting date and are carried at the lower of the equity accounted amount and recoverable amount.

(b) Business Combinations

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

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

(c) Transactions eliminated on consolidation

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

(d) 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.

(e) Cash and Cash Equivalents

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

For the purposes of the Statements of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are shown within financial liabilities in the Statements of Financial Position unless there exists a right of offset.

(f) Trade and Other 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 Group will not be able to collect all amounts receivable according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. Non-current receivables are discounted using interest rates on government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash inflows.

(g) Payables

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

(h) Financial Assets

A financial asset is recognised in the Statements of Financial Position when the Group 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 Group 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 Group 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.

(i) 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 Group as at fair value through profit or loss.

The assets are valued at fair value at each reporting date based on the current bid 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 and loss.

(ii) Loans and receivables

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

(iii) General Insurance Activities

Financial assets backing general insurance liabilities

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

Receivables are valued at fair value which is approximated by taking the initially recognised amount and reducing it for credit risk as appropriate. Short duration receivables with no stated interest rate are normally measured at original invoice amount.

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.

(i) Lease Transactions

A distinction is made between finance leases (which effectively transfer substantially all the risks and benefits incidental to ownership of leased assets from the lessor to the lessee) and operating leases under which the lessor effectively retains substantially all such risks and benefits.

(i) Finance Leases

When an asset is acquired by means of a finance lease, it is recognised at fair value or if lower, the present value of the minimum lease payments discounted at the interest rate implicit in the lease. The discounted amount is established as an asset at the beginning of the lease term and depreciated on a straight line basis over its expected life. A corresponding liability is also established and each lease payment is allocated between the principal component and the interest expense.

(ii) Operating Leases

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.

(j) Property, Plant and Equipment

(i) 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 Group 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;
- 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.

(ii) Subsequent measurement

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

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

(iii) Depreciation

The depreciable amount of each item of plant and equipment is depreciated over its estimated useful life to the Group. The straight-line method of depreciation is adopted for all assets. Assets are depreciated from the date they become available for use. Where parts of an item of 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%
- Leasehold Alterations 20%
- Motor Vehicles 14%-26%

(iv) 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.

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(k) Intangibles

(i) Initial recognition and measurement

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

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

Intangibles comprise computer software and goodwill.

(ii) Subsequent expenditure

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

(iii) Amortisation

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

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

The useful life of software has been assessed as 3 to 5 years and it is amortised on a straight line basis over this period.

(iv) Goodwill

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

(l) Deferred Insurance Activities

(i) Deferred acquisition costs

Acquisition costs include commissions and other selling and underwriting costs incurred in obtaining general insurance premiums.

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

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

(ii) Recoverability

Deferred acquisition costs are recognised as assets to the extent that the related unearned premiums exceed the sum of the deferred acquisition costs and the present value of both future expected claims and settlement costs, including an appropriate risk margin. Where there is a shortfall, the deferred acquisition cost asset is written down and if insufficient, an unexpired risk liability is recognised. Refer to Note 3 (r).

(iii) Deferred reinsurance premiums

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

(m) Impairment

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

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

An impairment loss is recognised whenever the asset's carrying amount exceeds its recoverable amount. Impairment losses are recognised in the profit 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.

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

(i) Calculation of recoverable amount

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

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

(ii) Reversal of impairment

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

(n) Financial Liabilities

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

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

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

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

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

(ii) 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.

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(o) Employee Benefits

(i) Wages, salaries and annual leave

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

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

Short term bonus plans
A liability is recognised for short term bonus plans when 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.

(ii) Post-employment benefits (superannuation)

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

The asset and liability recognised in the Statements of Financial Position in respect of defined benefit funds is the lower of:

- the present value of the defined benefit obligation at the Statements of Financial Position date less the fair value of fund assets, together with adjustments for unrecognised actuarial gains or losses and past service costs; and
- the total of cumulative unrecognised net actuarial losses and past service costs and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the fund.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited directly through Other Comprehensive Income. Past service costs are recognised immediately in the profit and loss.

(iii) Other long term employee benefits

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

(iv) Termination benefits

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

(v) Share-based payments

The Group participates in two equity-settled, share-based compensation plans, being the Exempt Employee Share Plan ("EESP") and Executive Performance Share Plan ("EPSP").

Immediately vesting compensation
Shares granted under the EESP vest immediately at grant date. Although the value paid to each employee is determined by a cash amount, the payment is made in shares (with no cash alternative) and is therefore treated as a share-based payment transaction. Each employee who receives an offer with respect to the shares pays consideration of $1NZD. The total expected cost is recognised in the profit and loss during the financial year the services are rendered. The total expected cost is determined by considering the expected amount per person (the fair value) and non-market factors such as eligibility requirements and staff attrition rates.

Future vesting compensation
Shares granted under the EPSP vest over a pre-determined period from grant date which is generally three years. The value of these long term incentives is recognised as an expense in the profit and loss on a straight line basis over the vesting period. The value is calculated as: fair value at grant date x expected number of shares to be granted. Where shares do not eventually vest, the treatment of the previously recognised expense depends upon the reason the shares did not vest:

- If a non-market condition is not satisfied (e.g. an unfulfilled service period) the expense is reversed in the profit and loss in the period when the condition was not satisfied;

- If a market condition is not satisfied (e.g. Total Shareholder Return not being achieved) the expense is not reversed.

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

Number of shares: The number of shares reflects the best estimate of shares expected to vest at the end of the vesting period and this estimate is revised if indicated by subsequent information. Non-market conditions (e.g. fulfilment of service period) are taken into account when determining this best estimate, whilst market conditions are not. If shares do eventually vest, any unamortised balance is expensed at the end of the vesting period. Contributions of capital to subsidiaries in the form of equity settled share based payments are recognised as an increase in equity of the fair value of instruments provided at grant date.

(p) Provisions

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

- the Group has a present obligation (legal or constructive) as a result of a past event;

- it is probable that an outflow of economic benefits will be required to settle the obligation; and

- the amount can be reliably estimated.

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

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

(q) Outstanding Claims Liabilities

The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not reported ("IBNR"), claims incurred but not enough reported ("IBNER") and the direct and indirect costs of settling those claims.

The liability for outstanding claims is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date under general insurance contracts issued by the Group. If all the possible values of the outstanding claims liability are expressed as a statistical distribution, the central estimate is the mean of that distribution.

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

Also included is an allowance for future claims handling costs, reinsurance and third party recoveries and an additional risk margin to allow for the inherent uncertainty in the central estimate of the outstanding claims liability. The details of risk margins and the process for determining the risk margins are set out in Note 5.

(r) Unexpired Risk Liabilities

Provision is made for unexpired risks arising from general insurance business where, the expected value of claims and expenses, attributed to the unexpired periods of policies in force at the reporting date, exceeds the unearned premium liability in relation to such policies, after the deduction of any related intangible assets and deferred acquisition costs ("Liability Adequacy Test"). The provision for unexpired risk is calculated separately for each group of contracts subject to broadly similar risks and managed together as a single portfolio. Any unexpired risk liability arising after writing off related intangible assets and deferred acquisition costs is recognised immediately in the profit and loss.

The Liability Adequacy Test assesses whether the net unearned premium liability less any related deferred acquisition costs is sufficient to cover future claims costs for in-force policies. Future claims costs are calculated as the present value of the expected cash flows relating to future claims, and includes a risk margin to reflect inherent uncertainty in the central estimate.

(s) Contributed Capital

(i) Ordinary shares

Ordinary shares are recognised as equity.

(ii) Transaction Costs

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

(iii) Capital Contributions to Subsidiaries

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

(iv) 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.

(t) Contingent Liabilities and Contingent Assets

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

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

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

(u) Revenue

(i) General Insurance Premium Revenue

Premium revenue comprises amounts charged to policyholders (direct premiums) or other insurers (inwards reinsurance premiums) for insurance policies. 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. Premium revenue is recognised in the profit and loss when it has been earned, that is, from the date of attachment of the risk, over the period of the insurance policy, which is usually one year. Over this policy period the premium collected is earned in accordance with the pattern of the underlying exposure to risk expected under the insurance contract. In most cases the exposure to risk is assumed to be even over the policy period. Where this is not the case, the pattern of exposure to risk is determined by other methods such as previous claims experience. For reinsurance, business premium is recognised from the date of attachment of the risk over the period of indemnity. At reporting date any proportion of premium revenue received and receivable but not earned in the profit and loss is recognised in the Statements of Financial Position as an unearned premium liability. The unearned premium liability represents premium revenue which will be earned in subsequent reporting periods. Unclosed business is that which has not yet been entered in the policy administration systems but the date of attachment of risk is prior to reporting date. Premiums on unclosed business are brought to account by reference to the prior years' experience and information that has become available between the reporting date and the date of completing the financial statements.

(ii) Reinsurance commission revenue

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

(iii) Reinsurance and other recoveries

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

(iv) Investment Revenue

Interest Income
Interest income is recognised on an effective yield basis.

Dividends
Dividends from listed companies are recognised as income on the date the shares are quoted ex-dividend. Dividends from subsidiaries and associated entities are recognised when they are declared in the financial reports of the subsidiaries and associated entities. Dividend revenue is recognised net of any imputation credits. Distributions from listed and unlisted unit trusts are recognised on the date the unit value is quoted ex-distribution.

(v) 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 the profit and loss as losses are incurred, which is usually the point in time when the event giving rise to the claim occurs.

(w) Outward Reinsurance

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

(x) 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, including derivative contracts, provision for employee entitlements, deferred acquisition costs, tax losses carried forward and in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. The rates enacted or substantially enacted at the reporting date are used to determine deferred income tax.

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

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

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

(y) Goods and Service Tax

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

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

(z) Changes in Accounting Estimates and Errors

(i) 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.

(ii) Errors

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

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

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

4. New Accounting Standards and Interpretations Not Yet Adopted

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

- *NZ IFRS 9 Financial Instruments* was issued and introduces changes in the classification and measurement of financial assets and financial liabilities. This standard becomes mandatory for the Group's 30 June 2016 financial statements. The potential effects on adoption of the amendments are yet to be determined.
- *NZ IFRS 10 Consolidated Financial Statements*, when it becomes mandatory for the Group's 30 June 2014 financial statements, will supersede *NZ IAS 27 Consolidated and Separate Financial Statements* and *SIC-12 Consolidation – Special Purposes Entities.* It introduces a new single control model to assess whether to consolidate an investee. Adoption of this standard is not expected to have a material impact on the Group's financial statements.
- *NZ IFRS 12 Disclosure of Interests in Other Entities* provides a single standard for all disclosure requirements about an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities. This standard becomes mandatory for the Group's 30 June 2014 financial statements. The Group is currently assessing the disclosure requirements in comparison with the existing disclosures.
- *NZ IFRS 13 Fair Value Measurement* provides a definition of the term, fair value, and introduces additional disclosure requirements. This is applicable for all assets and liabilities measured at fair value, including non-financial assets and liabilities. This standard becomes mandatory for the Group's 30 June 2014 financial statements. Adoption of this standard is not expected to have a material impact on the Group's financial statements.
- *NZ IAS 19 Employee Benefits* is amended for changes in accounting and disclosures on defined benefit superannuation plans; definitions of short-term and other long-term employee benefits affecting the measurement of the obligations; and the timing for recognition of termination benefits. The amendments become mandatory for the Group's 30 June 2014 financial statements with specific transitional requirements. The potential effects on adoption of the amendments are yet to be determined.

5. Actuarial Assumptions and Methods

(i) Assumptions

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

	Consolidated		Company	
	2013	**2012**	**2013**	**2012**
Weighted average term to settlement	1.96 years	1.90 years	2.1 years	1.93 years
Inflation rate	2.1%	2.0%	1.9%	1.8%
Superimposed inflation rate	1.2%	1.3%	0.3%	0.4%
Discount rate	3.4%	2.9%	3.4%	2.9%
Claim handling expense ratio	6.3%	5.9%	5.2%	5.0%
Risk margin	18.6%	23.3%	19.5%	26.2%

(ii) Processes used to determine assumptions

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

(1) Weighted average term to settlement

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

(2) Inflation and superimposed inflation

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

Superimposed inflation reflects the past tendency for some costs, such as court awards, to increase at a faster rate. 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.

(3) 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.

(4) 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.

(5) Risk margin

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

The assumptions regarding uncertainty for each class are applied to the net central estimates, and the results were aggregated, allowing for diversification in order to arrive at an overall provision, which is intended to have a 90% (2012: 90%), probability of sufficiency.

A risk margin has been applied to the net outstanding claims provision in respect of the 22 February 2011 earthquake. The risk margin is based on an assessment that at a 90% level of confidence there is a possibility the gross incurred outstanding claims liability will exceed the AUD$2.5 billion limit of the fully placed layers of the Suncorp Group's catastrophe reinsurance treaty. In the layer above this limit the Group retains approximately 15% of all claims. The risk margin takes into account the possible retention and the timing of cash flows and currency exchange rates that would be likely in the case of claims exceeding AUD $2.5 billion.

