Vero Liability Insurance Limited

Annual Financial Report

For the Year Ended

30 June 2014

Contents

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

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 2014.

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):

G C Dransfield
E S Edgar
D M Flacks (appointed 16 December 2013)
G T Ricketts
A R Tulloch
D J Turkington (resigned 16 December 2013)
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 2014 was $13,445,000 compared with $13,517,000 for the previous year ended 30 June 2013.

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 2014 that has significantly affected, or may significantly affect:
(a) the Company's operations in future financial years;
(b) the results of those operations in future financial years; or
(c) the Company's state of affairs in future financial years.

Information on directors in office at the date of this report

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 and Winter Games New Zealand.

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, Chancellor of the University of Otago and Chairman of the Central Lakes Trust.

Sir Eion is also Honorary President (for Life) of the New Zealand Olympic Committee, a former National Business Review New Zealander of the Year and was inducted into the New Zealand Business Hall of Fame in 2004.

David M Flacks
BA, MA, St John's College, University of Cambridge
Non-executive Director

Director since December 2013. Mr Flacks is an experienced corporate and commercial lawyer who is a partner of Bell Gully, Solicitors. He has significant commercial, governance and strategic experience gained as a leading corporate lawyer and member of one of the executive teams of one of New Zealand's largest listed companies.

He is chair of the NZ Markets Disciplinary Tribunal and a member of the Takeovers Panel. He is also a director of Vero Insurance New Zealand Limited, the immediate parent company of Vero Liability Insurance Limited.

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

Director since 2012. Mr Ricketts is a commercial lawyer, having been a partner at Russell McVeagh, Solicitors for over 25 years. He has 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.

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.

Benjamin N Waymouth
BA
Executive Director and Deputy Managing Director

Deputy Managing Director since 2001. Mr Waymouth has over 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.

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 1 AUG 2014

Director

Date 1 AUG 2014

Director

Date 1 AUG 2014

VERO LIABILITY INSURANCE LIMITED
CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2014

Introduction

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

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

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

Board of Directors

At the date of this Statement, the Board comprises three independent non-executive Directors (Geoffrey Ricketts, Sir Eion Edgar and David Flacks), one non-executive Director who is not independent (Gary Dransfield) and, two executive Directors being Managing Director (Adrian Tulloch) and Executive Director (Benjamin Waymouth), neither of whom are independent. Geoffrey Ricketts is the Chairman of the Board. Brief details of the Directors' qualifications and experience are set out in the Directors' Report.

As the Company is a wholly-owned subsidiary, the shareholder periodically reviews the tenure, effectiveness and composition of the Board. The Board considers it important to maintain an appropriate mix between long-serving Directors with established knowledge of the Company's business and corporate history, and new Directors who bring fresh perspectives to the Board. There is a Board-approved process for nominating and appointing Directors.

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

Each Director has met the requirements and criteria set out in the Board-approved Fit and Proper Policy and must complete an annual fit and proper declaration which the Board is required to approve.

Duties and Responsibilities of the Board

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

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

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

Scheduled Board meetings are held on a quarterly basis. Otherwise, Board meetings are held as often as are deemed necessary by Directors to fulfil their duties and responsibilities. The Board approves an annual programme of work and this is used as a guide to the preparation of each scheduled Board meeting's agenda.

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

Governance

As the Company is part of the Suncorp Group, it complies with Suncorp Group's policies and requirements, except where these are inconsistent with New Zealand requirements. The Board of the Company has formally adopted a number of Suncorp Group's policies (amended to reflect New Zealand requirements where appropriate). These policies include Conflicts of Interest, Business Continuity, Whistleblower, Product Approval, Sanctions, Securities Trading, Equal Employment Opportunity and Diversity, Safety and Wellbeing, and Operational Risk. Directors are also required to abide by Suncorp Group's Code of Conduct.

Board Audit and Risk Committee

In order to enable the Board to focus on strategy, planning and performance enhancement, the Board has delegated certain duties to its Board Audit and Risk Committee ("BARC"). The role of the BARC is to assist the Board in fulfilling its statutory and fiduciary responsibilities with respect to the oversight of the effectiveness of risk management strategies and internal controls across the Company. The terms of reference of the BARC are contained in a Board-approved charter. All of the non-executive Directors of the Board are members of the BARC and the majority of members are independent. Sir Eion Edgar, an independent non-executive Director of the Company, has a finance and accounting background and chairs the BARC.

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

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

The Vero New Zealand Asset and Liability Committee and the Vero New Zealand Risk Governance Committee are management committees that oversee the management of certain risks arising from the activities of the Company and its immediate parent, Vero Insurance New Zealand Limited. Each of these committees has its own terms of reference which have been approved by the BARC. The BARC also reviews the effectiveness of these committees.

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

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 10 to 49. The financial statements comprise the statement of financial position as at 30 June 2014, 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 other audit and assurance services. Subject to certain restrictions, partners and employees of our firm may also deal with the company on normal terms within the ordinary course of trading activities of the business of the company. These matters have not impaired our independence as auditor of the company. The firm has no other relationship with, or interest in, the company.

