# Vero Liability Insurance Limited

## Annual Financial Report

## For the Year Ended

## 30 June 2013

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## VERO LIABILITY INSURANCE LIMITED
## DIRECTORS' REPORT
## FOR THE YEAR ENDED 30 JUNE 2013

The Board of Directors present the annual report of Vero Liability Insurance Limited ("the Company") 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 (except where otherwise stated):

P R Brown (resigned 24 September 2012)
G C Dransfield
E S Edgar (appointed 24 September 2012)
G T Ricketts (appointed 24 September 2012)
A R Tulloch
D J Turkington (appointed 24 September 2012)
B N Waymouth

### Registered Office
Vero Centre
48 Shortland Street
Auckland 1142

### Auditor
KPMG
18 Viaduct Harbour Avenue
PO Box 1584
Auckland 1140

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

### Review of operations
The net profit after income tax for the year ended 30 June 2013 was $13,517,000 compared with $13,012,000 for the previous year ended 30 June 2012.

### Matters subsequent to the end of the financial year
There is, at the date of this Report, no matter or circumstance that has arisen since 30 June 2013 that has significantly affected, or may significantly affect:
(a) the Company's operations in future financial years;
(b) the results of those operations in future financial years; or
(c) the Company's state of affairs in future financial years.

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

**Gary C Dransfield**
*MAICD*
*Non-executive Director*

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 and is also a director and Chief Executive Officer of Vero Insurance New Zealand Limited, the immediate parent company of Vero Liability Insurance 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 2012. 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 of Vero Insurance New Zealand Limited, the immediate parent company of Vero Liability Insurance Limited and Asteron Life Limited (a related company of Vero Liability Insurance 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 2012. Mr Ricketts is a commercial lawyer with extensive experience in New Zealand and Australia.

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

**Adrian R Tulloch**
*Executive Director and Managing Director*

Director and Managing Director since 2001. Mr Tulloch is an experienced liability insurance underwriter with extensive knowledge of the New Zealand insurance market. Mr Tulloch set up Vero Liability Insurance Limited in August 2001 after more than two decades in senior positions in the insurance industry.

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

Director since 2012. 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.

**Benjamin N Waymouth**
*BA*
*Executive Director and Deputy Managing Director*

Deputy Managing Director since 2001. Mr Waymouth has 20 years' liability insurance underwriting and portfolio management experience in the New Zealand market including underwriting in the Lloyds companies market. Mr Waymouth has joint responsibility with the Managing Director to manage the operations and performance of Vero Liability Insurance Limited.

**VERO LIABILITY INSURANCE LIMITED**
**DIRECTORS' REPORT**
**FOR THE YEAR ENDED 30 JUNE 2013**

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

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

Director

Date 6 AUG 2013

Director

Date 6 AUG 2013

# VERO LIABILITY INSURANCE LIMITED
# CORPORATE GOVERNANCE STATEMENT
# FOR THE YEAR ENDED 30 JUNE 2013

Vero Liability Insurance Limited ("the Company") is a company incorporated in New Zealand. The Company is a wholly-owned subsidiary of Vero Insurance New Zealand 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 six 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 Gary Dransfield is a non-executive director while Messrs Adrian Tulloch and Ben Waymouth are executive directors. 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, Mr Gary Dransfield, and Mr Adrian Tulloch. The majority of the members of the BARC are independent non-executive directors of the Company.

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 Liability Insurance Limited

### Report on the financial statements

We have audited the accompanying financial statements of Vero Liability Insurance Limited ("the company") on pages 9 to 47. The financial statements comprise the statement 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.

***Directors' responsibility for the financial statements***

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

***Auditor's responsibility***

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

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

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

Our firm has also provided other services to the company in relation to regulatory 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.

*Opinion*

In our opinion the financial statements on pages 9 to 47:

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

## 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 Liability Insurance Limited as far as appears from our examination of those records.

KPMG

6 August 2013
Auckland

VERO LIABILITY INSURANCE LIMITED

## STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 30 JUNE 2013

| | Note | Year ended 30 June 2013 $000 | Year ended 30 June 2012 $000 |
|---|---|---|---|
| Gross earned premium | 7,8 | 80,001 | 73,001 |
| Outwards reinsurance premium expense | 8 | (17,075) | (14,789) |
| **Net premium revenue** | 8 | **62,926** | **58,212** |
| Claims expense | 9 | (29,472) | (25,426) |
| Reinsurance and other recoveries | 7,9 | 4,290 | 2,224 |
| **Net incurred claims** | 9 | **(25,182)** | **(23,202)** |
| Acquisition costs | | (20,664) | (19,318) |
| Other underwriting expenses | | (5,630) | (4,961) |
| **Underwriting expenses** | | **(26,294)** | **(24,279)** |
| Reinsurance commission revenue | 7 | 1,839 | 1,487 |
| **Underwriting result** | | **13,289** | **12,218** |
| Net investment revenue | 7 | 5,557 | 5,984 |
| **Net profit for the year before income tax** | 10 | **18,846** | **18,202** |
| Income tax expense | 11a) | (5,329) | (5,190) |
| **Net profit attributable to owners of the Company for the year after income tax** | | **13,517** | **13,012** |
| **Other comprehensive income** | | **-** | **-** |
| **Total comprehensive income for the year** | | **13,517** | **13,012** |

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

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VERO LIABILITY INSURANCE LIMITED

## STATEMENT OF FINANCIAL POSITION
## AS AT 30 JUNE 2013

| | Note | As at<br>30 June<br>2013<br>$000 | As at<br>30 June<br>2012<br>$000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | 698 | 760 |
| Trade receivables | 12 | 21,917 | 21,992 |
| Other current assets | 12 | 1,206 | 1,253 |
| Reinsurance and other recoveries | 13 | 13,571 | 13,652 |
| Deferred reinsurance premiums | 14 | 11,136 | 10,303 |
| Deferred acquisition costs | 15 | 8,982 | 8,248 |
| Financial assets at fair value through profit or loss | 16 | 114,397 | 112,078 |
| Property, plant and equipment | 17 | 554 | 296 |
| Intangible assets | 18 | 14 | 339 |
| **Total assets** | | **172,475** | **168,921** |
| **Liabilities** | | | |
| Payables | 19 | 11,196 | 11,508 |
| Current tax liabilities | 11d) | 5,481 | 5,015 |
| Unearned premium liabilities | 20 | 46,814 | 44,595 |
| Outstanding claims liabilities | 21 | 74,575 | 68,863 |
| Net deferred tax liabilities | 11e) | 1,986 | 1,834 |
| **Total liabilities** | | **140,052** | **131,815** |
| **Net assets** | | **32,423** | **37,106** |
| **Equity** | | | |
| Share capital | 22 | 15,047 | 15,047 |
| Retained earnings | | 17,376 | 22,059 |
| **Total equity** | | **32,423** | **37,106** |