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(iii) Impact of changes in assumptions

The table below illustrates how changes in key assumptions would impact on reported profit, outstanding claims liabilities and equity of the Group and Company for the year.

		Consolidated		Company	
	Movements in variables	2013 $000	2012 $000	2013 $000	2012 $000
Weighted average term to settlement – years	+0.5	(182)	521	(1,538)	(837)
	-0.5	182	(521)	1,547	840
Inflation rates	+1%	5,801	4,961	4,635	3,684
	-1%	(5,757)	(4,927)	(4,594)	(3,658)
Discount rate	+1%	(5,696)	(4,897)	(4,494)	(3,596)
	-1%	5,852	5,027	4,622	3,692
Claims handling expense ratio	+1%	3,134	2,817	2,341	2,072
	-1%	(3,134)	(2,817)	(2,341)	(2,072)
Risk Margin %	+1%	2,808	2,421	2,061	1,724
	-1%	(2,808)	(2,421)	(2,061)	(1,724)

(iv) Liability adequacy test

The liability adequacy test which was performed as at 30 June 2013 identified a surplus for the Group (30 June 2012: surplus) and a surplus for the Company (30 June 2012: deficit) refer to Note 15.

(v) Actuarial Information

Richard Beauchamp is the Appointed Actuary for the Company. He is a Fellow of the New Zealand Society of Actuaries and a Fellow of the Institute of Actuaries (London). The outstanding claims reserves disclosed 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 31 March 2013, updated to 30 June 2013.

The Appointed Actuary receives a proportion of remuneration based on the financial results of the Group.

Karl Marshall of The Quantium Group Pty Limited, is the Appointed Actuary for Vero Liability Insurance Limited and AA Insurance Limited. He is a Fellow of the Institute of Actuaries of Australia. The outstanding claims reserves disclosed 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 31 March 2013, updated to 30 June 2013.

Karl Marshall has no financial interest in the Group.

The actuaries are satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liability and there were no qualifications contained in the actuarial advice. The key assumptions used in the compilations of the reserves as at 30 June 2013 have been outlined above.

6. Risk Management

The Group's financial condition and operating activities are affected by the following key risks - Strategic, Insurance, Counterparty, Liquidity, Market and Operational. The Group has implemented a comprehensive risk management programme to mitigate those risks in accordance with the Suncorp Group Enterprise Risk Management framework.

a) Group risk management roles and responsibilities

The Company's Board Audit & Risk Committee ("BARC") is responsible for oversight of the effectiveness of risk management strategies and internal controls across the Company. The Company's subsidiaries Vero Liability Insurance Limited ("VLIL") and AA Insurance Limited ("AAIL") have their own respective BARCs which perform this role.

The Company has a Chief Risk Officer ("CRO") who has the management responsibility for risk, compliance and related issues. This person indirectly reports to the Group Chief Risk Officer employed by the ultimate parent company. This person also acts as the CRO for VLIL but not for AAIL which has its own CRO.

b) General risk management framework

The Group's financial condition and operating activities are affected by a number of key risks. The Group has implemented risk and compliance management frameworks to mitigate those risks.

The Group's risk management recognises the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

The Group has a structured risk management framework in place in respect of all key risks. The universe of risks includes credit, market, and liquidity. One of the key objectives of the framework is to ensure sufficient liquidity is maintained at all times to meet the Group's obligations, including its settlement of insurance liabilities to optimise investment.

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

The Group has in place a structured approach to risk profiling. Each business unit completes a risk profile covering risks within that business line. Recognising that risk profiles change over time, management is required to monitor and manage these on an ongoing basis.

The key risks addressed by the risk management framework include:

- Operational Risk – the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
- Compliance Risk – the risk of legal or regulatory breaches or sanctions, financial loss, or loss to reputation which the Group may suffer as a result of its failure to comply with all applicable legal and regulatory requirements.
- Credit risk - the risk that a borrower or counterparty will not meet its obligations in accordance with agreed terms. Credit risk arises as a result of receivables due from policyholders and intermediaries, the placement of reinsurance programs with counterparties and investment in financial instruments.
- Market risk - Market risk arises from the risk of adverse movements in interest rates, foreign exchange rates, equity prices, credit spreads commodity prices and market volatilities.
- Liquidity risk - the risk that the Group will be unable to service its cash flow obligations today or in the future. Liquidity risk arises from the requirement to make claims payments and other financial obligations in a timely manner.

c) Insurance risk - general insurance activities

The Group's insurance activities primarily involve the underwriting of risks and claim management. The Group's business units employ a disciplined approach to underwriting and risk management that emphasises return and shareholder value rather than a premium volume or market share oriented approach.

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

The risk management activities include prudent underwriting, pricing, acceptance and management of risk processes, together with claims management, reserving and investment. The objective of these disciplines is to enhance the financial performance of the Group's overall insurance operations.

To do this, the insurance risk exposures of underwriting strategy; risk selection, underwriting and pricing, accumulation management, claims management, reserving and performance measurement are subject to ongoing review and challenge as part of the risk management framework. This approach yields substantial benefits because each business unit has expertise in, and a detailed understanding of, its market segment, and this expertise and knowledge enable the business units to customise their own underwriting and risk management disciplines to assess and price risk more effectively.

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

- The maintenance and use of management information systems that provide up-to-date and reliable data on the risks to which the business is exposed including ongoing enhancement to the understanding of geographic concentrations;
- The use of actuarial models based on historical data to calculate premiums and monitor claims patterns;
- The setting and adherence to underwriting guidelines that determine policies and procedures for acceptance of risk;
- The use of business licenses to control risk classes, aggregate limits and underwriting authorities to manage individual behaviour;
- The monitoring of natural disasters such as earthquakes, floods, storms and other catastrophes that can have a significant effect on the results of the Group. Exposure to such risks is monitored using catastrophe models;

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- The use of reinsurance to limit the Group's exposure to large single claims and the accumulation of claims that arise from the same event;
- The monitoring of a reinsurer to credit risk policy to control exposure to reinsurance counterparty default;
- The mix of assets in which the Group invests is driven by the nature and term of the insurance liabilities. The management of assets and liabilities is closely monitored to attempt to match the expected pattern of claim payments with the maturity dates of assets; and
- The reduction in variability in loss experience through diversification over classes of insurance business, better geographical segmentation and large numbers of uncorrelated individual risks.

In addition, the Company's BARC receives a Financial Condition Report ("FCR") annually from the Appointed Actuary of the Company in accordance with the Insurance (Prudential Supervision) Act 2010. The purpose of the FCR is to provide the Appointed Actuary's objective assessment of the Company's overall financial condition. It considers, among other things, the material risks facing the Company that, in the Appointed Actuary's opinion, pose a threat to its ability to remain financially solvent now and in the future.

The Appointed Actuaries for the Company's licensed insurance subsidiaries VLIL and AAIL also provide their respective BARCs with FCRs.

(ii) Terms and conditions of insurance business

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

(iii) Concentration of insurance risk

The Group's exposure is throughout the New Zealand market. Specific processes for monitoring identified concentrations are set out below:

Risk	***Source of concentration***	***Risk management measures***
An accumulation of risks arising from a natural peril	Insured property concentrations, for example, Wellington	Accumulation risk modelling, reinsurance protection
A large property loss	Fire or collapse affecting one building or a group of adjacent buildings	Maximum acceptance limits, property risk grading, risk accumulation processes including survey data base
Inclusion of multiple classes of casualty business in the one event	Response by a multitude of the Group's policies to the one event, for example a construction liability and professional indemnity policy	Purchase of reinsurance clash protection and one retention per occurrence with reinsurance stacking vertically

(iv) Reinsurance programme principles

Reinsurance is purchased to make the Group's results more predictable by reducing the effect that individual large claims, and catastrophic events that lead to multiple claims, have on results. The majority of reinsurance arranged uses a combination of facultative, quota share and excess of loss treaty arrangements.

d) Credit risk

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

The Group participates in reinsurance arrangements to preserve capital and manage earnings volatility from large individual or catastrophic claims. The credit risk associated with these arrangements is monitored and managed internally and by specialised reinsurance brokers operating within the international reinsurance markets.

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

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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.

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

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

Consolidated	**Credit Rating ($000)**						
2013	**AAA**	**AA**	**A**	**BBB**	**Non investment grade**	**Not Rated**	**Total**
Cash and cash equivalents	-	9,964	-	-	-	-	9,964
Financial assets	285	694,765	150,408	16,129	-	281	861,868
Reinsurance and other recoveries	-	871,098	947,372	33,556	-	31,355	1,883,381
Derivative financial instruments	-	(146)	-	-	-	-	(146)
Premiums due	-	-	-	-	-	387,456	387,456
GST receivable	-	27,523	-	-	-	-	27,523
Amounts due from related parties	-	-	1,745	-	-	-	1,745
Amounts due from reinsurers	-	9,129	92,983	752	-	272	103,136
	285	**1,612,333**	**1,192,508**	**50,437**	**-**	**419,364**	**3,274,927**

Consolidated	**Credit Rating ($000)**						
2012	**AAA**	**AA**	**A**	**BBB**	**Non investment grade**	**Not Rated**	**Total**
Cash and cash equivalents	-	9,555	-	-	-	-	9,555
Financial assets	450	612,736	102,849	12,584	-	2,768	731,387
Reinsurance and other recoveries	-	1,264,379	1,458,826	-	-	27,058	2,750,263
Derivative financial instruments	-	(1)	-	-	-	-	(1)
Premiums due	-	-	-	-	-	350,888	350,888
GST receivable	-	20,698	-	-	-	-	20,698
Amounts due from related parties	-	-	1,488	-	-	-	1,488
Amounts due from reinsurers	-	14,209	100,832	-	-	-	115,041
	450	**1,921,576**	**1,663,995**	**12,584**	**-**	**380,714**	**3,979,319**

Company — Credit Rating ($000)

2013	AAA	AA	A	BBB	Non investment grade	Not Rated	Total
Cash and cash equivalents	-	6,438	-	-	-	-	6,438
Financial assets	142	460,052	106,814	14,853	-	282	582,143
Reinsurance and other recoveries	-	867,732	942,606	33,590	-	18,132	1,862,060
Derivative financial instruments	-	(146)	-	-	-	-	(146)
Premiums due	-	-	-	-	-	283,013	283,013
GST receivable	-	30,123	-	-	-	-	30,123
Amounts due from related parties	-	-	3,130	-	-	-	3,130
Amounts due from reinsurers	-	8,802	96,929	793	-	287	106,811
	142	**1,373,001**	**1,149,479**	**49,236**	**-**	**301,714**	**2,873,572**

Company — Credit Rating ($000)

2012	AAA	AA	A	BBB	Non investment grade	Not Rated	Total
Cash and cash equivalents	-	6,025	-	-	-	-	6,025
Financial assets	223	385,009	58,042	9,252	-	2,768	455,294
Reinsurance and other recoveries	-	1,259,092	1,455,406	-	-	14,428	2,728,926
Derivative financial instruments	-	(1)	-	-	-	-	(1)
Premiums due	-	-	-	-	-	254,886	254,886
GST receivable	-	22,234	-	-	-	-	22,234
Amounts due from related parties	-	-	4,063	-	-	-	4,063
Amounts due from reinsurers	-	14,040	99,828	-	-	-	113,868
	223	**1,686,399**	**1,617,339**	**9,252**	**-**	**272,082**	**3,585,295**

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

The carrying amount of the relevant asset classes in the Statements of Financial Position represents the maximum amount of credit exposures.

The following table provides information regarding the carrying value of the Group and Company's financial assets that have been impaired and the ageing of those that are past due but not impaired at the reporting date. An amount is considered to be past due when a contractual payment falls overdue by one or more days. When an amount is classified as past due, the entire balance is disclosed in the past due analysis.