Opinion

In our opinion the financial statements on pages 10 to 49:

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

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

1 August 2014
Auckland

VERO LIABILITY INSURANCE LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2014

	Note	Year ended 30 June 2014 $000	Year ended 30 June 2013 $000
Gross earned premium	7,8	84,377	80,001
Outwards reinsurance premium expense	8	(19,244)	(17,075)
Net premium revenue	8	**65,133**	**62,926**
Claims expense	9	(40,623)	(29,472)
Reinsurance and other recoveries	7,9	15,740	4,290
Net incurred claims	9	**(24,883)**	**(25,182)**
Acquisition costs		(21,906)	(20,664)
Other underwriting expenses		(5,605)	(5,630)
Underwriting expenses		**(27,511)**	**(26,294)**
Reinsurance commission revenue	7	1,962	1,839
Underwriting result		**14,701**	**13,289**
Net investment revenue	7	4,096	5,557
Net profit for the year before income tax	10	**18,797**	**18,846**
Income tax expense	11a)	(5,352)	(5,329)
Net profit attributable to owners of the Company for the year after income tax		**13,445**	**13,517**
Other comprehensive income		**-**	**-**
Total comprehensive income for the year		**13,445**	**13,517**

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 2014

	Note	As at 30 June 2014 $000	As at 30 June 2013 $000
Assets			
Cash and cash equivalents		466	698
Trade receivables	12	25,260	21,917
Other current assets	12	954	1,206
Reinsurance and other recoveries	13	20,361	13,571
Deferred reinsurance premiums	14	11,693	11,136
Deferred acquisition costs	15	9,714	8,982
Financial assets at fair value through profit or loss	16	104,204	114,397
Property, plant and equipment	17	506	554
Intangible assets	18	-	14
Total assets		**173,158**	**172,475**
Liabilities			
Payables	19	10,704	11,196
Current tax liabilities	11d)	5,798	5,481
Unearned premium liabilities	20	48,264	46,814
Outstanding claims liabilities	21	81,880	74,575
Net deferred tax liabilities	11e)	1,844	1,986
Total liabilities		**148,490**	**140,052**
Net assets		**24,668**	**32,423**
Equity			
Share capital	22	15,047	15,047
Retained earnings		9,621	17,376
Total equity		**24,668**	**32,423**

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 1 AUG 2014

For, and on behalf of the Board

Director

Dated 1 AUG 2014

Director

Dated 1 AUG 2014

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VERO LIABILITY INSURANCE LIMITED

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

	Share Capital $000	Retained Earnings $000	Total Equity $000
Balance at 1 July 2013	15,047	17,376	32,423
Profit for the year	-	13,445	13,445
Other comprehensive income	-	-	-
Total comprehensive income for the year	**-**	**13,445**	**13,445**
Transactions with owners, recorded directly in equity			
Dividends paid to equity holders		(21,200)	(21,200)
Balance as at 30 June 2014	**15,047**	**9,621**	**24,668**
Dividend paid per share (dollars)			1.41

	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

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 2014

	Note	Year ended 30 June 2014 $000	Year ended 30 June 2013 $000
Cash flows from operating activities			
Premiums received		84,956	82,436
Reinsurance and other recoveries received		6,854	4,232
Interest received		5,759	5,987
Claims paid		(33,318)	(23,760)
Outwards reinsurance premiums paid		(19,454)	(18,062)
Acquisition costs paid		(20,676)	(19,559)
Income tax paid*		(5,177)	(4,711)
Underwriting and other operating expenses paid		(6,915)	(5,705)
Net cash inflow from operating activities	23	**12,029**	**20,858**
Cash flows from investing activities			
Payments for purchase of investment securities		(87,554)	(82,644)
Proceeds from sale of investment securities		96,560	80,267
Payments for purchase of plant and equipment and capitalised software costs		(117)	(344)
Proceeds from sale of plant and equipment		50	1
Net cash inflow/(outflow) from investing activities		**8,939**	**(2,720)**
Cash flows from financing activities			
Dividends paid		(21,200)	(18,200)
Net cash outflow from financing activities		**(21,200)**	**(18,200)**
Net decrease in cash and cash equivalents		**(232)**	**(62)**
Cash and cash equivalents at the beginning of the financial year		698	760
Cash and cash equivalents at the end of the financial year		**466**	**698**

* Income tax paid includes cash flows from tax loss offsets with New Zealand group companies.

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 1 AUG 2014

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis with the principal exception being the measurement of financial instruments designated at fair value through profit or loss and the measurement of outstanding claims liabilities 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 2013 to 30 June 2014.

(f) Comparatives

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

(g) *New or amended standards adopted during the period*

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

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

(h) 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.

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 include 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 consists 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.

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(d) Payables

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

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

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

(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; and
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- the initial estimate of the costs of removal and site restoration, if any.

(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.

(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.

(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.