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

The Board of Directors of Vero Liability Insurance 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 LIABILITY INSURANCE LIMITED

## STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 30 JUNE 2013

| | Share Capital $000 | Retained Earnings $000 | Total Equity $000 |
|---|---|---|---|
| Balance at 1 July 2012 | 15,047 | 22,059 | 37,106 |
| Profit for the year | - | 13,517 | 13,517 |
| Other comprehensive income | - | - | - |
| **Total comprehensive income for the year** | **-** | **13,517** | **13,517** |
| **Transactions with owners, recorded directly in equity** | | | |
| Dividends paid to equity holders | - | (18,200) | (18,200) |
| **Balance as at 30 June 2013** | **15,047** | **17,376** | **32,423** |
| Dividend paid per share (dollars) | | | 1.21 |

| | Share Capital $000 | Retained Earnings $000 | Total Equity $000 |
|---|---|---|---|
| Balance at 1 July 2011 | 15,047 | 39,047 | 54,094 |
| Profit for the year | - | 13,012 | 13,012 |
| Other comprehensive income | - | - | - |
| **Total comprehensive income for the year** | **15,047** | **13,012** | **13,012** |
| **Transactions with owners, recorded directly in equity** | | | |
| Dividends paid to equity holders | - | (30,000) | (30,000) |
| **Balance as at 30 June 2012** | **15,047** | **22,059** | **37,106** |
| Dividend paid per share (dollars) | | | 2.00 |

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

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## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 30 JUNE 2013

| | Note | Year ended 30 June 2013 | Year ended 30 June 2012 |
|---|---|---|---|
| | | $000 | $000 |
| **Cash flows from operating activities** | | | |
| Premiums received | | 82,436 | 78,237 |
| Reinsurance and other recoveries received | | 4,232 | 3,625 |
| Interest received | | 5,987 | 6,307 |
| Claims paid | | (23,760) | (21,764) |
| Outwards reinsurance premiums paid | | (18,062) | (15,721) |
| Acquisition costs paid | | (19,559) | (17,919) |
| Income tax paid | | (4,711) | (25,483) |
| Underwriting and other operating expenses paid | | (5,705) | (5,601) |
| **Net cash inflow from operating activities** | 23 | **20,858** | **1,681** |
| **Cash flows from investing activities** | | | |
| Payments for purchase of investment securities | | (82,644) | (118,630) |
| Proceeds from sale of investment securities | | 80,267 | 147,278 |
| Payments for purchase of plant and equipment and capitalised software costs | | (344) | (89) |
| Proceeds from sale of plant and equipment | | 1 | 32 |
| **Net cash (outflow)/inflow from investing activities** | | **(2,720)** | **28,591** |
| **Cash flows from financing activities** | | | |
| Dividends paid | | (18,200) | (30,000) |
| **Net cash outflow from financing activities** | | **(18,200)** | **(30,000)** |
| **Net (decrease)/increase in cash and cash equivalents** | | **(62)** | **272** |
| Cash and cash equivalents at the beginning of the financial year | | 760 | 488 |
| **Cash and cash equivalents at the end of the financial year** | | **698** | **760** |

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

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## 1. Reporting Entity

Vero Liability Insurance 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 Vero Insurance New Zealand Limited, with the ultimate parent being Suncorp Group Limited, an Australian public company listed on the Australian Stock Exchange.

The Company is in the business of underwriting liability insurance and the investment and administration of insurance funds.

## 2. Basis of Preparation

### *(a) Statement of Compliance*

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards as appropriate to profit oriented entities. The financial statements have been prepared in accordance with the requirements of the Companies Act 1993, 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 and reinsurance recoveries as set out below.

### *(c) Functional Currency*

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

### *(d) Rounding*

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

### *(e) Reporting period*

The reporting period is from 1 July 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 Company makes estimates and judgements that affect the reported amounts of assets and liabilities within the next financial period. Estimates are continually evaluated and based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

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

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

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

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

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

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

Details regarding actuarial estimates and judgements are detailed in note 5.

*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.

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

### *(a) 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.

### *(b) 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 Statement 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 Statement of Financial Position unless there exists a right of offset.

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

### *(d) Payables*

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

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### *(e) Financial Assets*

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

All purchases and sales of financial assets that require delivery of the asset within the time frame established by regulation or market convention are recognised at trade date, being the date on which the Company commits to buy or sell the asset. Financial assets are derecognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and the Company has transferred substantially all risk and rewards of ownership.

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

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

At each reporting date measurement depends upon the chosen classification.

*(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 Company 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 Company has designated financial assets held in portfolios that match the average duration of a corresponding insurance liability as assets backing general insurance liabilities. Financial assets which back general insurance liabilities are initially recognised at fair value and subsequently measured at fair value through profit or loss. These financial assets have been designated at fair value through profit or loss as they are managed and their performance evaluated on a fair value basis for internal and external reporting in accordance with the investment strategy. These financial assets include investment securities 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 investment securities and loans and receivables. Investment securities 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.

### *(f) 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.

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*(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.

### *(g) 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 Company and the cost of the item can be measured reliably.

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

- purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- 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 Company in future years. Where these costs represent separate components, they are accounted for as separate assets and are separately depreciated over their useful lives. Costs that do not meet the criteria for subsequent capitalisation are expensed as incurred.

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

The following depreciation rates have been used:

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

*(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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### *(h) Intangibles*

*(i) Initial recognition and measurement*

Intangible assets 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.

Intangible assets comprise of computer software.

*(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 Company. 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 is assessed as 3-5 years and it is amortised on a straight line basis over this period.

### *(i) 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(o).

*(iii) Deferred reinsurance premiums*

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

### *(j) Impairment*

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

An impairment loss is recognised whenever the asset's carrying amount exceeds its recoverable amount. Impairment losses are recognised in the profit and loss unless the asset has previously been revalued. In that case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the profit and loss. 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.

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*(i) Calculation of recoverable amount*

The recoverable amount of the Company's 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.

### *(k) Financial Liabilities*

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

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

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

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

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

*(ii) 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.

### *(l) Employee Benefits*

*(i) Wages, salaries and annual leave*

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

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

*Short term bonus plans*
A liability is recognised for short term bonus plans when the benefit calculations are formally documented and determined before signing the financial reports 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.

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*(ii) Post-employment benefits (superannuation)*

The Company contributes to defined contribution superannuation schemes. 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.