Consolidated		Past due but not impaired ($000)					
2013	**Neither past due nor impaired**	**0-3 mths**	**3-6 mths**	**6-12 mths**	**>12 mths**	**Impaired**	**Total**
Premium due	362,890	21,721	1,050	1,763	-	32	387,456
Investment revenue receivable	8,749	-	-	-	-	-	8,749
Amounts due from related parties	1,745	-	-	-	-	-	1,745
Amounts due from reinsurers	103,136	-	-	-	-	-	103,136
GST receivable	27,523	-	-	-	-	-	27,523
Other receivables	2,188	-	-	-	-	-	2,188
	506,231	**21,721**	**1,050**	**1,763**	**-**	**32**	**530,797**

Consolidated		Past due but not impaired ($000)					
2012	**Neither past due nor impaired**	**0-3 mths**	**3-6 mths**	**6-12 mths**	**>12 mths**	**Impaired**	**Total**
Premium due	331,692	15,842	1,700	1,593	-	61	350,888
Investment revenue receivable	5,954	-	-	-	-	-	5,954
Amounts due from related parties	1,488	-	-	-	-	-	1,488
Amounts due from reinsurers	115,041	-	-	-	-	-	115,041
GST receivable	20,698	-	-	-	-	-	20,698
Other receivables	1,883	-	-	-	-	-	1,883
	476,756	**15,842**	**1,700**	**1,593**	**-**	**61**	**495,952**

Company		Past due but not impaired ($000)					
2013	**Neither past due nor impaired**	**0-3 mths**	**3-6 mths**	**6-12 mths**	**>12 mths**	**Impaired**	**Total**
Premium due	259,275	20,894	1,025	1,793	-	26	283,013
Investment revenue receivable	6,986	-	-	-	-	-	6,986
Amounts due from related parties	3,130	-	-	-	-	-	3,130
Amounts due from reinsurers	106,811	-	-	-	-	-	106,811
GST receivable	30,123	-	-	-	-	-	30,123
Other receivables	2,115	-	-	-	-	-	2,115
	408,440	**20,894**	**1,025**	**1,793**	**-**	**26**	**432,178**

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Company		Past due but not impaired ($000)					
2012	Neither past due nor impaired	0-3 mths	3-6 mths	6-12 mths	>12 mths	Impaired	Total
Premium due	236,892	14,767	1,553	1,648	-	26	254,886
Investment revenue receivable	4,666	-	-	-	-	-	4,666
Amounts due from related parties	4,063	-	-	-	-	-	4,063
Amounts due from reinsurers	113,868	-	-	-	-	-	113,868
GST receivable	22,234	-	-	-	-	-	22,234
Other receivables	1,862	-	-	-	-	-	1,862
	383,585	**14,767**	**1,553**	**1,648**	**-**	**26**	**401,579**

e) Market risk

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

The Group and Company's investment portfolio is split into Technical Reserves and Shareholders Funds.

The Technical reserves investment portfolios support the outstanding claims liabilities of the business. The portfolios are managed over benchmarks set in a manner consistent with the expected duration of claims payments ensuring any variations from a matched position is constrained. This is managed via an interest rate risk hedge portfolio between benchmark and liabilities. Assets held are fixed interest securities.

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

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

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

(i) Interest rate risk

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

A change in the market value of investments in interest-bearing securities is immediately recognised in the profit 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.

The sensitivity of profit and loss after tax and equity reserves to movements in interest rates in relation to interest-bearing financial assets held at the balance date is shown in the table below. It is assumed that all residual exposures for the shareholder after tax are included in the sensitivity analysis, that the percentage point change occurs at the reporting date and there are concurrent movements in interest rates and parallel shifts in the yield curves. The risks faced for deriving sensitivity information did not change from the previous period. Given the volatility experienced in the market during the last year, a movement of 100 basis points (2012: 100 basis points) is considered reasonably possible and has been applied to the sensitivity analysis.

Consolidated	2013				2012			
	Exposure	Movement in variable	Profit / (Loss) after tax	Equity	Exposure	Movement in variable	Profit / (Loss) after tax	Equity
	$000	%	$000	$000	$000	%	$000	$000
Interest bearing investment securities	758,799	+1 -1	(9,251) 9,596	(9,251) 9,596	632,349	+1 -1	(8,926) 9,481	(8,926) 9,481
Derivative financial instruments	(146)	+1 -1	- -	- -	(1)	+1 -1	- -	- -
Subordinated notes	3,252	+1 -1	- -	- -	520	+1 -1	- -	- -
	761,905				**632,868**			

Company	2013				2012			
	Exposure	Movement in variable	Profit / (Loss) after tax	Equity	Exposure	Movement in variable	Profit / (Loss) after tax	Equity
	$000	%	$000	$000	$000	%	$000	$000
Interest bearing investment securities	581,861	+1 -1	(7,238) 7,581	(7,238) 7,581	455,088	+1 -1	(6,573) 7,024	(6,573) 7,024
Derivative financial instruments	(146)	+1 -1	- -	- -	(1)	+1 -1	- -	- -
Subordinated notes	-	+1 -1	- -	- -	-	+1 -1	- -	- -
	581,715				**455,087**			

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 Statements of Financial Position at fair value. Movements in market interest rates impact the price of the securities (and hence their fair value measurement) and so would impact either profit or equity.

(ii) Foreign exchange risk

With the exception of the foreign exchange risk arising on reinsurance recoveries exceeding the AUD$2.5 billion limit of the fully placed layers of the Suncorp Group's catastrophe reinsurance treaty as outlined in Note 5(ii)(5) the Group and Company is not exposed to material foreign exchange risk. Allowance is made for the foreign exchange risk arising on reinsurance recoveries through actuarial provisioning to arrive at a 90% probability of sufficiency level in respect of the net outstanding claim liability.

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(iii) Other market risks

Other market risks are the risk of a loss of current and future earnings from adverse movements in the changes in market prices due to factors other than interest rates and foreign exchange. Those factors may be specific to the individual financial instrument or its issuer, or factors that affect all similar financial instruments traded in the market. The main "other market risks" that the Group's investment portfolios are exposed to is credit spread risk. The Group is not exposed to material equity price risk.

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

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

Sensitivity of the Group and Company's credit exposure to a +/- 100 basis point (2012: 100 basis points) change in yield is as follows:

Consolidated	**2013**			**2012**		
	Exposure	**Movement in variable**	**Profit / (Loss) after tax**	**Exposure**	**Movement in variable**	**Profit / (Loss) after tax**
	$000	%	**$000**	**$000**	%	**$000**
Discounted securities and corporate bonds	560,979	+1 -1	(5,751) 5,948	449,771	+1 -1	(5,527) 5,849
Government and local government securities	200,926	+1 -1	(3,500) 3,648	183,097	+1 -1	(3,399) 3,632
	761,905			**632,868**		

Company	**2013**			**2012**		
	Exposure	**Movement in variable**	**Profit / (Loss) after tax**	**Exposure**	**Movement in variable**	**Profit / (Loss) after tax**
	$000	%	**$000**	**$000**	%	**$000**
Discounted securities and corporate bonds	420,079	+1 -1	(4,286) 4,482	321,032	+1 -1	(3,905) 4,156
Government and local government securities	161,636	+1 -1	(2,952) 3,099	134,055	+1 -1	(2,668) 2,868
	581,715			**455,087**		

(iv) Equity/commodity price risks

The Group holds unit trust investments that expose the Group 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 (2012: 200 basis points):

Consolidated	2013			2012		
	Exposure	Movement in variable	Profit / (Loss) after tax	Exposure	Movement in variable	Profit / (Loss) after tax
	$000	%	$000	$000	%	$000
Domestic equities	70,209	+2 -2	1,011 (1,011)	63,782	+2 -2	918 (918)
International equities	29,536	+2 -2	425 (425)	34,659	+2 -2	499 (499)
	99,745			**98,441**		

The Company does not hold any securities that expose the Company to material equity or commodity price risk.

f) Liquidity risk

The ability to make claims payments in a timely manner is critical to the Group's business. The investment portfolio mandates provide sufficient cash deposits to meet day-to-day obligations. In addition, cash deposits are set aside within the technical reserves investment portfolios to accommodate significant claims payment obligations. Under the terms of the Group's reinsurance arrangements, prompt access to cash is available in the event of a major catastrophe.

There has been no material change in the liquidity risk faced by the Group 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.

	Consolidated				
2013	Carrying amount	1 year or less	1 to 5 years	Over 5 years	Total Cash Flows
	$000	$000	$000	$000	$000
Amounts due to reinsurers	242,093	195,426	46,667	-	242,093
Trade creditors and accrued expenses	68,526	68,526	-	-	68,526
Outstanding claims liabilities	2,216,493	930,356	1,088,662	197,475	2,216,493
Amounts due to related parties	1,588	1,588	-	-	1,588
Employee benefits payable	23,611	23,611	-	-	23,611
	2,552,311	**1,219,507**	**1,135,329**	**197,475**	**2,552,311**

2012	Consolidated				
	Carrying amount	1 year or less	1 to 5 years	Over 5 years	Total Cash Flows
	$000	$000	$000	$000	$000
Amounts due to reinsurers	354,177	260,044	94,133	-	354,177
Trade creditors and accrued expenses	39,431	39,431	-	-	39,431
Outstanding claims liabilities	3,048,714	1,303,746	1,552,771	192,197	3,048,714
Amounts due to related parties	1,186	1,186	-	-	1,186
Employee benefits payable	20,661	20,661	-	-	20,661
	3,464,169	**1,625,068**	**1,646,904**	**192,197**	**3,464,169**

2013	Company				
	Carrying amount	1 year or less	1 to 5 years	Over 5 years	Total Cash Flows
	$000	$000	$000	$000	$000
Amounts due to reinsurers	214,533	170,713	43,820	-	214,533
Trade creditors and accrued expenses	58,212	58,212	-	-	58,212
Outstanding claims liabilities	2,108,393	868,533	1,046,956	192,904	2,108,393
Amounts due to related parties	6,450	6,450	-	-	6,450
Employee benefits payable	16,384	16,384	-	-	16,384
	2,403,972	**1,120,292**	**1,090,776**	**192,904**	**2,403,972**

2012	Company				
	Carrying amount	1 year or less	1 to 5 years	Over 5 years	Total Cash Flows
	$000	$000	$000	$000	$000
Amounts due to reinsurers	319,158	232,639	86,519	-	319,158
Trade creditors and accrued expenses	21,758	21,758	-	-	21,758
Outstanding claims liabilities	2,946,499	1,249,921	1,511,561	185,017	2,946,499
Amounts due to related parties	8,552	8,552	-	-	8,552
Employee benefits payable	13,597	13,597	-	-	13,597
	3,309,564	**1,526,467**	**1,598,080**	**185,017**	**3,309,564**

g) Capital management

The Group and Company's capital management policies and objectives together with details of the amount of equity retained for the purpose of financial soundness is described in Note 34 to these financial statements.

h) 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:

2013	Consolidated				
	Designated at Fair Value	Loans and Receivables	Other Financial Liabilities	Carrying amount	Fair Value
	$000	$000	$000	$000	$000
Cash and cash equivalents	-	9,964	-	9,964	9,964
Trade receivables	-	521,181	-	521,181	521,181
Other current assets	-	10,937	-	10,937	10,937
Financial assets	861,650	72	-	861,722	861,722
	861,650	**542,154**	**-**	**1,403,804**	**1,403,804**
Payables	**-**	**-**	**(335,818)**	**(335,818)**	**(335,818)**

2012	Consolidated				
	Designated at Fair Value	Loans and Receivables	Other Financial Liabilities	Carrying amount	Fair Value
	$000	$000	$000	$000	$000
Cash and cash equivalents	-	9,555	-	9,555	9,555
Trade receivables	-	490,563	-	490,563	490,563
Other current assets	-	7,837	-	7,837	7,837
Financial assets	731,309	77	-	731,386	731,386
	731,309	**508,032**	**-**	**1,239,341**	**1,239,341**
Payables	**-**	**-**	**(436,153)**	**(436,153)**	**(436,153)**

2013	Company				
	Designated at Fair Value	Loans and Receivables	Other Financial Liabilities	Carrying amount	Fair Value
	$000	$000	$000	$000	$000
Cash and cash equivalents	-	6,438	-	6,438	6,438
Trade receivables	-	424,316	-	424,316	424,316
Other current assets	-	9,101	-	9,101	9,101
Financial assets	581,925	72	-	581,997	581,997
	581,925	**439,927**	**-**	**1,021,852**	**1,021,852**
Payables	**-**	**-**	**(295,579)**	**(295,579)**	**(295,579)**

2012	Company				
	Designated at Fair Value	Loans and Receivables	Other Financial Liabilities	Carrying amount	Fair Value
	$000	$000	$000	$000	$000
Cash and cash equivalents	-	6,025	-	6,025	6,025
Trade receivables	-	397,515	-	397,515	397,515
Other current assets	-	6,528	-	6,528	6,528
Financial assets	455,216	77	-	455,293	455,293
	455,216	**410,145**	**-**	**865,361**	**865,361**
Payables	**-**	**-**	**(385,299)**	**(385,299)**	**(385,299)**

7. Revenue

	Consolidated		Company	
	30 June 2013 $000	30 June 2012 $000	30 June 2013 $000	30 June 2012 $000
Gross earned premium (Note 8)	1,122,314	989,976	820,433	715,843
Reinsurance and other recoveries revenue (Note 9)	307,011	939,763	267,023	907,524
Reinsurance commission revenue	6,619	6,166	4,778	4,677
Total insurance revenue	**1,435,944**	**1,935,905**	**1,092,234**	**1,628,044**
Investment revenue:				
-Interest income	37,368	31,386	28,255	22,224
-Dividend income :				
-Other entities	2,569	3,321	10	-
-Related parties	-	-	31,800	47,000
- Net gain/(loss) on financial assets at fair value through profit or loss	2,238	6,221	(4,017)	5,612
Investment Management expenses	(1,877)	(1,695)	(1,117)	(1,021)
Total net investment revenue	**40,298**	**39,233**	**54,931**	**73,815**
Total revenue	**1,476,242**	**1,975,138**	**1,147,165**	**1,701,859**