(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.

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4. New Accounting Standards and Interpretations Not Yet Adopted

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

- *NZ IAS 32 Financial Instruments - Presentation*: Amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the NZ IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply to gross settlement mechanisms that are not simultaneous. The amendment is effective for financial periods beginning from 1 January 2014 and it is not expected that this amendment will have any impact on the Company's financial statements. A detailed analysis of the impact is yet to be performed.

  NZ IFRS 9 Financial Instruments (2009) and (2010): introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additional changes relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting. The amendment is effective for financial periods beginning from 1 January 2017. A detailed analysis of the impact is yet to be performed.

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

5. Actuarial Assumptions and Methods

(a) Assumptions

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

	2014	2013
Weighted average term to settlement	1.86 years	1.85 years
Inflation rate	3.0%	3.0%
Superimposed inflation rate	6.0%	6.0%
Discount rate	4.0%	3.2%
Claim handling expense ratio	10.0%	10.0%
Risk margin	30.9%	30.9%

(b) Processes used to determine assumptions

The valuations included in the reported results are made 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. Economic inflation 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.

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(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 (2013: 90%).

(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	2014 $000	2013 $000
Weighted average term to settlement – years	+0.5	1,473	1,697
	-0.5	(1,439)	(1,651)
Inflation rates	+1%	983	978
	-1%	(976)	(971)
Discount rate	+1%	(1,014)	(1,016)
	-1%	1,041	1,043
Claims handling expense ratio	+1%	559	555
	-1%	(559)	(555)
Risk Margin %	+1%	470	466
	-1%	(470)	(466)

(d) Liability adequacy test

The liability adequacy test which was performed as at 30 June 2014 identified a surplus (2013: 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 appointed actuary has no financial interest in the Company.

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

The outstanding claims reserves disclosed for the Company have been calculated in accordance with the New Zealand Society of Actuaries Professional Standard No.4.1 "Valuation of General Insurance Claims". The effective date of the Appointed Actuary's advice is 31 March 2014, updated to 30 June 2014.

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

In particular, the Appointed Actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liabilities. There were no qualifications contained in their actuarial advice. The key assumptions used in the compilations of the reserves as at 30 June 2014 have been outlined above.

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

6. Risk Management

The Company's financial condition and operating activities are affected by the following key risks - Strategic, Insurance, Counterparty, Liquidity, Market, Reputation, Operational and Compliance. 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. One of the key objectives 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, while looking to optimise investment returns.

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 approves, implements and oversees 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:

- Counterparty risk - the risk that a borrower or counterparty will not meet its obligations in accordance with agreed terms. Credit risk arises as a result of receivables due from policyholders and intermediaries, the placement of reinsurance programs with counterparties and investment in financial instruments.

- Liquidity risk - the risk that the Company will be unable to meet 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 while looking to maximise returns from invested funds.

- 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.

- Operational Risk – the risk of loss resulting from inadequate or failed internal processes, people behaviour 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 legislation, regulations, industry codes and company policies.

(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. A company license issued by the Board to the Managing Director with delegations cascading down to individual delegated underwriting and claims authorities underpins this disciplined 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.

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To do this, the insurance risk exposures of strategy development, product design, pricing underwriting, accumulation/reinsurance management and claims management, and reserving are subject to ongoing review and challenge as part of the risk management framework.

The key controls 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.

(ii) Terms and conditions of insurance business

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

(iii) Concentration of insurance risk

The Company's exposure is predominantly in 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 $34,000,000 of its excess of loss reinsurance (including its facultative obligatory reinsurance) for "claims made" insurance policies directly for its own account with several global reinsurers with major market participation and significant operations within Australasia.

The Company appoints an independent reinsurance broker to arrange the first $20,000,000 for "occurrence" insurance policies. For amounts over $20,000,000 the Company utilises its parental reinsurance programme and also individually places (facultative) reinsurance.

The Company's maximum net retention per policy is $2,000,000.

(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.

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)						
2014	**AAA**	**AA**	**A**	**BBB**	**Non investment grade**	**Not Rated**	**Total**
Cash and cash equivalents	-	466	-	-	-	-	466
Financial assets at fair value through profit or loss	-	73,534	27,363	3,307	-	-	104,204
Investment revenue receivable	-	-	-	-	-	954	954
Reinsurance and other recoveries	-	11,323	5,291	-	-	3,747	20,361
Premiums due	-	-	-	-	-	22,602	22,602
Amounts due from related parties	-	-	378	-	-	-	378
Amounts due from reinsurers	-	1,181	1,099	-	-	-	2,280
		86,504	**34,131**	**3,307**	**-**	**27,303**	**151,245**

	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
Investment revenue receivable	-	-	-	-	-	1,206	1,206
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**	**-**	**26,805**	**151,789**

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.

