Vero Liability Insurance Limited

Financial report
for the financial year ended 30 June 2015

Vero Liability Insurance Limited

Financial report

for the financial year ended 30 June 2015

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Directors' report

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

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:

Non-executive
G C Dransfield
E S Edgar
D M Flacks
G T Ricketts (Chairman)
Executive
A R Tulloch
B N Waymouth

Registered office
Vero Centre
48 Shortland Street
Auckland 1010
New Zealand

Auditor
KPMG
18 Viaduct Harbour Avenue
Auckland 1140
New Zealand

Dividends
During the financial year, the Company paid dividends totalling $15,300,000 (2014: $21,200,000). Further details of dividends paid are set out in Note 3 to the financial statements.

Principal activities
The principal activities of the Company during the course of the financial year were the underwriting of 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 2015 was $12,191,000 for the Company compared with net profit after income tax of $13,445,000 for the previous year ended 30 June 2014.

Events subsequent to reporting date
There is, at the date of this Report, no matter or circumstance that has arisen since 30 June 2015 that has significantly affected, or may significantly affect:
(a) the Company's operations in future financial periods;
(b) the results of those operations in future financial periods; or
(c) the Company's state of affairs in future financial periods.

Directors' report (continued)

Information on Directors in office at the date of this report

Gary C Dransfield
MAICD
Director since 2011. Mr Dransfield is a highly experienced financial services executive who joined the Suncorp Group in 2009. He has held senior management positions in the retail financial services industry over the last 25 years. Mr Dransfield is also a director of Vero Insurance New Zealand Limited, the immediate parent company of Vero Liability Insurance Limited and AA Insurance Limited (a related company of Vero Liability Insurance Limited).

Mr Dransfield is President of the Insurance Council of New Zealand.

Sir Eion S Edgar KNZM
BCom, FACA, LL.D (Hon)
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 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 the Winter Games NZ Trust.

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

Sir Eion was also President of the New Zealand Olympic Committee and on his retirement was made Honorary President (for Life). He is a former National Business Review New Zealander of the Year, and Senior 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
Director since December 2013. Mr Flacks is an experienced corporate and commercial lawyer who is a director of Flacks & Wong, boutique corporate lawyers, having recently retired from the partnership 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 Harmoney Corp Limited and Vero Insurance New Zealand Limited.

Geoffrey T Ricketts CNZM
LLB (Hons), FInstD
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 a non-executive director of Suncorp Group Limited, the ultimate parent company of Vero Liability Insurance Limited, and a director of a number of other companies. He is chairman of Vero Insurance New Zealand Limited, Asteron Life Limited, The Todd Corporation Limited and Heartland Bank Limited.

Adrian R Tulloch
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
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.

Directors' report (continued)

This financial report of the Company was approved for issue by the Board on 29 July 2015.

Signed in accordance with a resolution of the Directors.

Director

Director

Corporate governance statement

Introduction

Vero Liability Insurance Limited ("the Company") is a New Zealand incorporated licensed insurer which is wholly-owned by 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 Securities Exchange.

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 comprised 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 Deputy Managing 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.

The Board has adopted a Board Renewal Policy. Under this Policy, the Board is required to take into account a wide range of factors when considering an appointment to, or the composition of, the Board. These factors include the size, composition and diversity of the Board, mix of competencies, qualities and skills held by existing Directors and how the skills of a new Director may be utilised for the effective and prudent management of the Board. Other key considerations include culture fit and an understanding of the business of the Company and the environment in which it operates. The Board considers it important to maintain an appropriate mix of 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.

The Board of the Company has approved criteria for assessing the independence of its non-executive Directors. These criteria are used in conjunction with the Governance Guidelines issued by the Reserve Bank of New Zealand.

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 is approved by the Board.

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 and Board performance reviews. Provision is also made for the Board to delegate certain matters to committees. The Board is required to review its charter at least annually and the review for the current year has been completed.

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.

Corporate governance statement (continued)

Duties and Responsibilities of the Board (continued)

The Board approves the strategic direction of the Company and monitors executive management performance in the implementation and achievement of strategic and business objectives through the receipt of regular reports from management. Other matters that are approved by the Board include the Company's Risk Appetite Statement, Capital Management Plan, dividend payments, financial statements and solvency returns, and major operating and capital expenditure which exceeds 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 legal or regulatory 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, Operational Risk and Outsourcing. 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 BARC 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 auditor. 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 auditor. 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 provides its minutes 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 22.