*(iii) Other long term employee benefits*

*Long service leave*
A liability for long service leave is recognised in the Statement of Financial Position. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using Government bond rates with terms to maturity that match, as closely as possible, the estimated future cash outflows. Related on-costs such as payroll tax are also included in the liability.

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

*(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 Company recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

*(v) Share-based payments*

The Company 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.

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### *(m) Provisions*

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

- the Company 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.

### *(n) 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 Company. 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.

### *(o) 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.

### *(p) Contributed Capital*

*(i) Ordinary shares*

Ordinary shares are recognised as equity.

*(ii) Transaction Costs*

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

*(iii) Dividends*

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

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

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### *(q) Contingent Liabilities and Contingent Assets*

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

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

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

### *(r) 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 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 Statement 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. 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.

### *(s) 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.

### *(t) Outward Reinsurance*

Premium ceded to reinsurers is recognised by the Company 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 Statement of Financial Position at reporting date.

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### *(u) Income Tax*

Income tax payable on profits, based on the 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 bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

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

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

### *(v) 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 Statement of Financial Position.

### *(w) 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 report 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 shall be 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 Company 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 Company's 30 June 2016 financial statements. The potential effects on adoption of the amendments are yet to be determined.

- *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 Company's 30 June 2014 financial statements. Adoption of this standard is not expected to have a material impact on the Company's financial statements.

## 5. Actuarial Assumptions and Methods

### *(a) Assumptions*

The following assumptions have been made in determining the net outstanding claims liabilities:

| | 2013 | 2012 |
|---|---|---|
| Weighted average term to settlement | 1.85 years | 2.02 years |
| Inflation rate | 3.0% | 3.0% |
| Superimposed inflation rate | 6.0% | 6.0% |
| Discount rate | 3.2% | 2.7% |
| Claim handling expense ratio | 10.0% | 10.0% |
| Risk margin | 30.9% | 34.4% |

### *(b) Processes used to determine assumptions*

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

*(i) Weighted average term to settlement*

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

*(ii) 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.

*(iii) 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.

*(iv) Claim handling expenses*

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.

*(v) 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 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% probability of sufficiency (2012: 90%).

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### (c) *Impact of changes in assumptions*

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

| Variable | Movements in variable | 2013<br>$000 | 2012<br>$000 |
|---|---|---|---|
| Weighted average term to settlement – years | +0.5 | 1,697 | 1,673 |
| | -0.5 | (1,651) | (1,623) |
| Inflation rates | +1% | 978 | 976 |
| | -1% | (971) | (968) |
| Discount rate | +1% | (1,016) | (910) |
| | -1% | 1,043 | 950 |
| Claims handling expense ratio | +1% | 555 | 502 |
| | -1% | (555) | (502) |
| Risk Margin % | +1% | 466 | 411 |
| | -1% | (466) | (411) |

### (d) *Liability adequacy test*

The liability adequacy test which was performed as at 30 June 2013 identified a surplus (2012: surplus).

### (e) *Actuarial Information*

Karl Marshall of The Quantium Group Pty Limited, is the Appointed Actuary for the Company. 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.

The appointed actuary is 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 compilation of the reserves as at 30 June 2013 have been outlined above.

The appointed actuary has no financial interest in the Company.

## 6. Risk Management

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

### (a) *Company 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 immediate parent has a Chief Risk Officer who has the management responsibility for risk, compliance and related issues of the Company. This person indirectly reports to the Group Chief Risk Officer employed by the ultimate parent company.

### (b) *General risk management framework*

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

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

The Company 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 objective of the framework is to ensure sufficient liquidity is maintained at all times to meet the Company's obligations, including its settlement of insurance liabilities to optimise investment.

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

The Company has in place a structured approach to risk profiling. 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 Company 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 Company 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 Company's insurance activities primarily involve the underwriting of risks and claim management. The Company employs 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 process, together with claims management, reserving and investment. The objective of these disciplines is to enhance the financial performance of the Company'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.

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

- The maintenance and use of management information systems that provide up-to-date and reliable data on the risks to which the business is exposed;
- The use of actuarial models based on historical data to 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 use of reinsurance to limit the Company's exposure to large single claims and 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 Company invests is driven by the nature and term of the insurance liabilities. The management of assets and liabilities is closely monitored to attempt to match the expected pattern of claim payments with the maturity dates of assets.

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.

*(ii) Terms and conditions of insurance business*

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

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*(iii) Concentration of insurance risk*

The Company'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*** |
|---|---|---|
| Involvement of multiple policyholders in the one event | Response by multiple policies to the one event, for example a construction liability property owners liability policy | One retention per occurrence with reinsurance stacking vertically |

*(iv) Reinsurance programme principles*

The Company purchases external liability excess of loss treaty reinsurance covering all policies that are issued for limits above $1,000,000 and fall within the terms of the treaty provisions. For policies that are issued for limits above $1,000,000 and are not covered under the excess of loss treaty, the Company purchases facultative reinsurance on a per policy basis.

The Company's reinsurance is purchased from reinsurers with Standard & Poors' Claims Paying Rating Abilities between A- and AAA.

The Company appoints an independent reinsurance broker to arrange the first $19,000,000 of its excess of loss reinsurance directly for its own account with several global reinsurers with major market participation and significant operations within Australasia.

For amounts over $20,000,000 the Company utilises its parental reinsurance programme and also individually places (facultative) reinsurance.

***(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 Company'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 Company participates in reinsurance arrangements to preserve capital and manage earnings volatility from large individual 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 does not expect any counterparties to fail to meet their obligations given their credit ratings and therefore does not require collateral or other security to support credit risk exposures. Over-concentration of credit risk is avoided by placement of cover with a number of reinsurers as well as setting participation limits and minimum security requirements on the 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.

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

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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.

| | Credit Rating ($000) | | | | | | |
|---|---|---|---|---|---|---|---|
| **2013** | **AAA** | **AA** | **A** | **BBB** | **Non investment grade** | **Not Rated** | **Total** |
| Cash and cash equivalents | - | 698 | - | - | - | - | 698 |
| Financial assets at fair value through profit or loss | 143 | 88,978 | 24,866 | 410 | - | - | 114,397 |
| Reinsurance and other recoveries | - | 3,507 | 6,196 | - | - | 3,868 | 13,571 |
| Premiums due | | | | | | 21,731 | 21,731 |
| Amounts due from related parties | - | - | 2 | - | - | - | 2 |
| Amounts due from reinsurers | - | 75 | 109 | - | - | - | 184 |
| | **143** | **93,258** | **31,173** | **410** | **-** | **25,599** | **150,583** |

| | Credit Rating ($000) | | | | | | |
|---|---|---|---|---|---|---|---|
| **2012** | **AAA** | **AA** | **A** | **BBB** | **Non investment grade** | **Not Rated** | **Total** |
| Cash and cash equivalents | - | 760 | - | - | - | - | 760 |
| Financial assets at fair value through profit or loss | 227 | 79,772 | 30,019 | 2,060 | - | - | 112,078 |
| Reinsurance and other recoveries | - | 6,717 | 2,024 | - | - | 4,911 | 13,652 |
| Premiums due | - | - | - | - | - | 21,947 | 21,947 |
| Amounts due from reinsurers | - | 20 | 25 | - | - | - | 45 |
| | **227** | **87,269** | **32,068** | **2,060** | **-** | **26,858** | **148,482** |

The majority of the not rated balance relates to outstanding premiums on policies. Late payment of these amounts allows the Company to cancel the related insurance contract eliminating both the credit risk and insurance risk for the unpaid amounts.