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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)					
2014	**Neither past due nor impaired**	**0-3 mths**	**3-6 mths**	**6-12 mths**	**>12 mths**	**Impaired**	**Total**
Premiums due	21,578	932	92	-	-	-	22,602
Investment revenue receivable	954	-	-	-	-	-	954
Amounts due from related parties	378	-	-	-	-	-	378
Amounts due from reinsurers	2,280	-	-	-	-	-	2,280
	25,190	**932**	**92**	**-**	**-**	**-**	**26,214**

		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**

(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. 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.

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

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

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

	2014				**2013**			
	Exposure $000	**Movement in variable %**	**Profit / (Loss) after tax $000**	**Equity $000**	**Exposure $000**	**Movement in variable %**	**Profit / (Loss) after tax $000**	**Equity $000**
Interest bearing investment securities	104,204	+1	(817)	(817)	114,397	+1	(1,241)	(1,241)
		-1	852	852		-1	1,292	1,292
	104,204				**114,397**			

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 (2013: 100 basis points) change in yield is as follows:

	2014			2013		
	Exposure $000	Movement in variable %	Profit / (Loss) after tax $000	Exposure $000	Movement in variable %	Profit / (Loss) after tax $000
Discounted securities and corporate bonds	80,907	+1	(600)	89,293	+1	(899)
		-1	625		-1	936
Government and local government securities	23,297	+1	(217)	25,104	+1	(342)
		-1	227		-1	356
	104,204			**114,397**		

(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.

2014	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	5,921	5,921	-	-	5,921
Trade creditors and accrued expenses	1,687	1,687	-	-	1,687
Amounts due to related parties	1,142	1,142	-	-	1,142
Outstanding claims liabilities	81,880	35,634	42,178	4,068	81,880
Employee benefits payable	1,954	1,954	-	-	1,954
	92,584	**46,338**	**42,178**	**4,068**	**92,584**

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**

(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.

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(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:

2014	**Designated at fair value**	**Loans and receivables**	**Other financial liabilities**	**Carrying amount**	**Fair value**
	$000	**$000**	**$000**	**$000**	**$000**
Cash and cash equivalents	-	466	-	466	466
Trade receivables	-	25,260	-	25,260	25,260
Other current assets	-	954		954	954
Financial assets	104,204	-	-	104,204	104,204
	104,204	**26,680**	**-**	**130,884**	**130,884**
Payables	**-**	**-**	**(10,704)**	**(10,704)**	**(10,704)**

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)**

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7. Revenue

	30 June 2014 $000	30 June 2013 $000
Gross earned premium	84,377	80,001
Reinsurance and other recoveries revenue	15,740	4,290
Reinsurance commission revenue	1,962	1,839
Total insurance revenue	**102,079**	**86,130**
Investment revenue:		
-Interest income	5,507	5,961
-Net gain on financial assets at fair value through profit or loss	(1,187)	(79)
Investment management expenses	(224)	(325)
Total net investment revenue	**4,096**	**5,557**
Total revenue	**106,175**	**91,687**

8. Net Premium Revenue

	30 June 2014 $000	30 June 2013 $000
Gross written premium	85,827	82,220
Movement in unearned premium	(1,450)	(2,219)
Gross earned premium revenue	**84,377**	**80,001**
Outward reinsurance premium expense	(19,244)	(17,075)
Total net premium revenue	**65,133**	**62,926**

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 2014			30 June 2013		
	Prior $000	Current $000	Total $000	Prior $000	Current $000	Total $000
Gross incurred claims						
Undiscounted	10,148	32,182	42,330	(1,599)	31,732	30,133
Discount	263	(1,970)	(1,707)	946	(1,607)	(661)
	10,411	30,212	40,623	(653)	30,125	29,472
Reinsurance and other recoveries						
Undiscounted	(10,143)	(6,306)	(16,449)	700	(5,077)	(4,377)
Discount	306	403	709	(178)	265	87
	(9,837)	(5,903)	(15,740)	522	(4,812)	(4,290)
Net incurred claims	**574**	**24,309**	**24,883**	**(131)**	**25,313**	**25,182**

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10. Net Profit Before Income Tax

	30 June 2014 $000	30 June 2013 $000
Profit before income tax is arrived at after charging/(crediting) the following specific items:		
Depreciation on plant and equipment (Note 17)	131	84
Donations	7	21
Employee benefits	7,270	7,236
Operating lease rental expenses	525	522
(Profit)/loss on disposal of plant and equipment	(16)	1
Software amortisation cost (Note 18)	14	325

11. Income Tax

	30 June 2014 $000	30 June 2013 $000
(a) Income tax expense		
Current tax expense	5,807	5,505
Deferred tax credit	(479)	(176)
(Over)/under provided in prior years - current	(312)	(329)
- deferred tax	336	329
Income tax expense	**5,352**	**5,329**

(b) Numerical reconciliation of income tax expense to prima facie tax payable

Net profit before tax	18,797	18,846
Prima facie income tax @ 28% (2013: 28%)	5,263	5,277
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenditure	65	52
Adjustment for prior years	24	-
Income tax expense	**5,352**	**5,329**

(c) Imputation credit balances (Suncorp Group Holdings (NZ) Limited ICA Group)

SGHNZL ICA Group	90,044	84,776

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.