Corporate governance statement (continued)

Corporate Social Responsibility

Brighter Futures is the Suncorp Group Community Giving programme that enables Suncorp Group employees to become involved, donate, fundraise and volunteer to make a difference to the causes close to their hearts. The mission of the programme is to make giving easier, more enjoyable and more accessible for our employees.

Our employees have the opportunity to take one day paid leave each year to support local community projects. At Vero New Zealand, our employees have taken part in volunteering opportunities for charities such as Riding for the Disabled, Ronald McDonald House, and Raukatauri Music Therapy. More than 50 Vero employees have participated in a volunteer day since November 2014.

Brighter Futures Community Grants provide employees with the opportunity to nominate individuals, charities or local community organisations for funding. Seven New Zealand charities have benefited from Grants in the last 12 months – including the Lighthouse Counselling Trust, Big Brothers Big Sisters, and the Youth Team Trust, to name a few.

Grants are awarded to those applications that demonstrate the greatest impact for communities and individuals in New Zealand and Australia, as determined by the Suncorp Brighter Futures Internal Advisory Panel. Grants of between $1,000 and $10,000 are available. The Brighter Futures Advisory Panel reviews applications twice a year and awards a minimum of $200,000 in grants.

Our Dollar Matching programme will match the fundraising amounts of employees, up to $500, to a registered charity in New Zealand or Australia.

Vero New Zealand's commitment to Brighter Futures was re-launched in November 2014 and has been well-supported by our employees. Our recent employee engagement survey (SEE) indicated that 41 percent intended to take part in the Brighter Futures programme within the next 12 months.

Independent auditor's report

To the shareholder of Vero Liability Insurance Limited

We have audited the accompanying financial statements of Vero Liability Insurance Limited ("the company") on pages 11 to 47. The financial statements comprise the statement of financial position as at 30 June 2015, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the financial statements on pages 11 to 47 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the financial position of Vero Liability Insurance Limited as at 30 June 2015 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

KPMG

29 July 2015
Auckland

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

	Note	2015 $'000	2014 $'000
Premium revenue	4	**87,348**	84,377
Outwards reinsurance premium expense	11	**(20,134)**	(19,244)
Net premium revenue		**67,214**	65,133
Claims expense	5	**(59,166)**	(40,623)
Reinsurance and other recoveries revenue	4, 5	**29,817**	15,740
Net incurred claims	5	**(29,349)**	(24,883)
Acquisition costs	12	**(22,829)**	(21,923)
Other underwriting expenses		**(6,087)**	(5,605)
Underwriting expenses		**(28,916)**	(27,528)
Reinsurance commission revenue	4	**1,805**	1,979
Underwriting result		**10,754**	14,701
Investment income on insurance funds	4.1	**5,147**	3,346
Investment expense on insurance funds		**(203)**	(174)
Insurance trading result		**15,698**	17,873
Investment income on shareholder funds	4.1	**1,369**	974
Investment expense on shareholder funds		**(52)**	(50)
Profit before tax	6	**17,015**	18,797
Income tax expense	7.1	**(4,824)**	(5,352)
Profit for the financial year attributable to owners of the Company		**12,191**	13,445
Other comprehensive income		**-**	-
Total comprehensive income for the financial year		**12,191**	13,445

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

Statement of financial position
as at 30 June 2015

	Note	2015 $'000	2014 $'000
Assets			
Cash and cash equivalents		**8,848**	8,037
Receivables and other assets	8	**27,284**	26,214
Investment securities	9	**93,843**	96,633
Reinsurance and other recoveries receivable	10	**28,602**	20,361
Deferred reinsurance premiums	11	**13,375**	11,693
Deferred acquisition costs	12	**9,328**	9,714
Plant and equipment		**525**	506
Deferred tax assets	7.4	**976**	876
Total assets		**182,781**	174,034
Liabilities			
Payables and other liabilities	13	**11,943**	8,857
Current tax liabilities	7.3	**324**	5,798
Unearned premium liabilities	14	**49,660**	48,264
Outstanding claims liabilities	15	**94,960**	81,880
Employee benefit obligations	16	**1,723**	1,847
Deferred tax liabilities	7.4	**2,612**	2,720
Total liabilities		**161,222**	149,366
Net assets		**21,559**	24,668
Equity			
Share capital	17	**15,047**	15,047
Retained profits		**6,512**	9,621
Total equity attributable to owners of the Company		**21,559**	24,668
Total equity		**21,559**	24,668

The Board of Directors of Vero Liability Insurance Limited approved these financial statements for issue on 29 July 2015.