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

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

| | | 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** |
| Premiums due | 20,767 | 924 | 29 | 11 | - | - | 21,731 |
| Investment revenue receivable | 1,206 | - | - | - | - | - | 1,206 |
| Amounts due from related parties | 2 | - | - | - | - | - | 2 |
| Amounts due from reinsurers | 184 | - | - | - | - | - | 184 |
| | **22,159** | **924** | **29** | **11** | **-** | **-** | **23,123** |

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| | | 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 |
| Premiums due | 20,731 | 1,070 | 146 | - | - | - | 21,947 |
| Investment revenue receivable | 1,253 | - | - | - | - | - | 1,253 |
| Amounts due from reinsurers | 45 | - | - | - | - | - | 45 |
| | **22,029** | **1,070** | **146** | **-** | **-** | **-** | **23,245** |

### *(e) Market Risk*

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

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

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

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

#### *(i) Interest rate risk*

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

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

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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.

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | Exposure<br>$000 | Movement in variable<br>% | Profit / (Loss) after tax<br>$000 | Equity<br>$000 | Exposure<br>$000 | Movement in variable<br>% | Profit / (Loss) after tax<br>$000 | Equity<br>$000 |
| Interest bearing investment securities | 114,397 | +1 | (1,241) | (1,241) | 112,078 | +1 | (1,660) | (1,660) |
| | | -1 | 1,292 | 1,292 | | -1 | 1,736 | 1,736 |
| | **114,397** | | | | **112,078** | | | |

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

Interest-bearing investment securities are recognised on the Statement of Financial Position at fair value. Movements in market interest rates impact the price of the securities (and hence their fair value measurement) and so would impact either profit or equity.

*(ii) Foreign exchange risk*

The Company has no material foreign exchange risk.

*(iii) Other market risks*

Other market risks are the risk of a loss of current and future earnings from adverse movements in the changes in market prices due to factors other than interest rates and foreign exchange. Those factors may be specific to the individual financial instrument or its issuer, or factors that affect all similar financial instruments traded in the market. The main "other market risks" that the Company's investment portfolios are exposed to is credit spread risk. The Company is not exposed to 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's investment portfolios, establishing maximum exposure limits for counterparties. Investments are also subject to minimum credit rating criteria. The table provided under the heading of 'Credit risk' provides information in relation to aggregate credit exposure of the Company's investment portfolio by credit rating at balance date.

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

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Exposure<br>$000 | Movement in variable<br>% | Profit / (Loss) after tax<br>$000 | Exposure<br>$000 | Movement in variable<br>% | Profit / (Loss) after tax<br>$000 |
| Discounted securities and corporate bonds | 89,293 | +1 | (899) | 80,448 | +1 | (1,133) |
| | | -1 | 936 | | -1 | 1,184 |
| Government and local government securities | 25,104 | +1 | (342) | 31,630 | +1 | (526) |
| | | -1 | 356 | | -1 | 552 |
| | **114,397** | | | **112,078** | | |

*(iv) Equity/commodity price risks*

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 Company'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 Company's reinsurance arrangements, prompt access to cash is available in the event of major gross claim payments.

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

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 cash outflows.

| **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 | 5,574 | 5,574 | - | - | 5,574 |
| Trade creditors and accrued expenses | 2,232 | 2,232 | - | - | 2,232 |
| Amounts due to related parties | 1,596 | 1,596 | - | - | 1,596 |
| Outstanding claims liabilities | 74,575 | 32,289 | 38,526 | 3,760 | 74,575 |
| Employee benefits payable | 1,794 | 1,794 | - | - | 1,794 |
| | **85,771** | **43,485** | **38,526** | **3,760** | **85,771** |

| **2012** | **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 | 5,728 | 5,728 | - | - | 5,728 |
| Trade creditors and accrued expenses | 2,442 | 2,442 | - | - | 2,442 |
| Amounts due to related parties | 1,608 | 1,608 | - | - | 1,608 |
| Outstanding claims liabilities | 68,863 | 27,264 | 37,334 | 4,265 | 68,863 |
| Employee benefits payable | 1,730 | 1,730 | - | - | 1,730 |
| | **80,371** | **38,772** | **37,334** | **4,265** | **80,371** |

### *(g) Capital management*

The Company's capital management policies and objectives together with details of the amount of equity retained for the purpose of financial soundness is described in Note 31 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** | **Designated at fair value** | **Loans and receivables** | **Other financial liabilities** | **Carrying amount** | **Fair value** |
|---|---|---|---|---|---|
| | **$000** | **$000** | **$000** | **$000** | **$000** |
| Cash and cash equivalents | - | 698 | - | 698 | 698 |
| Trade receivables | - | 21,917 | - | 21,917 | 21,917 |
| Other current assets | - | 1,206 | - | 1,206 | 1,206 |
| Financial assets | 114,397 | - | - | 114,397 | 114,397 |
| | **114,397** | **23,821** | **-** | **138,218** | **138,218** |
| Payables | **-** | **-** | **(11,196)** | **(11,196)** | **(11,196)** |

| 2012 | Designated at fair value | Loans and receivables | Other financial liabilities | Carrying amount | Fair value |
|---|---|---|---|---|---|
| | $000 | $000 | $000 | $000 | $000 |
| Cash and cash equivalents | - | 760 | - | 760 | 760 |
| Trade receivables | - | 21,992 | - | 21,992 | 21,992 |
| Other current assets | - | 1,253 | - | 1,253 | 1,253 |
| Financial assets | 112,078 | - | - | 112,078 | 112,078 |
| | **112,078** | **24,005** | **-** | **136,083** | **136,083** |
| Payables | **-** | **-** | **(11,508)** | **(11,508)** | **(11,508)** |