	30 June 2014 $000	30 June 2013 $000
(d) Current tax liabilities		
Current tax liability at the beginning of the year	5,481	5,015
Current year tax on operating profit	5,807	5,505
Adjustments for prior years	(312)	(329)
Income tax paid	(10)	(24)
Transfers between members of Vero Tax Group	(5,168)	(4,686)
Current tax liability at the end of the year	**5,798**	**5,481**

(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 2014 $000	30 June 2013 $000
Deferred tax assets are attributable to		
Depreciable assets	43	50
Employee benefits	510	470
Trade creditors and other payables	323	9
Deferred tax asset	**876**	**529**
Deferred tax liabilities are attributable to		
Deferred acquisition costs	(2,720)	(2,515)
Deferred tax liability	**(2,720)**	**(2,515)**
Net deferred liability	**(1,844)**	**(1,986)**
Movements		
Deferred tax assets		
Balance at the beginning of the year	529	475
Credited to profit or loss	347	54
Balance at the end of the year	**876**	**529**
Deferred tax liability		
Balance at the beginning of the year	(2,515)	(2,309)
Charged to profit or loss	(205)	(206)
Balance at the end of the year	**(2,720)**	**(2,515)**

12. Receivables

	30 June 2014 $000	30 June 2013 $000
Trade receivables		
Premium due from policyholders and intermediaries	22,602	21,731
Amounts due from related parties (Note 27)	378	2
Amounts due from reinsurers	2,280	184
Total trade receivables	**25,260**	**21,917**
Other current assets		
Accrued income	954	1,206
Total other current assets	**954**	**1,206**
Total receivables	**26,214**	**23,123**
Current	26,214	23,123
Non-current	-	-
Total	**26,214**	**23,123**

13. Reinsurance and Other Recoveries

	30 June 2014 $000	30 June 2013 $000
Expected undiscounted outstanding reinsurance and other recoveries	21,779	14,279
Discount	(1,418)	(708)
Reinsurance and other recoveries receivable	**20,361**	**13,571**
Current	8,496	5,854
Non-current	11,865	7,717
Total	**20,361**	**13,571**

14. Deferred Reinsurance Premiums

	30 June 2014 $000	30 June 2013 $000
Deferred reinsurance premiums at the beginning of the year	11,136	10,303
Reinsurance premium expense incurred	19,801	17,908
Reinsurance premium expensed during the year	(19,244)	(17,075)
Deferred reinsurance premium at the end of the year	**11,693**	**11,136**

15. Deferred Acquisition Costs

	30 June 2014 $000	30 June 2013 $000
Deferred acquisition costs at the beginning of the year	8,982	8,248
Acquisition costs deferred	20,676	19,559
Amortisation charged to the profit and loss	(21,906)	(20,664)
Reinsurance commission recognised in the profit and loss	1,962	1,839
Deferred acquisition costs at the end of the year	**9,714**	**8,982**

16. Financial Assets

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

	30 June 2014 $000	30 June 2013 $000
Discounted securities	44,479	42,021
Other fixed interest – corporate bonds	36,428	47,272
Government and local government securities	23,297	25,104
Total financial assets at fair value through profit or loss	**104,204**	**114,397**

(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 quoted market price.

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

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

2014	Carrying value $000	Fair value analysis Level 1 $000	Level 2 $000	Level 3 $000	Total fair value $000
Financial assets					
Investment securities	104,204	37,085	67,119	-	104,204
Total	**104,204**	**37,085**	**67,119**	**-**	**104,204**

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

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

There have been no significant transfers between Level 1 and Level 2 during the year ended 30 June 2014 or 30 June 2013 for the Company.

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17. Property, Plant and Equipment

	30 June 2014 $000	30 June 2013 $000
Total Property, Plant and Equipment		
At 1 July		
Cost	1,382	1,215
Accumulated depreciation	(828)	(919)
Carrying amount at the beginning of the year	**554**	**296**
Additions	117	344
Disposals	(125)	(177)
Add back accumulated depreciation on assets sold	91	175
Depreciation expense (Note 10)	(131)	(84)
Carrying amount at the end of the year	**506**	**554**
At 30 June		
Cost	1,374	1,382
Accumulated depreciation	(868)	(828)
Carrying amount at the end of the year	**506**	**554**

	30 June 2014 $000	30 June 2013 $000
Computer hardware		
At 1 July		
Cost	136	174
Accumulated depreciation	(117)	(159)
Carrying amount at the beginning of the year	**19**	**15**
Additions	1	20
Disposals	(12)	(58)
Add back accumulated depreciation on assets sold	4	56
Depreciation expense	(8)	(14)
Carrying amount at the end of the year	**4**	**19**
At 30 June		
Cost	125	136
Accumulated depreciation	(121)	(117)
Carrying amount at the end of the year	**4**	**19**