For, and on behalf of the Board

Director

Director

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

KPMG

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

	Note	Share capital $'000	Retained profits $'000	Total $'000
Balance as at 1 July 2013		15,047	17,376	32,423
Profit for the financial year		-	13,445	13,445
Total comprehensive income for the financial year		-	13,445	13,445
Transactions with the owners, recorded directly in equity				
Dividends paid	3	-	(21,200)	(21,200)
Balance as at 30 June 2014		**15,047**	**9,621**	**24,668**
Profit for the financial year		**-**	**12,191**	**12,191**
Total comprehensive income for the financial year		**-**	**12,191**	**12,191**
Transactions with the owners, recorded directly in equity				
Dividends paid	3	**-**	**(15,300)**	**(15,300)**
Balance as at 30 June 2015		**15,047**	**6,512**	**21,559**

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

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

	Note	2015 $'000	2014 $'000
Cash flows from operating activities			
Premiums received		**86,112**	84,956
Claims paid		**(46,086)**	(33,318)
Interest received		**5,170**	5,759
Reinsurance and other recoveries received		**22,808**	6,854
Outward reinsurance premiums paid		**(19,919)**	(19,454)
Acquisition costs paid		**(20,638)**	(20,676)
Income tax paid*		**(10,506)**	(5,177)
Underwriting and other operating expenses paid		**(5,532)**	(6,915)
Net cash from operating activities	20	**11,409**	12,029
Cash flows from investing activities			
Proceeds from sale of investment securities		**134,833**	96,934
Payments for purchase of investment securities		**(129,985)**	(87,554)
Proceeds from sale of plant and equipment		**28**	50
Payments for purchases of plant and equipment and capitalised software costs		**(174)**	(117)
Net cash provided by investing activities		**4,702**	9,313
Cash flows from financing activities			
Dividends paid to owners of the Company		**(15,300)**	(21,200)
Net cash used in financing activities		**(15,300)**	(21,200)
Net increase in cash and cash equivalents		**811**	142
Cash and cash equivalents at the beginning of the financial year		**8,037**	7,895
Cash and cash equivalents at the end of the financial year		**8,848**	8,037

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

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

Notes to the financial statements

1. Reporting entity

Vero Liability Insurance Limited (the **Company**) is a company incorporated and domiciled in New Zealand. Its registered office is Vero Centre, 48 Shortland Street, Auckland.

The Company is a profit oriented entity in the business of underwriting liability insurance and the investment and administration of insurance funds. It operates exclusively in the intermediated (through brokers) sector of the liability insurance market. It operates predominantly throughout New Zealand.

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

2. Basis of preparation

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

Significant accounting policies applied in the preparation of these financial statements are set out in Note 27. There have been no significant changes to accounting policies during the financial year.

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

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

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

2.1 Statement of compliance

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

2.2 New or amended standards adopted during the financial year

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

2.3 Comparative information

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

a) Cash and cash equivalents reclassification

Cash and deposits at call held within the Company's investment portfolios have been reclassified from investment securities to cash and cash equivalents. These balances are highly liquid and are able to be transferred into operating bank accounts within one day. The reclassification amounted to $7,571,000 as at 30 June 2014.

b) Fair value hierarchy reclassification

The fair value hierarchy of term deposits and transferable certificates has been reclassified from Level 1 to Level 2 due to the investments not being traded in an active market. This reclassification amounted to $19,859,000 for the Company as at 30 June 2014, refer Note 21.2.

Notes to the financial statements (continued)

c) Change in presentation

Investment revenue has been split between investment income from insurance and shareholder funds in the statements of comprehensive income in accordance with the accounting policy outlined in Note 27.2(d).