8. Net Premium Revenue

	Consolidated		Company	
	30 June 2013 $000	30 June 2012 $000	30 June 2013 $000	30 June 2012 $000
Gross written premium	1,176,825	1,068,206	864,073	774,109
Movement in unearned premium	(54,511)	(78,230)	(43,640)	(58,266)
Gross earned premium revenue	**1,122,314**	**989,976**	**820,433**	**715,843**
Outward reinsurance premium expense	(279,292)	(279,959)	(240,998)	(242,084)
Total net premium revenue	**843,022**	**710,017**	**579,435**	**473,759**

9. Incurred Claims

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

Consolidated	30 June 2013			30 June 2012		
	Prior $000	Current $000	Total $000	Prior $000	Current $000	Total $000
Gross incurred claims						
Undiscounted	232,131	553,097	785,228	696,930	619,600	1,316,530
Discount	11,228	(8,031)	3,197	126,838	(12,458)	114,380
	243,359	545,066	788,425	823,768	607,142	1,430,910
Reinsurance and other recoveries						
Undiscounted	(231,714)	(67,538)	(299,252)	(648,117)	(163,594)	(811,711)
Discount	(8,510)	751	(7,759)	(135,773)	7,721	(128,052)
	(240,224)	(66,787)	(307,011)	(783,890)	(155,873)	(939,763)
Net incurred claims	**3,135**	**478,279**	**481,414**	**39,878**	**451,269**	**491,147**

Company	30 June 2013			30 June 2012		
	Prior	Current	Total	Prior	Current	Total
	$000	$000	$000	$000	$000	$000
Gross incurred claims						
Undiscounted	243,321	348,141	591,462	972,370	432,814	1,405,184
Discount	(3,517)	(2,266)	(5,783)	(153,467)	(3,535)	(157,002)
	239,804	345,875	585,679	818,903	429,279	1,248,182
Reinsurance and other recoveries						
Undiscounted	(238,741)	(29,057)	(267,798)	(931,153)	(127,970)	(1,059,123)
Discount	411	364	775	148,962	2,637	151,599
	(238,330)	(28,693)	(267,023)	(782,191)	(125,333)	(907,524)
Net incurred claims	**1,474**	**317,182**	**318,656**	**36,712**	**303,946**	**340,658**

Details of the uncertainties that exist in measuring gross incurred claims and reinsurance recoveries arising from the Canterbury earthquakes are explained in Note 22.

10. Net Profit Before Income Tax

	Consolidated		Company	
	30 June 2013	30 June 2012	30 June 2013	30 June 2012
	$000	$000	$000	$000
Profit before income tax is arrived at after charging/(crediting) the following specific items:				
Bad and doubtful debt expense (Note 12)	94	75	123	36
Depreciation on plant and equipment (Note 17)	4,741	4,500	3,587	3,421
Donations	24	16	1	6
Employee benefits	156,983	140,487	110,710	97,568
(Gain)/loss on disposal of plant and equipment	(57)	143	(71)	128
Operating lease rental expenses (Note 29)	8,694	8,566	5,591	5,617
Software amortisation cost (Note 19)	2,785	4,587	2,460	4,035

11. Income Tax

	Consolidated		Company	
	30 June 2013	30 June 2012	30 June 2013	30 June 2012
a) Income tax expense	$000	$000	$000	$000
Current tax expense/(credit)	2,280	3,493	(10,467)	(8,576)
Deferred tax expense	24,664	7,999	26,307	13,871
(Over)/under provided in prior years – current	(335)	(997)	30	(1,090)
– deferred	342	(481)	(30)	(409)
Income tax expense	**26,951**	**10,014**	**15,840**	**3,796**

	Consolidated		Company	
	30 June 2013	30 June 2012	30 June 2013	30 June 2012
b) Numerical reconciliation of income tax expense to prima facie tax payable	**$000**	**$000**	**$000**	**$000**
Net profit before tax	103,121	44,625	90,000	64,994
Prima facie income tax @ 28% (2012: 28%)	28,874	12,495	25,201	18,198
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Non-deductible expenditure	350	290	259	189
Non-assessable dividend income	-	-	(5,096)	(8,400)
Imputation credits	(276)	(210)	(3,811)	(4,772)
Under/(over) provision in prior years	7	(1,478)	-	(1,499)
Tax exempt revenue	(1,311)	(1,189)	-	-
Other	(693)	106	(713)	80
Income tax expense	**26,951**	**10,014**	**15,840**	**3,796**

c) Deferred tax expense/(benefit) recognised in other comprehensive income

Actuarial gains/(losses) on defined benefit funds	**2,613**	**(5,447)**	**2,292**	**(5,280)**

	Consolidated	
	30 June 2013	30 June 2012
d) Imputation credit balances	**$000**	**$000**
SGHNZL ICA Group		
Balance at the beginning of the year	79,970	80,144
Transfer to Asteron Life Limited Policyholders ICA	-	(947)
Taxation refunded	(699)	(2,979)
Imputation credits attached to dividends received	5,502	5,541
Other debits	(97)	(1,789)
Balance at the end of the year	**84,776**	**79,970**
Subsidiaries outside the SGHNZL ICA Group		
Balance at the beginning of the year	8,509	16,806
Taxation paid	2,506	1,203
Imputation credits attached to dividends paid	(5,102)	(7,164)
Other debits	(66)	(2,336)
Balance at the end of the year	**5,847**	**8,509**
Total Imputation credits available		
SGHNZL ICA Group	84,776	79,970
Subsidiaries outside SGHNZL ICA Group	5,847	8,509
Balance at the end of the year	**90,623**	**88,479**

The Company together with its subsidiary Vero Liability Insurance Limited ("the Vero Tax Group") became members of the Suncorp Group Holdings (NZ) Limited (SGHNZL) consolidated imputation group with effect from 1 April 2010. The Vero Tax Group, along with the other members of the SGHNZL ICA Group have access to the accumulated imputation credits contained within that ICA Group.

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e) Current tax	Consolidated 30 June 2013 $000	Consolidated 30 June 2012 $000	Company 30 June 2013 $000	Company 30 June 2012 $000
Balance at the beginning of the year	(4,506)	2,915	5,721	10,291
Income tax paid/(refunded)	3,317	(2,379)	(359)	(4,214)
Current year tax on operating profit	(2,280)	(3,493)	10,467	8,576
Adjustment for prior years	335	997	(30)	1,090
Balance transferred on sale of subsidiary	(32)	-	-	-
Transfers between Group companies	1,576	(2,546)	(9,947)	(10,022)
Current tax (liability)/asset at the end of the year	**(1,590)**	**(4,506)**	**5,852**	**5,721**

f) 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 net deferred tax asset/ (liability) is detailed below:

	Consolidated 30 June 2013 $000	Consolidated 30 June 2012 $000	Company 30 June 2013 $000	Company 30 June 2012 $000
Deferred tax assets are attributable to				
Depreciable assets	5,044	4,300	3,734	2,994
Investments	125	20	-	20
Employee benefits	13,826	16,114	12,665	15,354
Trade creditors and other payables	5,006	3,483	4,408	2,205
Carried forward tax loss	4,900	31,857	4,900	31,857
Deferred tax asset	**28,901**	**55,774**	**25,707**	**52,430**
Deferred tax liabilities are attributable to				
Investments	(3)	(578)	(3)	-
Deferred acquisition costs	(30,554)	(29,195)	(25,000)	(23,157)
Risk Margins	(2,054)	(2,041)	-	-
Deferred tax liability	**(32,611)**	**(31,814)**	**(25,003)**	**(23,157)**
Net deferred tax (liability)/asset	**(3,710)**	**23,960**	**704**	**29,273**
Movements				
Deferred tax assets				
Balance at the beginning of the year	55,774	44,355	52,430	42,118
(Charged)/credited to profit or loss	(24,209)	5,972	(24,431)	5,032
Recognised in other comprehensive income	(2,613)	5,447	(2,292)	5,280
Transferred on sale of subsidiary	(51)	-	-	-
Balance at the end of the year	**28,901**	**55,774**	**25,707**	**52,430**
Deferred tax liability				
Balance at the beginning of the year	(31,814)	(18,325)	(23,157)	(4,663)
Charged to profit or loss	(797)	(13,489)	(1,846)	(18,494)
Balance at the end of the year	**(32,611)**	**(31,814)**	**(25,003)**	**(23,157)**

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Tax losses carried forward

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. At 30 June 2013 the Group and Company had $17,500,000 of tax losses available to be carried forward and offset against future taxable income (2012: $113,775,000). The realisation of these tax losses is supported by financial forecasts.

12. Receivables

	Consolidated		Company	
	30 June 2013 $000	**30 June 2012 $000**	**30 June 2013 $000**	**30 June 2012 $000**
Trade receivables				
Premium due from policyholders and intermediaries	387,456	350,888	283,013	254,886
Amounts due from related parties (Note 30)	1,745	1,488	3,130	4,063
Prepaid expenses	1,353	2,509	1,265	2,490
Amounts due from reinsurers	103,136	115,041	106,811	113,868
GST Receivable	27,523	20,698	30,123	22,234
Provision for bad and doubtful debts	(32)	(61)	(26)	(26)
Total trade receivables	**521,181**	**490,563**	**424,316**	**397,515**
Other current assets				
Accrued income	8,749	5,954	6,986	4,666
Other assets	2,188	1,883	2,115	1,862
Total other current assets	**10,937**	**7,837**	**9,101**	**6,528**
Total receivables	**532,118**	**498,400**	**433,417**	**404,043**
Current	532,118	498,400	433,417	404,043
Non-current	-	-	-	-
Total	**532,118**	**498,400**	**433,417**	**404,043**
Movements in for provision for bad and doubtful debts				
Balance at the beginning of the year	61	222	26	210
Provision recognised during the year	94	75	123	36
Receivables written off during the year	(123)	(236)	(123)	(220)
Balance at the end of the year	**32**	**61**	**26**	**26**

13. Reinsurance and Other Recoveries

	Consolidated		Company	
	30 June 2013 $000	**30 June 2012 $000**	**30 June 2013 $000**	**30 June 2012 $000**
Expected undiscounted outstanding reinsurance and other recoveries	2,015,639	2,891,411	1,995,114	2,861,206
Discount to present value	(132,258)	(141,148)	(133,054)	(132,280)
Reinsurance and other recoveries receivable	**1,883,381**	**2,750,263**	**1,862,060**	**2,728,926**
Current	740,357	1,130,211	691,259	1,078,705
Non-current	1,143,024	1,620,052	1,170,801	1,650,221
Total	**1,883,381**	**2,750,263**	**1,862,060**	**2,728,926**

Details of the uncertainties that exist in measuring reinsurance recoveries arising from the Canterbury earthquakes are explained in Note 22.

14. Deferred Reinsurance Premiums

	Consolidated		Company	
	30 June 2013 $000	30 June 2012 $000	30 June 2013 $000	30 June 2012 $000
Deferred reinsurance premiums at the beginning of the year	338,996	18,725	300,259	10,158
Reinsurance premium liability incurred	190,645	600,230	158,284	532,185
Reinsurance premium expensed during the year	(279,292)	(279,959)	(240,998)	(242,084)
Deferred reinsurance premiums at the end of the year	**250,349**	**338,996**	**217,545**	**300,259**

15. Deferred Acquisition Costs

	Consolidated		Company	
	30 June 2013 $000	30 June 2012 $000	30 June 2013 $000	30 June 2012 $000
Deferred acquisition costs at the beginning of the year	104,267	47,766	82,705	16,655
Acquisition costs deferred	226,224	208,543	185,869	168,863
Write down for LAT deficiency	-	-	-	(1,000)
Amortisation charged to the profit and loss	(227,991)	(158,208)	(184,066)	(106,490)
Reinsurance commission recognised in the profit and loss	6,619	6,166	4,778	4,677
Deferred acquisition costs at the end of the year	**109,119**	**104,267**	**89,286**	**82,705**

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

The Group assesses the liability adequacy test on two bases for groups of contracts subject to broadly similar risks and managed together as a single portfolio, being intermediated and direct business. The Group had a surplus as at 30 June 2013 (2012: surplus). The Company, which has primarily intermediated business, recorded a surplus at 30 June 2013 (2012: deficiency). The calculation of the prior year deficiency is outlined below:

	Company
Calculation of deficiency	30 June 2012 $000
Unearned premium liability	377,923
Prospective reinsurance premiums	(104,170)
Related deferred acquisition costs	(83,705)
Related reinsurance asset	(10,848)
	179,200
Central estimate of present value of expected future cash flows arising from future claims	176,346
Risk margin	7,732
Present value of expected future cash flows arising from reinsurance recoveries on future claims	(3,878)
	180,200
Deficiency recognised in the profit and loss	**(1,000)**

The risk margin included in the Company's expected future cash flows for future claims amounted overall to 4.5% of the central estimate. The risk margin was determined to give a probability of adequacy of 60% and differs from the 90% probability of adequacy adopted in determining the outstanding claims liability. This is consistent with Suncorp group policy.