## 7. Revenue

| | 30 June 2013 | 30 June 2012 |
|---|---|---|
| | $000 | $000 |
| Gross earned premium | 80,001 | 73,001 |
| Reinsurance and other recoveries revenue | 4,290 | 2,224 |
| Reinsurance commission revenue | 1,839 | 1,487 |
| **Total insurance revenue** | **86,130** | **76,712** |
| Investment revenue: | | |
| -Interest income | 5,961 | 6,090 |
| -Net gain on financial assets at fair value through profit or loss | (79) | 66 |
| Investment management expenses | (325) | (172) |
| **Total net investment revenue** | **5,557** | **5,984** |
| **Total revenue** | **91,687** | **82,696** |

## 8. Net Premium Revenue

| | 30 June 2013 $000 | 30 June 2012 $000 |
|---|---|---|
| Gross written premium | 82,220 | 79,556 |
| Movement in unearned premium | (2,219) | (6,555) |
| **Gross earned premium revenue** | **80,001** | **73,001** |
| Outward reinsurance premium expense | (17,075) | (14,789) |
| **Total net premium revenue** | **62,926** | **58,212** |

## 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.

| | 30 June 2013 | | | 30 June 2012 | | |
|---|---|---|---|---|---|---|
| | Prior | Current | Total | Prior | Current | Total |
| | $000 | $000 | $000 | $000 | $000 | $000 |
| **Gross incurred claims** | | | | | | |
| Undiscounted | (1,599) | 31,732 | 30,133 | (5,594) | 29,953 | 24,359 |
| Discount | 946 | (1,607) | (661) | 2,464 | (1,397) | 1,067 |
| | (653) | 30,125 | 29,472 | (3,130) | 28,556 | 25,426 |
| **Reinsurance and other recoveries** | | | | | | |
| Undiscounted | 700 | (5,077) | (4,377) | 2,253 | (4,208) | (1,955) |
| Discount | (178) | 265 | 87 | (467) | 198 | (269) |
| | 522 | (4,812) | (4,290) | 1,786 | (4,010) | (2,224) |
| ***Net incurred claims*** | **(131)** | **25,313** | **25,182** | **(1,344)** | **24,546** | **23,202** |

## 10. Net Profit Before Income Tax

| | 30 June 2013<br>$000 | 30 June 2012<br>$000 |
|---|---|---|
| Profit before income tax is arrived at after charging/(crediting) the following specific items: | | |
| Depreciation on plant and equipment (Note 17) | 84 | 80 |
| Donations | 21 | 6 |
| Employee benefits | 7,236 | 6,295 |
| Operating lease rental expenses (Note 26) | 522 | 545 |
| Loss/(profit) on disposal of plant and equipment | 1 | (3) |
| Software amortisation cost (Note 18) | 325 | 553 |

## 11. Income Tax

| | 30 June 2013<br>$000 | 30 June 2012<br>$000 |
|---|---|---|
| ***(a) Income tax expense*** | | |
| Current tax expense | 5,505 | 5,040 |
| Deferred tax (credits)/expense | (176) | 122 |
| (Over)/under provided in prior years - current | (329) | 122 |
| - deferred tax | 329 | (94) |
| **Income tax expense** | **5,329** | **5,190** |
| ***(b) Numerical reconciliation of income tax expense to prima facie tax payable*** | | |
| Net profit before tax | 18,846 | 18,202 |
| Prima facie income tax @ 28% (2012: 28%) | 5,277 | 5,097 |
| Tax effect of amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Non-deductible expenditure | 52 | 58 |
| Imputation credits | - | (17) |
| Under provision in prior years | - | 28 |
| Unclaimable tax credits due to Vero Tax Group loss position | - | 24 |
| **Income tax expense** | **5,329** | **5,190** |
| ***(c) Imputation credit balances (Suncorp Group Holdings (NZ) Limited 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 | 5,602 | 5,541 |
| Other debits | (97) | (1,789) |
| **Balance at the end of the year** | **84,776** | **79,970** |

The Company together with its parent Vero Insurance New Zealand Limited had formed a consolidated tax group for income tax purposes ("the Vero Tax Group").

The Company and its parent became members of the Suncorp Group Holdings (NZ) Limited (SGHNZL) consolidated imputation group ("ICA 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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| | 30 June 2013 | 30 June 2012 |
|---|---|---|
| | $000 | $000 |
| *(d) Current tax liabilities* | | |
| Current tax liability at the beginning of the year | 5,015 | 5,974 |
| Current year tax on operating profit | 5,505 | 5,040 |
| Adjustments for prior years | (329) | 122 |
| Income tax paid | (24) | (25) |
| Transfers between members of Vero Tax Group | (4,686) | (6,096) |
| **Current tax liability at the end of the year** | **5,481** | **5,015** |

### *(e) 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:

| | 30 June 2013 | 30 June 2012 |
|---|---|---|
| | $000 | $000 |
| **Deferred tax assets are attributable to** | | |
| Depreciable assets | 50 | 6 |
| Employee benefits | 40 | 62 |
| Trade creditors and other payables | 439 | 407 |
| **Deferred tax asset** | **529** | **475** |
| **Deferred tax liabilities are attributable to** | | |
| Deferred acquisition costs | (2,515) | (2,309) |
| **Deferred tax liability** | **(2,515)** | **(2,309)** |
| **Net deferred liability** | **(1,986)** | **(1,834)** |
| **Movements** | | |
| **Deferred tax assets** | | |
| Balance at the beginning of the year | 475 | 532 |
| Credited/(charged) to profit or loss | 54 | (57) |
| **Balance at the end of the year** | **529** | **475** |
| **Deferred tax liability** | | |
| Balance at the beginning of the year | (2,309) | (2,338) |
| (Charged)/credited to profit or loss | (206) | 29 |
| **Balance at the end of the year** | **(2,515)** | **(2,309)** |

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## 12. Receivables

| | 30 June 2013 $000 | 30 June 2012 $000 |
|---|---|---|
| *Trade receivables* | | |
| Premium due from policyholders and intermediaries | 21,731 | 21,947 |
| Amounts due from related parties (Note 27) | 2 | - |
| Amounts due from reinsurers | 184 | 45 |
| **Total trade receivables** | **21,917** | **21,992** |
| *Other current assets* | | |
| Accrued income | 1,206 | 1,253 |
| **Total other current assets** | **1,206** | **1,253** |
| **Total receivables** | **23,123** | **23,245** |
| Current | 23,123 | 23,245 |
| Non-current | - | - |
| **Total** | **23,123** | **23,245** |