	30 June 2014 $000	30 June 2013 $000
Furniture, fittings and office equipment		
At 1 July		
Cost	233	314
Accumulated depreciation	(184)	(293)
Carrying amount at the beginning of the year	**49**	**21**
Additions	17	38
Disposals	-	(119)
Transfers	(34)	-
Add back accumulated depreciation on assets sold	(1)	119
Depreciation expense	(8)	(10)
Carrying amount at the end of the year	**23**	**49**
At 30 June		
Cost	216	233
Accumulated depreciation	(193)	(184)
Carrying amount at the end of the year	**23**	**49**

	30 June 2014 $000	30 June 2013 $000
Leasehold alterations		
At 1 July		
Cost	577	341
Accumulated depreciation	(345)	(341)
Carrying amount at the beginning of the year	**232**	**-**
Additions	10	236
Transfers	34	-
Depreciation expense	(56)	(4)
Carrying amount at the end of the year	**220**	**232**
At 30 June		
Cost	621	577
Accumulated depreciation	(401)	(345)
Carrying amount at the end of the year	**220**	**232**

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	30 June 2014 $000	30 June 2013 $000
Motor vehicles		
At 1 July		
Cost	436	386
Accumulated depreciation	(182)	(126)
Carrying amount at the beginning of the year	**254**	**260**
Additions	96	50
Disposals	(120)	-
Add back accumulated depreciation on assets sold	88	-
Depreciation expense	(59)	(56)
Carrying amount at the end of the year	**259**	**254**
At 30 June		
Cost	412	436
Accumulated depreciation	(153)	(182)
Carrying amount at the end of the year	**259**	**254**

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 2014 $000	30 June 2013 $000
Computer software	-	14
Total intangibles	**-**	**14**

Capitalised software costs

	30 June 2014 $000	30 June 2013 $000
At 1 July		
Cost	1,658	1,658
Accumulated amortisation and impairment	(1,644)	(1,319)
Carrying amount at the beginning of the year	**14**	**339**
Additions – internally developed	-	-
Amortisation expense (Note 10)	(14)	(325)
Carrying amount at the end of the year	**-**	**14**
At 30 June		
Cost	1,658	1,658
Accumulated amortisation and impairment	(1,658)	(1,644)
Carrying amount at the end of the year	**-**	**14**

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19. Payables

	30 June 2014 $000	30 June 2013 $000
Trade creditors and accruals	1,687	2,232
Amounts due to reinsurers	5,921	5,574
Employee entitlements	1,954	1,794
Amounts due to related parties (Note 27)	1,142	1,596
Total Payables	**10,704**	**11,196**
Current	10,704	11,196
Non-current	-	-
Total	**10,704**	**11,196**

20. Unearned Premium Liabilities

	30 June 2014 $000	30 June 2013 $000
Unearned premium liabilities as at the beginning of the year	46,814	44,595
Deferral of premium on contracts written during the year	85,827	82,220
Earning of premiums deferred	(84,377)	(80,001)
Unearned premium liabilities as at the end of the year	**48,264**	**46,814**

21. Outstanding Claims Liabilities

(a) Gross outstanding claims liabilities

	30 June 2014 $000	30 June 2013 $000
Central estimate of outstanding claims liabilities	67,775	59,121
Discount to present value	(4,673)	(3,167)
Claim handling expenses	4,274	4,238
Risk margin	14,504	14,383
Gross outstanding claims liabilities	**81,880**	**74,575**
Current	35,634	32,289
Non-current	46,246	42,286
Total	**81,880**	**74,575**

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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 nine most recent accident years.

	Accident year										
Ultimate claims cost estimate	**Prior**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**Total**
	$000	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
At end of accident year	43,206	20,202	23,693	18,079	21,132	18,465	16,231	18,287	19,361	18,938	18,938
One year later	40,586	16,823	16,966	17,655	20,553	14,266	17,029	19,720	20,578		20,578
Two years later	29,463	13,243	14,780	18,099	18,443	14,662	16,683	21,936			21,936
Three years later	25,149	11,123	13,490	17,276	18,735	16,298	18,860				18,860
Four years later	24,349	10,151	13,922	17,639	19,140	16,539					16,539
Five years later	24,033	12,393	13,380	18,912	18,761						18,761
Six years later	23,489	12,073	13,336	18,952							18,952
Seven years later	24,090	11,754	12,991								12,991
Eight years later	23,847	11,852									11,852
Nine years later	24,110										24,110
Current estimate of ultimate claims costs	**24,424**	**11,852**	**12,991**	**18,952**	**18,761**	**16,539**	**18,860**	**21,936**	**20,578**	**18,938**	**183,831**
Cumulative payments	24,378	11,803	12,493	17,573	17,169	13,704	14,363	13,582	9,583	3,187	137,835
Undiscounted central estimate	**46**	**49**	**498**	**1,379**	**1,592**	**2,835**	**4,497**	**8,354**	**10,995**	**15,751**	**45,996**
Discount to present value	(2)	(2)	(24)	(108)	(101)	(165)	(283)	(551)	(789)	(1,230)	(3,255)
Discounted central estimate	**44**	**47**	**474**	**1,271**	**1,491**	**2,670**	**4,214**	**7,803**	**10,206**	**14,521**	**42,741**
Claims handling expense											4,274
Risk margin											14,504
Net outstanding claims liabilities											**61,519**
Reinsurance recoveries on outstanding claims liabilities and other recoveries											20,361
Gross outstanding claims liabilities											**81,880**