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16. Financial Assets

	Consolidated		Company	
	30 June 2013	30 June 2012	30 June 2013	30 June 2012
	$000	$000	$000	$000
a) Financial assets at fair value through profit or loss				
Discounted securities	247,393	187,942	186,585	141,476
Other fixed interest – corporate bonds	313,586	261,829	233,495	179,556
Government and local government securities	200,926	183,097	161,635	134,055
Equities	99,745	98,441	210	129
Total financial assets at fair value through profit or loss	**861,650**	**731,309**	**581,925**	**455,216**
b) Loans and receivables				
Staff mortgages	72	77	72	77
Total financial assets	**861,722**	**731,386**	**581,997**	**455,293**

(c) Fair values

All investments are initially recorded at fair value and are subsequently remeasured to fair value at each reporting date.

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

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

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

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

Consolidated	Carrying	Fair value analysis			Total fair
	value	Level 1	Level 2	Level 3	value
2013	$000	$000	$000	$000	$000
Investment securities	861,868	337,948	523,920	-	861,868
Derivative financial liabilities	(146)	-	(146)	-	(146)
Total	**861,722**	**337,948**	**523,774**	**-**	**861,722**

Consolidated	Carrying	Fair value analysis			Total fair
	value	Level 1	Level 2	Level 3	value
2012	$000	$000	$000	$000	$000
Investment securities	731,387	341,660	387,165	2,562	731,387
Derivative financial liabilities	(1)	-	(1)	-	(1)
Total	**731,386**	**341,660**	**387,164**	**2,562**	**731,386**

Company	Carrying	Fair value analysis			Total fair
	value	Level 1	Level 2	Level 3	value
2013	$000	$000	$000	$000	$000
Financial assets					
Investment securities	582,143	186,520	395,623	-	582,143
Derivative financial liabilities	(146)	-	(146)	-	(146)
Total	**581,997**	**186,520**	**395,477**	**-**	**581,997**

Company 2012	Carrying value $000	Fair value analysis Level 1 $000	Level 2 $000	Level 3 $000	Total fair value $000
Financial assets					
Investment securities	455,294	187,491	265,241	2,562	455,294
Derivative financial liabilities	(1)	-	(1)	-	(1)
Total	**455,293**	**187,491**	**265,240**	**2,562**	**455,293**

In the previous financial year the Company held one parcel of mortgage backed bonds in one New Zealand residential mortgage structure, with a carrying value of $2,562,000. This bond was a private placement for which there was no active market pricing and was deemed to be level 3 for fair value disclosure purposes in the Financial Statements.

	Consolidated		Company	
	30 June 2013 $000	30 June 2012 $000	30 June 2013 $000	30 June 2012 $000
Level 3 movements				
Balance at the beginning of the year	2,562	615	2,562	615
Purchases	-	2,562	-	2,562
Transferred to Level 2	-	(460)	-	(460)
Total gains recognised in profit or loss	-	10	-	10
Settlements (units redeemed)	(2,562)	(165)	(2,562)	(165)
Balance at the end of the year	**-**	**2,562**	**-**	**2,562**

17. Property, Plant and Equipment

	Consolidated		Company	
	30 June 2013 $000	30 June 2012 $000	30 June 2013 $000	30 June 2012 $000
Total Property, Plant and Equipment				
At 1 July				
Cost	64,530	64,442	57,999	59,562
Accumulated depreciation	(51,665)	(51,291)	(48,589)	(48,995)
Carrying amount at the beginning of the year	**12,865**	**13,151**	**9,410**	**10,567**
Additions	4,319	5,178	3,572	2,963
Disposals	(9,700)	(5,090)	(9,293)	(4,517)
Transfers	-	-	7	(9)
Transferred on sale of subsidiary	(149)	-	-	-
Add back accumulated depreciation on assets sold/transferred	9,302	4,126	8,930	3,827
Depreciation expense	(4,741)	(4,500)	(3,587)	(3,421)
Carrying amount at the end of the year	**11,896**	**12,865**	**9,039**	**9,410**
At 30 June				
Cost	59,000	64,530	52,285	57,999
Accumulated depreciation	(47,104)	(51,665)	(43,246)	(48,589)
Carrying amount at the end of the year	**11,896**	**12,865**	**9,039**	**9,410**

	Consolidated		Company	
	30 June 2013 $000	30 June 2012 $000	30 June 2013 $000	30 June 2012 $000
Computer hardware				
At 1 July				
Cost	23,953	23,974	22,537	23,193
Accumulated depreciation	(20,850)	(21,330)	(20,105)	(20,884)
Carrying amount at the beginning of the year	**3,103**	**2,644**	**2,432**	**2,309**
Additions	1,639	2,191	1,462	1,553
Disposals	(5,735)	(2,212)	(5,563)	(2,209)
Transfers	-	-	7	-
Transferred on sale of subsidiary	(70)	-	-	-
Add back accumulated depreciation on assets sold/transferred	5,673	2,144	5,496	2,142
Depreciation expense	(1,934)	(1,664)	(1,571)	(1,363)
Carrying amount at the end of the year	**2,676**	**3,103**	**2,263**	**2,432**
At 30 June				
Cost	19,787	23,953	18,443	22,537
Accumulated depreciation	(17,111)	(20,850)	(16,180)	(20,105)
Carrying amount at the end of the year	**2,676**	**3,103**	**2,263**	**2,432**

	Consolidated		Company	
	30 June 2013 $000	30 June 2012 $000	30 June 2013 $000	30 June 2012 $000
Furniture, fittings and office equipment				
At 1 July				
Cost	17,451	19,290	15,322	17,695
Accumulated depreciation	(14,940)	(14,201)	(13,847)	(13,451)
Carrying amount at the beginning of the year	**2,511**	**5,089**	**1,475**	**4,244**
Additions	675	535	575	1
Disposals	(2,710)	(468)	(2,566)	(468)
Transfers	-	(1,906)	-	(1,906)
Add back accumulated depreciation on assets sold	2,704	409	2,561	409
Depreciation expense	(1,077)	(1,148)	(736)	(805)
Carrying amount at the end of the year	**2,103**	**2,511**	**1,309**	**1,475**
At 30 June				
Cost	15,416	17,451	13,331	15,322
Accumulated depreciation	(13,313)	(14,940)	(12,022)	(13,847)
Carrying amount at the end of the year	**2,103**	**2,511**	**1,309**	**1,475**

	Consolidated		Company	
	30 June 2013 $000	30 June 2012 $000	30 June 2013 $000	30 June 2012 $000
Leasehold alterations				
At 1 July				
Cost	16,144	14,503	14,523	13,340
Accumulated depreciation	(13,596)	(13,515)	(12,713)	(12,859)
Carrying amount at the beginning of the year	**2,548**	**988**	**1,810**	**481**
Additions	470	472	163	23
Disposals	(274)	(737)	(274)	(737)
Transfers	-	1,906	-	1,897
Add back accumulated depreciation on assets sold	274	618	274	618
Depreciation expense	(678)	(699)	(421)	(472)
Carrying amount at the end of the year	**2,340**	**2,548**	**1,552**	**1,810**
At 30 June				
Cost	16,340	16,144	14,412	14,523
Accumulated depreciation	(14,000)	(13,596)	(12,860)	(12,713)
Carrying amount at the end of the year	**2,340**	**2,548**	**1,552**	**1,810**

	Consolidated		Company	
	30 June 2013 $000	30 June 2012 $000	30 June 2013 $000	30 June 2012 $000
Motor vehicles				
At 1 July				
Cost	6,982	6,675	5,617	5,334
Accumulated depreciation	(2,279)	(2,245)	(1,924)	(1,801)
Carrying amount at the beginning of the year	**4,703**	**4,430**	**3,693**	**3,533**
Additions	1,535	1,980	1,372	1,386
Disposals	(981)	(1,673)	(890)	(1,103)
Transfers	-	-	-	-
Transferred on sale of subsidiary	(79)	-	-	-
Add back accumulated depreciation on assets sold/transferred	651	955	599	658
Depreciation expense	(1,052)	(989)	(859)	(781)
Carrying amount at the end of the year	**4,777**	**4,703**	**3,915**	**3,693**
At 30 June				
Cost	7,457	6,982	6,099	5,617
Accumulated depreciation	(2,680)	(2,279)	(2,184)	(1,924)
Carrying amount at the end of the year	**4,777**	**4,703**	**3,915**	**3,693**

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18. Investment in Subsidiary Companies

	Consolidated		Company	
	30 June 2013 $000	30 June 2012 $000	30 June 2013 $000	30 June 2012 $000
Shares in subsidiary companies	-	-	37,586	37,748

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

		Consolidated		Company	
Trading subsidiaries	**Principal Activity**	2013 %	2012 %	2013 %	2012 %
AA Insurance Limited	General Insurance	68	68	68	68
Comprehensive Travel Insurance 2004 Limited	Insurance Agency Services	-	72	-	72
Vero Liability Insurance Limited	General Insurance	100	100	100	100

During the year the Company sold its 72% shareholding in its subsidiary company Comprehensive Travel Insurance 2004 Limited which provided insurance agency services in respect of travel insurance underwritten by the Company.

As part of the sale agreement the Company ceased to underwrite new travel insurance business from 1 June 2013, subject to certain specified exceptions.

19. Intangible Assets

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

	Consolidated		Company	
	30 June 2013 $000	30 June 2012 $000	30 June 2013 $000	30 June 2012 $000
Goodwill	81,608	83,769	82,147	82,147
Computer software	3,326	4,533	3,311	4,193
Total intangibles	**84,934**	**88,302**	**85,458**	**86,340**

a) Goodwill

	Consolidated		Company	
	30 June 2013 $000	30 June 2012 $000	30 June 2013 $000	30 June 2012 $000
At 1 July				
Cost	97,077	97,077	95,345	95,345
Accumulated amortisation and impairment	(13,308)	(13,308)	(13,198)	(13,198)
Carrying amount at the beginning of the year	**83,769**	**83,769**	**82,147**	**82,147**
Transferred on sale of subsidiary	(2,208)	-	-	-
Addback accumulated amortisation and impairment on sale of subsidiary	47	-	-	-
Carrying amount at the end of the year	**81,608**	**83,769**	**82,147**	**82,147**
At 30 June				
Cost	94,869	97,077	95,345	95,345
Accumulated amortisation and impairment	(13,261)	(13,308)	(13,198)	(13,198)
Carrying amount at the end of the year	**81,608**	**83,769**	**82,147**	**82,147**

b) *Impairment testing for cash-generating units containing goodwill*

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

	Consolidated		Company	
	30 June 2013 $000	30 June 2012 $000	30 June 2013 $000	30 June 2012 $000
AA Insurance	13,235	13,235	13,410	13,410
AMP General	8,667	8,667	9,031	9,031
Autosure	59,706	59,706	59,706	59,706
Comprehensive Travel Insurance	-	2,161	-	-
Carrying amount of goodwill	**81,608**	**83,769**	**82,147**	**82,147**

The carrying amount of goodwill allocated to each CGU is compared to its recoverable amount determined based on a value-in-use basis and if the recoverable amount is lower, the asset is written down. For the year ended 30 June 2013, no impairment loss has been recognised (2012: nil).

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

- Cash flows being projected from the financial forecasts prepared by the business units covering a three year period. Cash flows beyond the next three years are extrapolated using a constant growth rate of 1.5%-2.5% (2012: 1.0%-2.5%), which does not exceed the long-term average growth rate for the industry.
- Discount rate of 10.6% (2012: 9.4%).
- Investment income rates of 4.0%-5.25% for technical reserves and 5.0%-6.2% for shareholder funds (2012: 4.0%-6.2% for technical reserves and 5.0%-5.99% for shareholder funds).