2.4 Use of estimates and judgements

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

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

a) Outstanding claims liability

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

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

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

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

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

Details regarding actuarial estimates and judgements are detailed in Notes 5, 10 and 15.

b) Assets arising from reinsurance contracts and other recoveries

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

Notes to the financial statements (continued)

3. Dividends

	2015		2014	
	¢ per share	$'000	¢ per share	$'000
Ordinary shares				
Final dividend	**62**	**9,300**	109	16,300
Interim dividend	**40**	**6,000**	33	4,900
Total dividends recognised in equity attributable to owners of the Company	**102**	**15,300**	142	21,200

4. Revenue

	2015 $'000	2014 $'000
Insurance income		
Gross written premium	**88,744**	85,827
Movement in unearned premium	**(1,396)**	(1,450)
Premium revenue	**87,348**	84,377
Reinsurance and other recoveries revenue	**29,817**	15,740
Reinsurance commission revenue	**1,805**	1,979
Total insurance income	**118,970**	102,096
Investment income		
Interest income	**5,223**	5,507
Net gain/(loss) on financial assets at fair value through profit or loss	**1,293**	(1,187)
Total investment income	**6,516**	4,320
Total revenue	**125,486**	106,416

4.1 Investment Income

	2015 $'000	2014 $'000
Investment income on insurance funds	**5,147**	3,346
Investment income on shareholder funds	**1,369**	974
Total investment income	**6,516**	4,320

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Notes to the financial statements (continued)

5. Net incurred claims

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

	Current Year $'000	Prior Year $'000	Total $'000
Year ended 30 June 2015			
Gross incurred claims and related expenses			
Undiscounted	**36,219**	**22,882**	**59,101**
Discount and discount movement	**(2,003)**	**2,068**	**65**
Gross incurred claims discounted	**34,216**	**24,950**	**59,166**
Reinsurance and other recoveries			
Undiscounted	**(7,335)**	**(22,787)**	**(30,122)**
Discount and discount movement	**431**	**(126)**	**305**
Reinsurance and other recoveries discounted	**(6,904)**	**(22,913)**	**(29,817)**
Net incurred claims	**27,312**	**2,037**	**29,349**
Year ended 30 June 2014			
Gross incurred claims and related expenses			
Undiscounted	32,182	10,148	42,330
Discount and discount movement	(1,970)	263	(1,707)
Gross incurred claims discounted	30,212	10,411	40,623
Reinsurance and other recoveries			
Undiscounted	(6,306)	(10,143)	(16,449)
Discount and discount movement	403	306	709
Reinsurance and other recoveries discounted	(5,903)	(9,837)	(15,740)
Net incurred claims	24,309	574	24,883

6. Profit before tax

	2015 $'000	2014 $'000
Profit before tax is arrived at after charging/(crediting) the following specific items:		
Contributions to defined contribution superannuation schemes	**312**	282
Depreciation on plant and equipment	**132**	131
Donations	**5**	7
Employee benefits	**6,924**	6,988
Gain on disposal of plant and equipment	**(5)**	(16)
Operating lease rental expenses	**497**	472
Software amortisation cost	**-**	14

Notes to the financial statements (continued)

7. Income tax

7.1 Income tax expense

	2015 $'000	2014 $'000
Profit before tax	**17,015**	18,797
Prima facie income tax @ 28% (2014: 28%)	**4,764**	5,263
Movement in income tax expense due to:		
Non-deductible expenditure	**60**	65
Adjustment for prior years	**-**	24
Income tax expense	**4,824**	5,352
Income tax expense recognised in profit consists of:		
Current tax expense		
Current year	**5,354**	5,807
Adjustments for prior financial years	**(322)**	(312)
	5,032	5,495
Deferred tax expense		
Current year	**(530)**	(479)
Adjustments for prior financial years	**322**	336
	(208)	(143)
Income tax expense	**4,824**	5,352

7.2 Imputation credits

	2015 $'000	2014 $'000
SGHNZL ICA Group	**111,084**	90,044
Imputation credits available for use in subsequent reporting periods	**111,084**	90,044

The Company is a member of the Suncorp Group Holdings (NZ) Limited consolidated imputation credit account group (**SGHNZL ICA Group**) and together with the other members has access to the accumulated imputation credits contained within that SGHNZL ICA Group.