## 13. Reinsurance and Other Recoveries

| | 30 June 2013 $000 | 30 June 2012 $000 |
|---|---|---|
| Expected undiscounted outstanding reinsurance and other recoveries | 14,279 | 14,273 |
| Discount | (708) | (621) |
| **Reinsurance and other recoveries receivable** | **13,571** | **13,652** |
| Current | 5,854 | 5,906 |
| Non-current | 7,717 | 7,746 |
| **Total** | **13,571** | **13,652** |

## 14. Deferred Reinsurance Premiums

| | 30 June 2013 $000 | 30 June 2012 $000 |
|---|---|---|
| Deferred reinsurance premiums at the beginning of the year | 10,303 | 8,519 |
| Reinsurance premium expense incurred | 17,908 | 16,573 |
| Reinsurance premium expensed during the year | (17,075) | (14,789) |
| **Deferred reinsurance premium at the end of the year** | **11,136** | **10,303** |

## 15. Deferred Acquisition Costs

| | 30 June 2013 $000 | 30 June 2012 $000 |
|---|---|---|
| Deferred acquisition costs at the beginning of the year | 8,248 | 8,160 |
| Acquisition costs deferred | 19,559 | 17,919 |
| Amortisation charged to the profit and loss | (20,664) | (19,318) |
| Reinsurance commission recognised in the profit and loss | 1,839 | 1,487 |
| **Deferred acquisition costs at the end of the year** | **8,982** | **8,248** |

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## 16. Financial Assets

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

| | 30 June 2013<br>$000 | 30 June 2012<br>$000 |
|---|---|---|
| Discounted securities | 42,021 | 27,499 |
| Other fixed interest – corporate bonds | 47,272 | 52,949 |
| Government and local government securities | 25,104 | 31,630 |
| **Total financial assets at fair value through profit or loss** | **114,397** | **112,078** |

### (b) Fair values

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

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

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

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

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

| | Carrying | Fair value analysis | | | Total fair |
|---|---|---|---|---|---|
| | value | Level 1 | Level 2 | Level 3 | value |
| **2013** | **$000** | **$000** | **$000** | **$000** | **$000** |
| Financial assets | | | | | |
| Investment securities | 114,397 | 32,893 | 81,504 | - | 114,397 |
| **Total** | **114,397** | **32,893** | **81,504** | **-** | **114,397** |

| | Carrying | Fair value analysis | | | Total fair |
|---|---|---|---|---|---|
| | value | Level 1 | Level 2 | Level 3 | value |
| **2012** | **$000** | **$000** | **$000** | **$000** | **$000** |
| Financial assets | | | | | |
| Investment securities | 112,078 | 35,273 | 76,805 | - | 112,078 |
| **Total** | **112,078** | **35,273** | **76,805** | **-** | **112,078** |

## 17. Property, Plant and Equipment

| | 30 June 2013<br>$000 | 30 June 2012<br>$000 |
|---|---|---|
| **Total Property, Plant and Equipment** | | |
| At 1 July | | |
| Cost | 1,215 | 1,198 |
| Accumulated depreciation | (919) | (882) |
| **Carrying amount at the beginning of the year** | **296** | **316** |
| Additions | 344 | 89 |
| Disposals | (177) | (72) |
| Add back accumulated depreciation on assets sold | 175 | 43 |
| Depreciation expense (Note 10) | (84) | (80) |
| **Carrying amount at the end of the year** | **554** | **296** |
| At 30 June | | |
| Cost | 1,382 | 1,215 |
| Accumulated depreciation | (828) | (919) |
| **Carrying amount at the end of the year** | **554** | **296** |

| | 30 June 2013<br>$000 | 30 June 2012<br>$000 |
|---|---|---|
| **Computer hardware** | | |
| At 1 July | | |
| Cost | 174 | 175 |
| Accumulated depreciation | (159) | (148) |
| **Carrying amount at the beginning of the year** | **15** | **27** |
| Additions | 20 | - |
| Disposals | (58) | (1) |
| Add back accumulated depreciation on assets sold | 56 | 1 |
| Depreciation expense | (14) | (12) |
| **Carrying amount at the end of the year** | **19** | **15** |
| At 30 June | | |
| Cost | 136 | 174 |
| Accumulated depreciation | (117) | (159) |
| **Carrying amount at the end of the year** | **19** | **15** |

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| | 30 June 2013<br>$000 | 30 June 2012<br>$000 |
|---|---|---|
| **Furniture, fittings and office equipment** | | |
| At 1 July | | |
| Cost | 314 | 311 |
| Accumulated depreciation | (293) | (279) |
| **Carrying amount at the beginning of the year** | **21** | **32** |
| Additions | 38 | 3 |
| Disposals | (119) | - |
| Add back accumulated depreciation on assets sold | 119 | - |
| Depreciation expense | (10) | (14) |
| **Carrying amount at the end of the year** | **49** | **21** |
| At 30 June | | |
| Cost | 233 | 314 |
| Accumulated depreciation | (184) | (293) |
| **Carrying amount at the end of the year** | **49** | **21** |

| | 30 June 2013<br>$000 | 30 June 2012<br>$000 |
|---|---|---|
| **Leasehold alterations** | | |
| At 1 July | | |
| Cost | 341 | 341 |
| Accumulated depreciation | (341) | (341) |
| **Carrying amount at the beginning of the year** | **-** | **-** |
| Additions | 236 | - |
| Disposals | - | - |
| Add back accumulated depreciation on assets sold | - | - |
| Depreciation expense | (4) | - |
| **Carrying amount at the end of the year** | **232** | **-** |
| At 30 June | | |
| Cost | 577 | 341 |
| Accumulated depreciation | (345) | (341) |
| **Carrying amount at the end of the year** | **232** | **-** |

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| | 30 June 2013 $000 | 30 June 2012 $000 |
|---|---|---|
| **Motor vehicles** | | |
| At 1 July | | |
| Cost | 386 | 371 |
| Accumulated depreciation | (126) | (114) |
| **Carrying amount at the beginning of the year** | **260** | **257** |
| Additions | 50 | 86 |
| Disposals | - | (71) |
| Add back accumulated depreciation on assets sold | - | 42 |
| Depreciation expense | (56) | (54) |
| **Carrying amount at the end of the year** | **254** | **260** |
| At 30 June | | |
| Cost | 436 | 386 |
| Accumulated depreciation | (182) | (126) |
| **Carrying amount at the end of the year** | **254** | **260** |

## 18. Intangible Assets

Intangible assets consist of internally developed computer software. Computer Software is deemed to have a finite life and has been amortised at a rate of 20%-33% per annum on a straight line basis.

| | 30 June 2013 $000 | 30 June 2012 $000 |
|---|---|---|
| Computer software | 14 | 339 |
| **Total intangibles** | **14** | **339** |