At 30 June 2013, the recoverable amount of each CGU is in excess of its carrying amount and, as a result, no impairment loss has been recognised in the consolidated profit and loss. Based on information available and market conditions at 30 June 2013, a reasonably possible change to any of the key assumptions made in this assessment would not cause the CGU's recoverable amount to be less than its carrying amount.

c) *Software capitalisation costs*

	Consolidated		Company	
	30 June 2013 $000	30 June 2012 $000	30 June 2013 $000	30 June 2012 $000
At 1 July				
Cost	30,247	28,634	28,589	26,976
Accumulated amortisation and impairment	(25,714)	(21,234)	(24,396)	(20,468)
Carrying amount at the beginning of the year	**4,533**	**7,400**	**4,193**	**6,508**
Additions – internally developed	1,578	1,755	1,578	1,755
Disposals	-	(142)	-	(142)
Add back accumulated depreciation on assets disposed	-	107	-	107
Amortisation charge	(2,785)	(4,587)	(2,460)	(4,035)
Carrying amount at the end of the year	**3,326**	**4,533**	**3,311**	**4,193**
At 30 June				
Cost	31,825	30,247	30,167	28,589
Accumulated amortisation and impairment	(28,499)	(25,714)	(26,856)	(24,396)
Carrying amount at the end of the year	**3,326**	**4,533**	**3,311**	**4,193**

20. Payables

	Consolidated		Company	
	30 June 2013 $000	30 June 2012 $000	30 June 2013 $000	30 June 2012 $000
Trade creditors and accruals	68,526	60,129	58,212	43,992
Amounts due to reinsurers	242,093	354,177	214,533	319,158
Employee entitlements	23,611	20,661	16,384	13,597
Amounts due to related parties (Note 30)	1,588	1,186	6,450	8,552
Total Payables	**335,818**	**436,153**	**295,579**	**385,299**
Current	289,151	342,020	251,759	298,780
Non-current	46,667	94,133	43,820	86,519
Total	**335,818**	**436,153**	**295,579**	**385,299**

21. Unearned Premium Liabilities

	Consolidated		Company	
	30 June 2013 $000	30 June 2012 $000	30 June 2013 $000	30 June 2012 $000
Unearned premium liabilities as at the beginning of the year	528,238	450,008	377,923	319,657
Deferral of premium on contracts written during the year	1,176,825	1,068,206	864,073	774,109
Earning of premiums deferred	(1,122,314)	(989,976)	(820,433)	(715,843)
Transfer to related entity	(2,350)	-	(2,350)	-
Unearned premium liabilities as at the end of the year	**580,399**	**528,238**	**419,213**	**377,923**

On 10 May 2013 the Company transferred a portfolio of policies to a related entity, Asteron Life Limited. These policies were deemed to be life policies under the Insurance (Prudential Supervision) Act 2010. The Company has no further liabilities that would be deemed to be life insurance.

22. Outstanding Claims Liabilities

a) *Gross outstanding claims liabilities*

	Consolidated		Company	
	30 June 2013 $000	30 June 2012 $000	30 June 2013 $000	30 June 2012 $000
Central estimate of outstanding claims liabilities	2,216,820	3,008,342	2,123,617	2,918,927
Discount to present value	(143,757)	(143,697)	(140,085)	(139,950)
Claim handling expenses	91,170	127,702	84,675	122,366
Risk margin	52,260	56,367	40,186	45,156
Gross outstanding claims liabilities	**2,216,493**	**3,048,714**	**2,108,393**	**2,946,499**
Current	930,356	1,303,746	868,533	1,249,921
Non-current	1,286,137	1,744,968	1,239,860	1,696,578
Total	**2,216,493**	**3,048,714**	**2,108,393**	**2,946,499**

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

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of a risk margin, discount rates and inflationary assumptions; clarification regarding EQC recoveries; and uncertainty surrounding applicable building standards.

At balance date gross outstanding claims liabilities for the Group and Company include $1.92 billion (30 June 2012: $2.75 billion) which is the central estimate of outstanding claims liabilities arising from the Canterbury earthquakes, plus the net risk margin. The central estimate represents actuarial projections as at 30 June 2013 of what the Group and Company ultimately expects to pay, prior to receiving any reinsurance recoveries, in relation to these claims. The net risk margin represents additional provisions required to meet expected claim payments with a 90% probability of sufficiency. The actuarial projections are based on the known facts and circumstances and assumptions regarding future events and key variables as detailed in Note 5.

Given the nature and number of uncertainties associated with the Canterbury earthquakes, the actual claims experience may deviate, perhaps substantially, from the gross outstanding claims liabilities recorded as at 30 June 2013. Any changes to estimates will be recorded in the accounting period when they become known.

b) Claims development tables

The following tables show the development of undiscounted outstanding claims relative to the ultimate expected claims for the six most recent accident years. They only include the portfolios that are long-tailed i.e. those portfolios that typically have a weighted term to settlement of longer than 1 year such as professional indemnity, liability and other accident classes. Also included in the tables are claims arising from the Canterbury earthquakes due to the level of uncertainty about the amount and timing of claims payments, the reasons for which are set out in Note 22(a).

	Consolidated							
	Accident Year							
Ultimate claims cost estimate	**Prior $000**	**2008 $000**	**2009 $000**	**2010 $000**	**2011 $000**	**2012 $000**	**2013 $000**	**Total $000**
At end of accident year	169,928	27,665	28,685	24,487	173,474	44,976	27,182	27,182
One year later	157,055	28,695	27,109	19,450	201,947	46,117	-	46,117
Two years later	139,848	28,386	24,478	20,006	232,390	-	-	232,390
Three years later	133,257	27,373	24,553	21,530	-	-	-	21,530
Four years later	137,244	27,474	24,971	-	-	-	-	24,971
Five years later	139,755	28,840	-	-	-	-	-	28,840
Six years later	141,824	-	-	-	-	-	-	141,824
Total current estimate of ultimate claims costs	**169,195**	**28,840**	**24,971**	**21,530**	**232,390**	**46,117**	**27,182**	**550,225**
Cumulative payments	146,824	26,924	22,278	16,224	163,911	16,231	4,395	396,787
Undiscounted central estimate	**22,371**	**1,916**	**2,693**	**5,306**	**68,479**	**29,886**	**22,787**	**153,438**
Discount	(2,349)	(98)	(132)	(269)	(8,378)	(2,667)	(1,102)	(14,995)
Discounted central estimate	**20,022**	**1,818**	**2,561**	**5,037**	**60,101**	**27,219**	**21,685**	**138,443**
Claims handling expense								7,266
Risk margin								36,505
Net outstanding claims liability								**182,214**
Reinsurance recoveries on outstanding claims liability and other recoveries								1,846,782
Gross outstanding claims liability								**2,028,996**

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	Company							
	Accident Year							
Ultimate claims cost estimate	**Prior $000**	**2008 $000**	**2009 $000**	**2010 $000**	**2011 $000**	**2012 $000**	**2013 $000**	**Total $000**
At end of accident year	80,644	9,585	7,554	6,022	146,243	23,465	7,821	7,821
One year later	80,990	11,040	6,556	5,185	174,381	23,827	-	23,827
Two years later	80,718	10,287	6,035	5,344	201,918	-	-	201,918
Three years later	82,727	10,097	5,818	5,232	-	-	-	5,232
Four years later	88,295	9,835	5,831	-	-	-	-	5,831
Five years later	89,630	9,929	-	-	-	-	-	9,929
Six years later	92,739	-	-	-	-	-	-	92,739
Total current estimate of ultimate claims costs	**120,047**	**9,929**	**5,831**	**5,232**	**201,918**	**23,827**	**7,821**	**374,605**
Cumulative payments	99,345	9,861	5,746	4,867	143,922	6,770	1,676	272,187
Undiscounted central estimate	**20,702**	**68**	**85**	**365**	**57,996**	**17,057**	**6,145**	**102,418**
Discount	(2,266)	(2)	(2)	(8)	(7,529)	(1,812)	(160)	(11,749)
Discounted central estimate	**18,436**	**66**	**83**	**357**	**50,467**	**15,245**	**5,985**	**90,639**
Claims handling expense								2,682
Risk margin								26,010
Net outstanding claims liability								**119,331**
Reinsurance recoveries on outstanding claims liability and other recoveries								1,835,379
Gross outstanding claims liability								**1,954,710**

c) *Reconciliation of movement in net discounted outstanding claims liabilities*

	Consolidated		Company	
	30 June 2013 $000	**30 June 2012 $000**	**30 June 2013 $000**	**30 June 2012 $000**
Balance as at the beginning of the year	**298,451**	**258,645**	**217,573**	**186,942**
Prior Years				
Payments	(127,722)	(153,368)	(87,563)	(118,288)
Movement in discounting	7,994	5,292	6,003	3,768
Margin release on prior years	(23,768)	(35,710)	(17,071)	(30,980)
Incurred claims due to changes in assumptions and experience	22,851	65,604	15,811	60,455
Change in discount rate	(2,714)	4,692	(2,204)	3,468
Change in claims handling expense rate	595	-	507	
Movement in risk margins	(1,822)	-	(1,572)	-
Current Year				
Ultimate incurred costs	478,278	451,269	317,182	303,947
Payments	(319,031)	(297,973)	(202,333)	(191,739)
Balance as at the end of the year	**333,112**	**298,451**	**246,333**	**217,573**
Outstanding reinsurance and other recoveries (Note 13)	**1,883,381**	**2,750,263**	**1,862,060**	**2,728,926**
Gross outstanding claims liabilities	**2,216,493**	**3,048,714**	**2,108,393**	**2,946,499**

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23. Superannuation Commitments

The Group participates in three defined benefit superannuation funds, Vero & Asteron New Zealand Staff Pension Scheme, RIG Superannuation Fund and Commercial Union General Insurance Staff Pension Scheme. Each superannuation fund provides benefits to members on retirement, disability or death. All new employees are currently being given membership of accumulation funds rather than defined benefit funds.

(a) Surplus/ (deficit) position

The following tables summarises the deficit position for each defined benefit fund.

Consolidated	30 June 2013			30 June 2012		
	Surplus	Deficit	Net	Surplus	Deficit	Net
	$000	$000	$000	$000	$000	$000
Vero & Asteron New Zealand Staff Pension Scheme	-	(25,709)	(25,709)	-	(35,096)	(35,096)
RIG Superannuation Fund	-	(5,217)	(5,217)	-	(6,491)	(6,491)
Commercial Union General Insurance Staff Pension Scheme	-	(2,387)	(2,387)	-	(3,164)	(3,164)
Total	**-**	**(33,313)**	**(33,313)**	**-**	**(44,751)**	**(44,751)**

Company	30 June 2013			30 June 2012		
	Surplus	Deficit	Net	Surplus	Deficit	Net
	$000	$000	$000	$000	$000	$000
Vero & Asteron New Zealand Staff Pension Scheme	-	(26,263)	(26,263)	-	(34,463)	(34,463)
RIG Superannuation Fund	-	(5,217)	(5,217)	-	(6,491)	(6,491)
Commercial Union General Insurance Staff Pension Scheme	-	(2,387)	(2,387)	-	(3,164)	(3,164)
Total	**-**	**(33,867)**	**(33,867)**	**-**	**(44,118)**	**(44,118)**

The expected return on fund assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the prospective markets.

(b) Present value of defined benefit fund

	Consolidated		Company	
	30 June 2013	30 June 2012	30 June 2013	30 June 2012
	$000	$000	$000	$000
Fair value of fund assets at the end of the year	62,254	60,288	60,729	58,604
Defined benefit obligations at the end of the year	(84,573)	(90,271)	(83,419)	(88,163)
Adjustment for contributions tax	(10,994)	(14,768)	(11,177)	(14,559)
Net liability recognised in the Statements of Financial Position	**(33,313)**	**(44,751)**	**(33,867)**	**(44,118)**

(c) Reconciliation of movements

	Consolidated		Company	
	30 June 2013	30 June 2012	30 June 2013	30 June 2012
Changes in the present value of fund assets	**$000**	**$000**	**$000**	**$000**
Balance at the beginning of the year	60,288	60,413	58,604	58,945
Employee contributions	23	24	23	24
Expected return on fund assets	3,237	3,288	3,144	3,207
Actuarial gains/(losses)	2,461	(2,893)	2,410	(2,823)
Contributions by Group companies	1,599	4,825	1,530	4,594
Benefits paid	(5,354)	(5,369)	(4,982)	(5,343)
Balance at the end of the year	**62,254**	**60,288**	**60,729**	**58,604**

	Consolidated		Company	
	30 June 2013	30 June 2012	30 June 2013	30 June 2012
Changes in the present value of defined benefit fund obligations	**$000**	**$000**	**$000**	**$000**
Balance at the beginning of the year	(90,271)	(78,549)	(88,163)	(76,991)
Employee contributions	(23)	(24)	(23)	(24)
Current service cost	(1,266)	(1,239)	(1,181)	(1,177)
Interest cost	(2,159)	(2,787)	(2,108)	(2,731)
Actuarial gains/(losses)	3,792	(13,041)	3,074	(12,583)
Benefits paid	5,354	5,369	4,982	5,343
Balance at the end of the year	**(84,573)**	**(90,271)**	**(83,419)**	**(88,163)**