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

	30 June 2014	30 June 2013
	$000	$000
Balance at the beginning of the year	**61,004**	**55,211**
Prior Years		
Payments net of reinsurance recoveries	(20,859)	(16,670)
Movement in discounting	2,008	1,493
Margin release on prior years	(6,435)	(5,143)
Incurred claims due to changes in assumptions and experience	5,946	4,943
Change in discount rate	(945)	(379)
Movement in risk margins	-	(1,046)
Current Year		
Ultimate incurred costs	24,309	25,314
Payments net of reinsurance recoveries	(3,509)	(2,719)
Balance at the end of the year	**61,519**	**61,004**
Outstanding reinsurance and other recoveries (Note 13)	**20,361**	**13,571**
Gross outstanding claims liabilities	**81,880**	**74,575**

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22. Share Capital

	30 June 2014 Shares No. (000)	30 June 2014 Shares $000	30 June 2013 Shares No. (000)	30 June 2013 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 2014, the Company had 15,000,100 ordinary shares issued to Vero Insurance New Zealand Limited (2013:15,000,100). All shares rank equally with one vote attached to each fully paid ordinary share.

	30 June 2014 Shares No. (000)	30 June 2014 Shares $000	30 June 2013 Shares No. (000)	30 June 2013 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 2014 $000	30 June 2013 $000
Net profit after income tax	13,445	13,517
Movement in financial assets at fair value through profit or loss	1,187	58
Depreciation and amortisation	145	409
(Profit)/loss on disposal of plant and equipment	(16)	1
Changes in assets and liabilities		
(Increase)/decrease in receivables	(3,343)	75
Decrease in other current assets	252	47
(Increase)/decrease in reinsurance and other recoveries	(6,790)	81
Increase in deferred reinsurance premiums	(557)	(833)
Increase in deferred acquisition costs	(732)	(734)
Decrease in payables	(492)	(312)
Increase in current tax liability	317	466
Increase in unearned premium liabilities	1,450	2,219
Increase in outstanding claims liabilities	7,305	5,712
(Decrease)/increase in net deferred tax liability	(142)	152
Net cash inflow from operating activities	**12,029**	**20,858**

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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.

The structure of the employee equity plans was redesigned and approved by the SGL Board in August 2013. As a result of the redesign, the following changes were made:

- A new Umbrella Share Plan was established – the Suncorp Group Employee Incentive Plan (**SGEIP**) – which now includes the Long Term Incentive (Performance Rights) (**LTI**). This new LTI replaces the former Executive Performance Share Plan (**EPSP**), however unvested EPSP awards remain unchanged; and
- The former EPSP was amended and renamed the Suncorp Group Limited Employee Share Plan (SGL ESP). The amendments now enable restricted shares (for senior employees below Executive level) and tax exempt shares (formerly awarded under the Exempt Employee Share Plan (**EESP**)) to be granted under this plan.

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

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

Equity Plans	**SGEIP (from October 2013) and the former EPSP (prior to October 2013)**	**SGL ESP (restricted shares)**	**SGL ESP (tax exempt) and the former EESP**	**Deferred Employee Share Plan (DESP)**
Method of settlement	Equity-settled. Cash-settled in limited circumstances as elected by the SGL Board.	Equity-settled	Equity-settled	Equity-settled
Eligible plan participant	Executives	Employees in senior roles below Executive level that satisfy the eligibility criteria.	Employees not eligible for LTI awards.	Employees can elect to participate.
Basis of share grant	Value of shares granted (offered) is determined by the SGL Board based on the executive's level of remuneration and individual performance.	Value of restricted shares granted (offered) is determined by the SGL Board based on the executive's 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.	Employees to fund the acquisition of shares to be held under this Plan from their pre-tax remuneration up to a maximum value of $5,000.
Vesting	Subject to satisfaction of performance criteria over the performance period.	Subject to remaining in employment with the Suncorp Group until the vesting date and not having given notice of intention to resign.	Fully vested, not subject to forfeiture.	As the acquisition of shares is funded through the employee or non-executive director's remuneration, the shares are fully vested at the date of acquisition.
Performance criteria	Refer to the performance criteria for the Executive LTI plans in the table below.	None	None	None
Minimum holding period	None after shares are vested.	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 SGL's total shares on issue 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 employee and held in the Plan.	Full entitlement to dividend from when the shares are acquired and held 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.	Participating employees and non-executive directors have the right to vote from when the shares are acquired and held in the Plan.