***Software capitalisation costs***

| | 30 June 2013 $000 | 30 June 2012 $000 |
|---|---|---|
| At 1 July | | |
| Cost | 1,658 | 1,658 |
| Accumulated amortisation and impairment | (1,319) | (766) |
| **Carrying amount at the beginning of the year** | **339** | **892** |
| Additions – internally developed | - | - |
| Amortisation expense (Note 10) | (325) | (553) |
| **Carrying amount at the end of the year** | **14** | **339** |
| At 30 June | | |
| Cost | 1,658 | 1,658 |
| Accumulated amortisation and impairment | (1,644) | (1,319) |
| **Carrying amount at the end of the year** | **14** | **339** |

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## 19. Payables

| | 30 June 2013<br>$000 | 30 June 2012<br>$000 |
|---|---|---|
| Trade creditors and accruals | 2,232 | 2,442 |
| Amounts due to reinsurers | 5,574 | 5,728 |
| Employee entitlements | 1,794 | 1,730 |
| Amounts due to related parties (Note 27) | 1,596 | 1,608 |
| **Total Payables** | **11,196** | **11,508** |
| Current | 11,196 | 11,508 |
| Non-current | - | - |
| **Total** | **11,196** | **11,508** |

## 20. Unearned Premium Liabilities

| | 30 June 2013<br>$000 | 30 June 2012<br>$000 |
|---|---|---|
| Unearned premium liabilities as at the beginning of the year | 44,595 | 38,040 |
| Deferral of premium on contracts written during the year | 82,220 | 79,556 |
| Earning of premiums deferred | (80,001) | (73,001) |
| **Unearned premium liabilities as at the end of the year** | **46,814** | **44,595** |

## 21. Outstanding Claims Liabilities

### *(a) Gross outstanding claims liabilities*

| | 30 June 2013<br>$000 | 30 June 2012<br>$000 |
|---|---|---|
| Central estimate of outstanding claims liabilities | 59,121 | 53,616 |
| Discount to present value | (3,167) | (2,627) |
| Claim handling expenses | 4,238 | 3,734 |
| Risk margin | 14,383 | 14,140 |
| **Gross outstanding claims liabilities** | **74,575** | **68,863** |
| Current | 32,289 | 27,264 |
| Non-current | 42,286 | 41,599 |
| **Total** | **74,575** | **68,863** |

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### *(b) Claims development tables*

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

| | Accident Year | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Ultimate claims cost estimate** | **Prior** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **Total** |
| | **$000** | **$000** | **$000** | **$000** | **$000** | **$000** | **$000** | **$000** |
| At end of accident year | 89,284 | 18,079 | 21,132 | 18,465 | 16,231 | 18,287 | 19,361 | 19,361 |
| One year later | 76,065 | 17,655 | 20,553 | 14,266 | 17,029 | 19,720 | - | 19,720 |
| Two years later | 59,130 | 18,099 | 18,443 | 14,662 | 16,683 | - | - | 16,683 |
| Three years later | 50,529 | 17,276 | 18,735 | 16,298 | - | - | - | 16,298 |
| Four years later | 48,949 | 17,639 | 19,140 | - | - | - | - | 19,140 |
| Five years later | 50,125 | 18,912 | - | - | - | - | - | 18,912 |
| Six years later | 49,085 | - | - | - | - | - | - | 49,085 |
| **Total current estimate of ultimate claims costs** | **49,148** | **18,912** | **19,140** | **16,298** | **16,683** | **19,720** | **19,361** | **159,262** |
| Cumulative payments | 47,478 | 17,063 | 16,533 | 11,357 | 10,627 | 8,643 | 2,719 | 114,420 |
| **Undiscounted central estimate** | **1,670** | **1,849** | **2,607** | **4,941** | **6,056** | **11,077** | **16,642** | **44,842** |
| Discount | (82) | (97) | (130) | (261) | (314) | (634) | (941) | (2,459) |
| **Discounted central estimate** | **1,588** | **1,752** | **2,477** | **4,680** | **5,742** | **10,443** | **15,701** | **42,383** |
| Claims handling expense | | | | | | | | 4,238 |
| Risk margin | | | | | | | | 14,383 |
| **Net outstanding claims liability** | | | | | | | | **61,004** |
| Reinsurance recoveries on outstanding claims liability and other recoveries | | | | | | | | 13,571 |
| **Gross outstanding claims liability** | | | | | | | | **74,575** |

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

| | **30 June 2013** | **30 June 2012** |
|---|---|---|
| | **$000** | **$000** |
| **Balance at the beginning of the year** | **55,211** | **50,351** |
| **Prior Years** | | |
| Payments | (16,670) | (15,109) |
| Movement in discounting | 1,493 | 1,150 |
| Margin release on prior years | (5,143) | (5,202) |
| Incurred claims due to changes in assumptions and experience | 4,943 | 1,948 |
| Change in discount rate | (379) | 760 |
| Movement in risk margins | (1,046) | - |
| **Current Year** | | |
| Ultimate incurred costs | 25,314 | 24,546 |
| Payments | (2,719) | (3,233) |
| **Balance at the end of the year** | **61,004** | **55,211** |
| **Outstanding reinsurance and other recoveries (Note 13)** | **13,571** | **13,652** |
| **Gross outstanding claims liabilities** | **74,575** | **68,863** |

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## 22. 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 | 15,000 | 15,000 | 15,000 | 15,000 |
| Shareholder contribution under employee share plans | - | 47 | - | 47 |
| **Total Share Capital** | **15,000** | **15,047** | **15,000** | **15,047** |

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 15,000,100 ordinary shares issued to Vero Insurance New Zealand Limited (2012:15,000,100). 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 shareholder contributions under employee share plans** | | | | |
| Balance at the beginning of the year | - | 47 | - | 47 |
| Contributions under Exempt Employee Share Plan | - | - | - | - |
| **Balance at the end of the year** | **-** | **47** | **-** | **47** |

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

| | 30 June 2013 $000 | 30 June 2012 $000 |
|---|---|---|
| Net profit after income tax | 13,517 | 13,012 |
| Movement in financial assets at fair value through profit or loss | 58 | 34 |
| Depreciation and amortisation | 409 | 633 |
| Profit on disposal of plant and equipment | 1 | (3) |
| *Changes in assets and liabilities* | | |
| Decrease/(increase) in receivables | 75 | (1,116) |
| Decrease in other current assets | 47 | 117 |
| Decrease in reinsurance and other recoveries | 81 | 1,198 |
| Increase in deferred reinsurance premiums | (833) | (1,784) |
| Increase in deferred acquisition costs | (734) | (88) |
| Decrease in payables | (312) | (19,608) |
| Increase/(decrease) in current tax liability | 466 | (959) |
| Increase in unearned premium liabilities | 2,219 | 6,555 |
| Increase in outstanding claims liabilities | 5,712 | 3,662 |
| Increase in net deferred tax liabilities | 152 | 28 |
| **Net cash inflow from operating activities** | **20,858** | **1,681** |