(d) Categories of plan assets

	Consolidated		Company	
	30 June 2013	30 June 2012	30 June 2013	30 June 2012
	%	%	%	%
Cash	5.9	6.0	6.0	6.0
Equities	40.7	40.8	40.7	40.9
Debt instruments	40.7	40.6	40.7	40.6
Property	-	-	-	-
Other	12.7	12.6	12.6	12.5
	100.0	**100.0**	**100.0**	**100.0**

(e) Aggregate amounts recognised in the profit and loss

	Consolidated		Company	
	30 June 2013 $000	**30 June 2012 $000**	**30 June 2013 $000**	**30 June 2012 $000**
Current service cost	(1,266)	(1,239)	(1,181)	(1,177)
Interest cost	(2,159)	(2,787)	(2,108)	(2,731)
Expected return on fund assets	3,237	3,288	3,144	3,207
Decrease in allowance for contributions tax on net liability	(92)	(364)	(71)	(346)
Total expense recognised in the profit and loss	**(280)**	**(1,102)**	**(216)**	**(1,047)**
Contributions by employer and employee	2,386	2,874	2,283	2,721
Total gain recognised in the profit and loss	**2,106**	**1,772**	**2,067**	**1,674**

The income is recognised in the following line items in the profit and loss:

Service charges on defined benefit funds	2,106	1,772	2,067	1,674

(f) Aggregate actuarial gains/ (losses) recognised in Other Comprehensive Income

	Consolidated		Company	
	30 June 2013 $000	**30 June 2012 $000**	**30 June 2013 $000**	**30 June 2012 $000**
Actuarial gains/(losses)	6,253	(15,934)	5,484	(15,406)
Contributions by Group entities	-	4,327	-	4,136
Contributions tax	3,079	(7,847)	2,700	(7,587)
Actuarial gains/(losses) on defined benefit funds (gross of tax)	**9,332**	**(19,454)**	**8,184**	**(18,857)**
Cumulative expense recognised in the other comprehensive income	(26,871)	(36,203)	(27,249)	(35,433)
Actual return on fund assets	5,698	395	5,554	384

(g) Principal actuarial assumptions

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

	Consolidated		Company	
	30 June 2013 %	**30 June 2012 %**	**30 June 2013 %**	**30 June 2012 %**
Discount rate (net of tax)	3.1-3.4	2.5	3.1-3.4	2.5
Expected return on fund assets (net of tax)	5.5-6.0	5.5-6.0	5.5-6.0	5.5-6.0
Future salary increases	3.5	3.5	3.5	3.5

The expected return on assets assumption for each fund is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each asset class. The returns used for each asset class are net of investment tax. An allowance is made for all fund expenses.

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(h) Historical summary

	Consolidated				
	30 June 2013 $000	**30 June 2012 $000**	**30 June 2011 $000**	**30 June 2010 $000**	**30 June 2009 $000**
Present value of defined benefit obligations	(84,573)	(90,271)	(78,549)	(78,603)	(75,923)
Fair value of assets held by the funds	62,254	60,288	60,413	60,694	58,925
Deficit	**(22,319)**	**(29,983)**	**(18,136)**	**(17,909)**	**(16,998)**
Experience gains/(losses) arising on fund liabilities	247	(1,301)	(28)	868	1,665
Experience gains/(losses) arising on fund assets	2,461	(2,893)	991	1,196	(11,634)

	Company				
	30 June 2013 $000	**30 June 2012 $000**	**30 June 2011 $000**	**30 June 2010 $000**	**30 June 2009 $000**
Present value of defined benefit obligations	(83,419)	(88,163)	(76,991)	(77,250)	(74,767)
Fair value of assets held by the funds	60,729	58,604	58,945	59,391	57,764
Deficit	**(22,690)**	**(29,559)**	**(18,046)**	**(17,859)**	**(17,003)**
Experience gains/(losses) arising on fund liabilities	(362)	(1,236)	30	910	1,510
Experience gains/(losses) arising on fund assets	2,410	(2,823)	965	1,170	(11,416)

(i) Employer contributions

The Group intends to continue contributions in line with the latest recommendations of the Schemes' actuaries. Actuarial assessments are undertaken every three years. The last three yearly review was performed as follows:

- Vero & Asteron New Zealand Staff Pension Scheme — 30 June 2011
- RIG Superannuation Fund — 30 June 2010
- Commercial Union General Insurance Staff Pension Scheme — 31 December 2010

Actuarial recommendations of the employer contribution rates are:

Vero & Asteron New Zealand Staff Pension Scheme	20% of pensionable salaries plus attributable share of $950,000
RIG Superannuation Fund	$350,000
All other defined benefit funds	Nil

Estimate of the expected Group's contribution to be paid to the plan during the annual period beginning 1 July 2013 is $2,431,000.

24. Share Capital

	30 June 2013 Shares No. (000)	**30 June 2013 Shares $000**	**30 June 2012 Shares No. (000)**	**30 June 2012 Shares $000**
Issued and fully paid ordinary shares	184,688	270,509	184,688	270,509
Shareholder contribution under employee share plans	-	5,431	-	5,057
Total share capital	**184,688**	**275,940**	**184,688**	**275,566**

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 2013, the Company had 184,687,954 ordinary shares with no par value issued to Suncorp Group Holdings (NZ) Limited (2012: 184,687,954). All shares rank equally with one vote attached to each fully paid ordinary share.

	30 June 2013 Shares No. (000)	30 June 2013 Shares $000	30 June 2012 Shares No. (000)	30 June 2012 Shares $000
Movements in issued and fully paid ordinary shares				
Balance at the beginning of the year	184,688	270,509	119,688	205,509
Shares issued	-	-	65,000	65,000
Balance at the end of the year	**184,688**	**270,509**	**184,688**	**270,509**

	30 June 2013 Shares No. (000)	30 June 2013 Shares $000	30 June 2012 Shares No. (000)	30 June 2012 Shares $000
Movements in shareholder contributions under employee share plans				
Balance at the beginning of the year	-	5,057	-	4,456
Contributions under Executive Performance Share Plan	-	374	-	601
Balance at the end of the year	**-**	**5,431**	**-**	**5,057**

25. Reconciliation of Net Profit for the Year to the Net Cash Flows from Operating Activities

	Consolidated		Company	
	30 June 2013 $000	30 June 2012 $000	30 June 2013 $000	30 June 2012 $000
Net profit after income tax	76,170	34,611	74,160	61,198
Movement in financial assets at fair value through profit or loss	(1,299)	(6,483)	4,522	(5,131)
Depreciation and amortisation	7,526	9,087	6,047	7,456
(Profit)/loss on disposal of plant and equipment	(57)	143	(71)	128
Gain on sale of subsidiary	(1,893)	-	(2,545)	-
Amortisation of share based payments	374	601	374	527
Net movement in defined benefit funds	6,719	(14,007)	5,892	(13,577)
Net assets of subsidiary at time of sale	1,283	-	-	-
Changes in assets and liabilities				
Increase in receivables	(30,618)	(130,619)	(26,801)	(89,038)
(Increase)/decrease in other current assets	(3,100)	5,757	(2,573)	(1,627)
Decrease in reinsurance and other recoveries	866,882	419,604	866,866	415,993
Decrease/(increase) in deferred reinsurance premiums	88,647	(320,271)	82,714	(290,101)
Increase in deferred acquisition costs	(4,852)	(56,501)	(6,581)	(66,050)
Decrease/(increase) in taxation receivable	-	2,915	(131)	4,570
Decreases in net deferred tax assets	23,960	2,071	28,569	8,182
(Decrease)/increase in payables	(100,335)	315,145	(89,720)	284,184
Increase in unearned premium liabilities	52,161	78,230	41,290	58,266
Decrease in outstanding claims liabilities	(832,221)	(379,798)	(838,106)	(385,362)
(Decrease)/increase in superannuation commitments	(11,438)	17,682	(10,251)	17,183
Increase in net deferred tax liabilities	3,710	-	-	-
(Decrease)/increase in taxation payable	(2,916)	4,506	-	-
Net cash inflow/(outflow) from operating activities	**138,703**	**(17,327)**	**133,655**	**6,801**

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26. Share Based Payments

Vero Insurance New Zealand Limited is a wholly owned subsidiary of Suncorp Group Holdings (NZ) Limited, with the ultimate parent being Suncorp Group Limited ("SGL"). Eligible employees of the Group have the right to participate in the SGL share plans. Shares offered in these share plans are granted by SGL over its own shares to employees of SGL subsidiaries.

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

Features of the plans currently in operation which the employees of the Group participate in are set out below:

Share Plans	Executive Performance Share Plan (EPSP)	Exempt Employee Share Plan (EESP)
Method of settlement	Equity-settled. Cash- settled in limited circumstances as elected by the SGL Board.	Equity-settled
Eligible plan participant	Executives	Employees not part of the EPSP
Basis of share grant	Value of shares granted (offered) is determined by the SGL Board based on the executives' level of remuneration and individual performance.	Market value of shares up to AUD 1,000 per employee per year may be granted by the Board based on the Suncorp Group's overall performance.
Vesting	Subject to satisfaction of performance criteria over the performance period.	Fully vested, not subject to forfeiture.
Performance criteria	Refer to the EPSP performance criteria table below.	None
Minimum holding period	None after shares are vested.	Earlier of three years or upon cessation of employment.
Plan maximum limit	Shares can only be granted or issued under the Plans if the number to be granted or issued will not exceed 5% of total shares on issue of SGL when aggregated with the number of shares granted or issued during the previous five years for all share plans operated by SGL.	
Dividend entitlements	Vested shares carry full entitlement to dividends from the grant date (less any taxes paid by the Plan Trustee in respect of such dividends).	Full entitlement from when the shares are allocated to the participating employees in the Plan.
Voting rights	Voting rights are held by the Plan Trustee until shares are vested.	Participating employees have the right to vote from when the shares are allocated to them in the Plan.

EPSP performance criteria

<table>
<tr><th>Grant date</th><th>1 October 2007 – 3 May 2010</th><th>From 1 October 2010</th></tr>
<tr><td>Performance criteria</td><td colspan="2">The criteria is based on Total Shareholder Returns ("TSR") achieved by SGL over a performance period compared to the TSR of a comparator group.</td></tr>
<tr><td>Comparator group</td><td>Top 50 Industrial companies in the S&P/ASX 100, excluding listed property trusts.</td><td>Top 50 Industrial companies in the S&P/ASX 100, excluding mining companies and listed property trusts.</td></tr>
<tr><td>Performance results and vesting rules</td><td colspan="2">Shares granted under this plan will vest and allocated based on the SGL's TSR performance results:<table>
<tr><th>SGL performance (TSR percentile ranking)</th><th>% of shares available for vesting and allocation</th></tr>
<tr><td>< 50^{th} percentile</td><td>Nil</td></tr>
<tr><td>50^{th} percentile</td><td>50%</td></tr>
<tr><td>> 50^{th} but < 75^{th} percentile</td><td>an additional 2% of the shares will vest for each 1% increase (on a straight line basis) in the SGL's TSR ranking above the 50^{th} percentile</td></tr>
<tr><td>75^{th} percentile or above</td><td>100%</td></tr>
</table></td></tr>
<tr><td>Initial performance period</td><td colspan="2">The initial performance period commences on the grant date and ends on the initial vesting date which is generally three years after the grant date.</td></tr>
</table>

Grant date	1 October 2007 – 3 May 2010	From 1 October 2010
At initial vesting date	The executive has the right to elect to receive an allocation of shares, based on the performance result described above, or extend the performance period a further two years. If the Executive elects to accept the year three performance result, any shares subject to that same offer that are not allocated are forfeited.	Shares are vested and allocated based on the performance result described above. Any shares offered that are not allocated are forfeited. No extension of performance period is permitted.
During the extended performance period (Period from the initial vesting date to the end of the extended performance period (generally at the end of year five))	Performance measurements are undertaken during the extended performance period on a six monthly basis. Executives electing to extend the performance period waive their right to make any further election in regard to acceptance of a performance result (and therefore cannot have shares allocated) until the end of year five. The executives' entitlement to an allocation of shares at the end of year five will be based on the highest performance measurement result recorded at any of the prescribed performance measurement points over the extended performance period. Shares not allocated at the end of the extended performance period are forfeited.	Not applicable.

During the year ended 30 June 2013, there was a $584,835 charge for the Group and a $556,260 charge for the Company in relation to 2013 EESP grants (2012: Group $700,000, Company $655,926). The amount included in the profit and loss in relation to the deferred ordinary shares allocated under EPSP for the year ended 30 June 2013 is Group $373,813, Company $362,027 (2012: Group $601,081, Company $526,922).

Suncorp Group Limited granted to each eligible employee its ordinary shares to the value of AUD 1,000 under the Exempt Employee Share Plan (EESP) for the year ended 30 June 2013 (2012: AUD 750). These shares will be acquired on-market for allocation to employees by the share plan in October 2013.