Performance criteria for the Long Term Incentive Plan (Performance Rights) and EPSP ('Executive LTI plans')

<table>
<tr><th>Grant date</th><th>EPSP 1 October 2008 – 3 May 2010</th><th>EPSP From 1 October 2010 and LTI From 1 October 2013</th></tr>
<tr><td>Performance criteria</td><td colspan="2">The criteria is based on total shareholder returns (TSR) achieved by the SGL over a performance period relative to the TSR of a comparator group.</td></tr>
<tr><td>Comparator group</td><td>Top 50 Industrial companies in the S&P/ASX 100, excluding listed property trusts.</td><td>Top 50 Industrial companies in the S&P/ASX 100, excluding mining companies and listed property trusts.</td></tr>
<tr><td>Performance results and vesting rules</td><td colspan="2">Shares granted under this plan will vest and allocated based on the SGL's TSR performance results:
<table>
<tr><th>SGL performance (TSR percentile ranking)</th><th>% of shares available for vesting and allocation</th></tr>
<tr><td>< 50^{th} percentile</td><td>Nil</td></tr>
<tr><td>50^{th} percentile</td><td>50%</td></tr>
<tr><td>> 50^{th} but < 75^{th} percentile</td><td>an additional 2% of the shares will vest for each 1% increase (on a straight line basis) in the SGL's TSR ranking above the 50^{th} percentile</td></tr>
<tr><td>75^{th} percentile or above</td><td>100%</td></tr>
</table>
</td></tr>
<tr><td>Initial performance period</td><td colspan="2">The initial performance period commences on the grant date and ends on the initial vesting date which is generally three years after the grant date.</td></tr>
<tr><td>At initial vesting date</td><td>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.</td><td>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.</td></tr>
<tr><td>During the extended performance period (Period from the initial vesting date to the end of the extended performance period (generally at the end of year five))</td><td>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.</td><td>Not applicable.</td></tr>
</table>

Suncorp Group Limited granted to each eligible employee its ordinary shares to the value of AUD 1,000 under the SGL ESP for the year ended 30 June 2014 (2013: AUD 1,000). These shares will be acquired on-market for allocation to employees by the share plan in October 2014. The Company accrued $35,310 (2013: $28,575) in relation to these grants.

The amount included in the profit and loss in relation to the deferred ordinary shares allocated under SGEIP/EPSP and DESP for the year ended 30 June 2014 was Nil (2013: Nil).

25. Contingent Liabilities

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

26. Commitments for Expenditure

	30 June 2014 $000	30 June 2013 $000
Lease commitments		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	1,015	1,015
Later than one year but not later than 5 years	598	1,613
Later than 5 years	-	-
Non cancellable operating leases	**1,613**	**2,628**

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

Relationship	Nature of Transaction	30 June 2014 $000	30 June 2013 $000
Parent	Accounting and administration services	(2,537)	(2,616)
	Premiums received	-	238
	Dividend Paid	(21,200)	(18,200)
	Group tax loss offsets	(5,168)	(4,686)
Subsidiary of Ultimate Parent	Investment management fees	(68)	(69)
	Life and disability premiums	(17)	(13)
	Premiums Received	15	16
	Administration Expenses	(3)	(2)
Other	Management services and profit sharing	(2,066)	(2,013)

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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 2014 $000	30 June 2013 $000
Parent Company	378	-
Subsidiary of Ultimate Parent	-	2
Total amounts due from related parties (Note 12)	**378**	**2**

Amounts due to related parties:	30 June 2014 $000	30 June 2013 $000
Parent	-	490
Subsidiary of Ultimate Parent	1	6
Other	1,141	1,100
Total amounts due to related parties (Note 19)	**1,142**	**1,596**

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 2014 $000	30 June 2013 $000
Short-term employee benefits	1,886	1,829
Total Compensation	**1,886**	**1,829**

28. Auditor's Remuneration

	30 June 2014 $000	30 June 2013 $000
During the year the auditor of the Company was paid for the following services:		
Audit fees		
Audit of annual accounts of the Company	137	134
Non-audit fees		
Agreed upon procedures work	58	78
Total auditor's remuneration	**195**	**212**

Agreed upon procedures relates to review of the Solvency Returns.

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 (2013: A+). The credit rating is an indication of the Company's ability to pay current and future claims.

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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 previous financial year and is managing its capital in accordance with the requirements of the Act and the Solvency Standard for Non-life Insurance Business ("the solvency standard") issued by the RBNZ.

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

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

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

The Company's 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.

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 2014 $000	30 June 2013 $000
Actual solvency capital	23,792	31,880
Minimum solvency capital	13,557	12,749
Solvency Margin	**10,235**	**19,131**
Solvency Ratio	**1.75**	**2.50**

32. Events Occurring After Reporting Date

There were no material events post 30 June 2014 which would require adjustment to the amounts reflected in the 30 June 2014 financial statements or disclosures thereto.

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QUANTIUM

24 July 2014

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 2014 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 2014; 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 2014; and

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

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