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## 24. Share Based Payments

Vero Liability Insurance Limited is a wholly owned subsidiary of Vero Insurance New Zealand Limited, with the ultimate parent being Suncorp Group Limited ("SGL"). Eligible employees of the Company 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 are as follows:

| 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 SGL 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 dividend 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 SGL's TSR performance results:
<table>
<tr><th>Company performance (TSR percentile ranking)</th><th>% of shares available for vesting and allocation</th></tr>
<tr><td>< 50th percentile</td><td>Nil</td></tr>
<tr><td>50th percentile</td><td>50%</td></tr>
<tr><td>> 50th but < 75th percentile</td><td>an additional 2% of the shares will vest for each 1% increase (on a straight line basis) in SGL's TSR ranking above the 50th percentile</td></tr>
<tr><td>75th 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 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. |

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. The Company accrued $28,575 (2012: $29,382) in relation to these EESP grants.

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 was Nil (2012: Nil).

## 25. Contingent Liabilities

The Company has no contingent liabilities at 30 June 2013 (2012: Nil).

## 26. Commitments for Expenditure

| | 30 June 2013<br>$000 | 30 June 2012<br>$000 |
|---|---|---|
| ***Lease commitments*** | | |
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: | | |
| Within one year | 1,015 | 675 |
| Later than one year but not later than 5 years | 1,613 | 1,648 |
| Later than 5 years | - | - |
| **Non cancellable operating leases** | **2,628** | **2,323** |

The Company leases commercial office premises and car parks in Auckland, New Zealand with varying lease terms of up to 12 years from the date of inception with periodic rent reviews.

## 27. Related Parties

### *(a) Controlling entities*

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

Some of the directors of the Company are also directors of Rasal Management Limited ("Rasal"). Rasal has a management agreement with the Company to provide management services.

### *(b) Transactions and balances*

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

| Relationship | Nature of Transaction | 30 June 2013 $000 | 30 June 2012 $000 |
|---|---|---|---|
| Parent | Accounting and administration services | (2,616) | (2,044) |
| | Premiums received | 238 | - |
| | Dividend Paid | (18,200) | (30,000) |
| | Group tax loss offsets | (4,686) | (6,126) |
| Subsidiary of Ultimate Parent | Investment management fees | (69) | (89) |
| | Life and disability premiums | (13) | (15) |
| | Premiums Received | 16 | 31 |
| | Administration Expenses | (2) | - |
| Other | Management services and profit sharing | (2,013) | (1,888) |

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

| **Amounts due from related parties:** | **30 June 2013 $000** | **30 June 2012 $000** |
|---|---|---|
| Subsidiary of Ultimate Parent | 2 | - |
| **Total amounts due from related parties** | **2** | **-** |

| **Amounts due to related parties:** | **30 June 2013 $000** | **30 June 2012 $000** |
|---|---|---|
| Parent | 490 | 602 |
| Subsidiary of Ultimate Parent | 6 | 9 |
| Other | 1,100 | 997 |
| **Total amounts due to related parties (Note 19)** | **1,596** | **1,608** |

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

### *(c) Key management personnel*

Key Management Personnel are those persons who have authority and responsibility for planning, directing and controlling the activities of the Company.

| | **30 June 2013 $000** | **30 June 2012 $000** |
|---|---|---|
| Short-term employee benefits | 1,829 | 1,714 |
| **Total Compensation** | **1,829** | **1,714** |

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## 28. Auditor's Remuneration

| | 30 June 2013<br>$000 | 30 June 2012<br>$000 |
|---|---|---|
| During the year the auditor of the Company was paid for the following services: | | |
| **Assurance services** | | |
| Audit fees – KPMG | 134 | 97 |
| Other fees - KPMG | 78 | 14 |
| **Total auditor's remuneration** | **212** | **111** |

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

## 29. Segment Reporting

The Company operates exclusively in the intermediated (through a broker) sector of the liability insurance market. The Company operates predominately throughout New Zealand.

## 30. Credit Rating

The Company has received an A+ credit rating from Standard & Poors (2012: A+). The credit rating is an indication of the Company's ability to pay current and future claims.

## 31. 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 all general insurance entities carrying on insurance business in New Zealand are required to be licensed by the Reserve Bank of New Zealand. The Company was granted a full licence in the current financial year and is now managing its capital in accordance with the requirements of the Act.

From 28 February 2012 the Company was 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 Company as appropriate to ensure their financial soundness, and the basis for determining the amount are set out below.

From 31 December 2012 the Company was required to maintain a solvency margin as determined under the solvency standard at or above the minimum solvency capital level.

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

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

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

### *(b) Capital composition*

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

Prior to 31 December 2012 the 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 Company is detailed below:

| | **30 June 2013** | **30 June 2012** |
|---|---|---|
| | **$000** | **$000** |
| Actual solvency capital | 31,880 | 24,292 |
| Minimum solvency capital | 12,749 | 12,652 |
| **Solvency Margin** | **19,131** | **11,640** |
| **Solvency Ratio** | **2.50** | **1.92** |

## 32. Events Occurring After Reporting Date

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.

KPMG

QUANTIUM

23 July 2013

The Board of Directors
Vero Liability Insurance Limited
Level 32 ANZ Centre
23-29 Albert Street
Private Bag 92055
Auckland
New Zealand

Dear Sirs

## Appointed Actuary Report required under Section 78 of the Act

Section 78 of the Act specifies those matters that must be addressed, namely:

(a) I am the Appointed Actuary of Vero Liability Insurance Limited (**VLIL**); and

(b) I have reviewed the actuarial information contained in, or used in the preparation of the 30 June 2013 financial statements of VLIL. The review has been carried out in accordance with the applicable solvency standard. For the avoidance of doubt, actuarial information means:

- Information relating to VLIL's calculations of premiums, claims, reserves, insurance rates, and technical provisions; and
- Information relating to assessments of the probability of uncertain future events occurring and the financial implications for the insurer if those events do occur; and
- Information specified in an applicable solvency standard as being actuarial information for the purposes of this section; and

(c) The scope and limitations of the review will be detailed in Section 1 of the Financial Condition Report (**FCR**) as at 30 June 2013; and

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

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

(f) In my opinion and from actuarial perspective:

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

(g) No condition has been imposed under Section 21(2)(b) as at 30 June 2013; and

(h) No condition has been imposed under Section 21 (2)(c) as at 30 June 2013.

Yours sincerely

Karl Marshall

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