27. Investment in Associate Companies

	Consolidated and Company			
	Ownership			
	30 June 2013	30 June 2013	30 June 2012	30 June 2012
	%	$000	%	$000
AA Warranty Limited	50	-	50	-

AA Warranty Limited did not trade during the current financial year or the previous financial year as such no financial information has been presented.

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28. Contingent Liabilities

The Suncorp New Zealand Group ("Suncorp NZ Group") has potential exposures in relation to certain historical taxation matters. The Commissioner of Inland Revenue issued a Statement of Position, putting forward two different scenarios which provide for materially different outcomes, in respect of a transaction to which the Suncorp NZ Group was party to in prior years. The quantum proposed by the Commissioner ranges from $3.9 million to $17.0 million depending on the scenario, to which the Suncorp NZ Group has estimated a further $3.5m would be added for use of money interest.

The Suncorp NZ Group continues to dispute this matter, and having obtained appropriate, legal and other relevant professional advice has replied to the Commissioner of Inland Revenue with its own Statement of Position. The Suncorp NZ Group intends to rigorously defend against any such potential exposures. While the Commissioner has issued an amended assessment in respect of one of the income years in dispute, this assessment has been deferred, subject to consideration of the dispute by the Inland Revenue Adjudication Unit. Consideration by the adjudication unit is anticipated to commence within the next two months and a decision would be expected within the next six months.

As a result of the disputed transactions the Company as representative entity for the Vero Tax Group, a tax consolidated group for income tax purposes consisting of the Company and its subsidiary Vero Liability Insurance Limited, has also been issued an amended assessment in respect of the 2006 income year. This amended assessment in the sum of $1.9m has been deferred by the Commissioner until such time as a decision is received from the Inland Revenue Adjudication Unit.

The reason for the inclusion of the Vero Tax Group in the Commissioner's proposed amendments is due to the potential inability, if the Commissioner is successful, of the Vero Tax Group to have claimed the full value of subvention payments made to its parent entity, Suncorp Group Holdings (NZ) Limited, during the income years in dispute. A total of $12.3m in primary tax and $3.5m of use of money interest is estimated to be the current maximum liability that could be imposed.

Suncorp Group Holdings (NZ) Limited has provided an indemnity to the Company in respect of any additional income tax liability, use of money interest or other costs and expenses associated with the disputed transactions as they may effect the Vero Tax Group.

29. Commitments for Expenditure

	Consolidated		Company	
	30 June 2013 $000	30 June 2012 $000	30 June 2013 $000	30 June 2012 $000
Lease commitments				
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	11,003	11,247	7,190	8,118
Later than one year but not later than 5 years	34,614	28,677	23,428	25,926
Later than 5 years	3,043	3,820	56	3,820
Non cancellable operating leases	**48,660**	**43,744**	**30,674**	**37,864**

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

30. Related Parties

a) Controlling entities

Vero Insurance New Zealand Limited is a wholly owned subsidiary of Suncorp Group Holdings (NZ) Limited. The ultimate parent entity of the Company is Suncorp Group Limited, a company incorporated in Australia

All members of the Suncorp Group are considered to be related parties of the Group and Company. This includes the subsidiaries of Vero Insurance New Zealand Limited identified in Note 18.

b) 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.

All transactions were conducted in the normal course of business and under normal terms and conditions.

		Consolidated		Company	
Relationship	**Nature of Transaction**	**30 June 2013 $000**	**30 June 2012 $000**	**30 June 2013 $000**	**30 June 2012 $000**
Parent Company	-Share capital	-	(65,000)	-	(65,000)
	-Group tax loss offset	(10)	-	-	-
Subsidiary	-Accounting and administration fees	-	-	10,055	8,853
	-Premiums received	-	-	3,687	3,575
	-Dividend received	-	-	31,800	47,000
	-Group tax loss offset	-	-	9,942	9,544
	-Services rendered	-	-	(1,548)	(2,616)
	-Premiums paid	-	-	(238)	-
	-Reinsurance recoveries paid	-	-	(66,729)	(48,607)
	-Profit share paid			(49)	-
Subsidiary of Ultimate Parent	-Accounting and administration fees	1,533	2,829	1,543	2,829
	-Services rendered	75	136	75	136
	-Premiums received	1,573	1,935	1,573	1,935
	-Accounting, administration fees and recharges	(15,308)	(14,642)	(14,587)	(13,891)
	- Premiums paid	(16,507)	(16,492)	(16,437)	(16,415)
	-Investment management fees	(351)	(355)	(282)	(266)
	-Group tax loss offset	(1,566)	2,571	5	429
	-Reinsurance recoveries paid	16,507	23,493	16,507	23,493
	-Transfer of policies	(2,053)	-	(2,053)	-
Other Related Parties	-Management fees	(2,013)	(1,888)	-	-

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

	Consolidated		Company	
Amounts due from related parties:	**30 June 2013 $000**	**30 June 2012 $000**	**30 June 2013 $000**	**30 June 2012 $000**
Subsidiary	-	-	1,377	2,547
Subsidiary of Ultimate Parent	1,745	1,488	1,753	1,516
Total amounts due from related parties (Note 12)	**1,745**	**1,488**	**3,130**	**4,063**

	Consolidated		Company	
Amounts due to related parties:	**30 June 2013 $000**	**30 June 2012 $000**	**30 June 2013 $000**	**30 June 2012 $000**
Subsidiary		-	5,960	8,363
Subsidiary of Ultimate Parent	488	189	490	189
Other Related Party	1,100	997	-	-
Total amounts due to related parties (Note 20)	**1,588**	**1,186**	**6,450**	**8,552**

All balances are unsecured, non-interest bearing and repayable on demand in the local currency.

c) *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 CEO. G T Ricketts and P J R Snowball are remunerated directly by Suncorp Group.

	Consolidated		Company	
	30 June 2013 $000	30 June 2012 $000	30 June 2013 $000	30 June 2012 $000
Short-term employee benefits	8,991	7,961	4,837	3,819
Post employment benefits	161	141	161	138
Long-term benefits	331	590	326	580
Termination benefits	348	1,656	348	1,341
Share based payment	467	315	467	315
Total Compensation	**10,298**	**10,663**	**6,139**	**6,193**

31. Auditor's Remuneration

	Consolidated		Company	
	30 June 2013 $000	30 June 2012 $000	30 June 2013 $000	30 June 2012 $000
During the year the auditor of the Company was paid for the following services:				
Assurance services				
Audit fees – KPMG	840	879	612	679
Other fees – KPMG	369	75	187	46
Total auditor's remuneration	**1,209**	**954**	**799**	**725**

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

32. Segment Reporting

The Group has a mix of intermediated (through a broker) and direct business within the general insurance industry. The Group operates predominantly throughout New Zealand.

33. Credit Rating

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

	Credit Rating	
Company	**2013**	**2012**
Vero Insurance New Zealand Limited	A+	A+
Vero Liability insurance Limited	A+	A+
AA Insurance Limited	A+	A+

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34. Capital Adequacy

(a) Capital management policies and objectives

The capital management strategy of Suncorp Group Limited and its subsidiaries (the "Suncorp Group") is to optimise shareholder value by managing the level, mix and use of capital resources. The main objectives are to support the Suncorp Group's credit rating, ensure sufficient capital resources to maintain the business and operational requirements, retain sufficient capital to exceed externally imposed capital requirements, and ensure the Suncorp Group's ability to continue as a going concern. The Suncorp Group's capital policy is to hold all surplus capital in Suncorp Group Limited as it is the holding company of the Suncorp Group, whilst keeping the subsidiaries well capitalised.

With the implementation of the Insurance (Prudential Supervision) Act 2010 ("the Act") all general insurance entities carrying on insurance business in New Zealand are required to be licensed by the Reserve Bank of New Zealand. The Company and its two general insurance subsidiaries Vero Liability Insurance Limited and AA Insurance Limited were granted full licences in the current financial year. All three companies are now managing their capital in accordance with the requirements of the Act.

From 1 March 2012 the Company and its licensed insurance subsidiaries were required to retain solvency capital of at least $3 million under the Solvency Standard for Non-life Insurance Business ("the solvency standard") issued by the Reserve Bank of New Zealand Limited (RBNZ). The actual amount retained as minimum solvency capital and determined by the Directors of the companies as appropriate to ensure their financial soundness, and the basis for determining the amount are set out below.

From 31 December 2012 the Company and its licensed insurance subsidiaries were required to maintain a solvency margin as determined under the solvency standard at or above the minimum solvency capital level.

The Group and Company satisfied all externally imposed capital requirements which they were subject to during the period ended 30 June 2013.

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

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

(b) Capital composition

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

Prior to 31 December 2012 the Group and Company, consistent with Suncorp Group policy, was managing its capital in accordance with the Australian prudential standards issued by the Australian Prudential Regulation Authority (APRA).

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

	Licensed Insurer Group		Company	
	30 June 2013	30 June 2012	30 June 2013	30 June 2012
	$000	$000	$000	$000
Actual solvency capital	457,381	348,464	323,582	206,639
Minimum solvency capital	247,956	234,548	201,878	191,704
Solvency Margin	**209,425**	**113,916**	**121,704**	**14,935**
Solvency Ratio	**1.84**	**1.49**	**1.60**	**1.08**

35. Events Occurring After Reporting Date

On 21 July 2013 a 6.5 magnitude earthquake struck central New Zealand. As at the date of this report the Group has received few reported claims.

It is not expected that there will be a material financial impact resulting from this event. There is, however, considerable uncertainty as it is possible that claims will be made for damage not yet identified, in particular among the Group's larger corporate risks.

There were no material events post 30 June 2013 which would require adjustment to the amounts reflected in the 30 June 2013 financial statements or disclosures thereto.

Appointed Actuary's Report as at 30 June 2013

To the Board of Directors of Vero Insurance New Zealand Limited.

Background

This report has been prepared by Richard Beauchamp, FNZSA, Appointed Actuary of Vero Insurance New Zealand Limited ("VINZL").

The purpose of this report is to provide information to VINZL's Board and management regarding the review I have undertaken in relation to the actuarial information contained in, or used in the preparation of, VINZL's financial statements according to section 81(1) of the Insurance (Prudential Supervision) Act 2010. Section 78 of the Act sets out the matters that the appointed actuary's report must address.

This report has been not been prepared with any other purpose in mind. Therefore the results and opinions it contains may not be applicable or appropriate for any other purpose.

Directors' responsibility for the financial statements

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

Appointed Actuary's responsibility

My responsibility is to review the actuarial information in, or used in the preparation of, VINZL's financial statements. Actuarial information is defined in section 77 of the Act as:

1. Information relating to premiums, claims, reserves, dividends, premium rates and technical provisions;
2. Information relating to assessments of the probability of uncertain future events, including the financial implications if those events occur; and
3. Information specified in the solvency standard.

For the purposes of the solvency standard, actuarial information means the Premium Liabilities, the Net Outstanding Claims Liability, Reinsurance, Deferred Acquisition Costs, and any other information I deem relevant to profit or solvency reporting.

The scope of my review is to ascertain the completeness of the actuarial information, to evaluate the accuracy and appropriateness of the actuarial information and to provide an opinion on whether VINZL is maintaining an appropriate solvency margin at the balance date.

Review of the actuarial information in the financial statements

In accordance with Section 78 of the Act I have reviewed the actuarial information contained in, or used in the preparation of, VINZL's financial statements.

The review has been carried out in accordance with the Non-life Insurance Solvency Standard dated October 2011. The scope and limitations of the review are set out above.

I am a full time employee of VINZL. My remuneration is in part dependent on VINZL's financial performance and that of the wider Suncorp Group. I also participate in the Suncorp Group Employee Share Plan (NZ).

I have obtained all information and explanations that I required to complete my review.

In my opinion and from an actuarial perspective:

- The actuarial information contained in the financial statements has been **included** appropriately in those statements; and
- The actuarial information used in the preparation of the financial statements has been **used** appropriately;

Furthermore in my opinion and from an actuarial perspective VINZL is maintaining the solvency margin that applies under a condition imposed under section 21(2)(b) as at 30 June 2013.

Section 21(2)(b) allows the RBNZ to impose conditions that require a licensed insurer to ***maintain a solvency margin*** *in accordance with an applicable solvency standard (including requiring the insurer to maintain a minimum amount of capital in accordance with the standard). The Solvency Margin must always be a positive amount and a licensed insurer must maintain Actual Solvency Capital in excess of the amount required to maintain this Solvency Margin.*

Finally, no condition applies under Section 21(2)(c) of the Act as at 30 June 2013.

Section 21(2)(c) allows the RBNZ to impose conditions that require a ***life insurer*** *to maintain solvency margins in respect of the statutory funds of the insurer in accordance with an applicable solvency standard (including requiring the insurer to maintain a minimum amount of capital in accordance with the standard).*

Richard Beauchamp
Appointed Actuary

29 July 2013