7.3 Current tax

	2015 $'000	2014 $'000
Balance at the beginning of the financial year	**(5,798)**	(5,481)
Income tax paid	**30**	10
Current year tax on operating profit	**(5,354)**	(5,807)
Adjustment for prior years	**322**	312
Transfers between Group companies	**10,476**	5,168
Balance at the end of the financial year	**(324)**	(5,798)

Notes to the financial statements (continued)

7.4 Deferred tax

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

	2015 $'000	2014 $'000
Deferred tax assets are attributable to		
Depreciable assets	36	43
Employee benefits	467	510
Payables and other liabilities	473	323
Total deferred tax assets	976	876
Deferred tax liabilities are attributable to		
Deferred acquisition costs	(2,612)	(2,720)
Total deferred tax liabilities	(2,612)	(2,720)
Net deferred tax liabilities	(1,636)	(1,844)
Movements		
Deferred tax assets		
Balance at the beginning of the financial year	876	529
Movement recognised in profit or loss	100	347
Balance at the end of the financial year	976	876
Deferred tax liabilities		
Balance at the beginning of the financial year	(2,720)	(2,515)
Movement recognised in profit or loss	108	(205)
Balance at the end of the financial year	(2,612)	(2,720)

8. Receivables and other assets

	2015 $'000	2014 $'000
Trade and other receivables		
Premiums due	25,234	22,602
Amounts due from related parties (Note 24)	-	378
Amounts due from reinsurers	1,048	2,280
Total trade and other receivables	26,282	25,260
Other assets		
Accrued income	1,002	949
Investment receivables	-	5
Total other assets	1,002	954
Total receivables and other assets	27,284	26,214
Current	27,284	26,214
Total receivables and other assets	27,284	26,214

Notes to the financial statements (continued)

9. Investment securities

	2015 $'000	2014 $'000
Financial assets at fair value through profit or loss		
Debentures and corporate bonds	**36,379**	36,428
Government and semi-government securities	**22,246**	23,297
Discounted securities	**35,218**	36,908
Total investment securities	**93,843**	96,633

10. Reinsurance and other recoveries receivable

	2015 $'000	2014 $'000
Expected future reinsurance and other recoveries undiscounted	**30,325**	21,779
Discount to present value	**(1,723)**	(1,418)
Total reinsurance and other recoveries receivable	**28,602**	20,361
Current	**11,185**	8,496
Non-current	**17,417**	11,865
Total reinsurance and other recoveries receivable	**28,602**	20,361

11. Deferred reinsurance premiums

	2015 $'000	2014 $'000
Balance at the beginning of the financial year	**11,693**	11,136
Reinsurance premium liability incurred	**21,816**	19,801
Reinsurance premium charged to profit or loss	**(20,134)**	(19,244)
Balance at the end of the financial year	**13,375**	**11,693**

12. Deferred acquisition costs

	2015 $'000	2014 $'000
Balance at the beginning of the financial year	**9,714**	8,982
Acquisition costs deferred	**20,638**	20,676
Amortisation charged to profit or loss	**(22,829)**	(21,923)
Reinsurance commission recognised in profit or loss	**1,805**	1,979
Balance at the end of the financial year	**9,328**	9,714

Notes to the financial statements (continued)

13. Payables and other liabilities

	2015 $'000	2014 $'000
Trade creditors and accruals	685	825
GST payable	1,212	969
Investment payables	760	-
Amounts due to reinsurers	7,818	5,921
Amounts due to related parties (Note 24)	1,468	1,142
Total payables and other liabilities	11,943	8,857
Current	11,943	8,857
Total payables and other liabilities	11,943	8,857

14. Unearned premium liabilities

	2015 $'000	2014 $'000
Balance at the beginning of the financial year	48,264	46,814
Premiums written during the financial year (Note 4)	88,744	85,827
Premiums earned during the financial year (Note 4)	(87,348)	(84,377)
Balance at the end of the financial year	49,660	48,264

14.1 Liability adequacy test

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

15. Outstanding claims liabilities

15.1 Gross outstanding claims liabilities

	2015 $'000	2014 $'000
Gross central estimate - undiscounted	79,426	67,775
Discount to present value	(4,721)	(4,673)
Claim handling expenses	4,610	4,274
Risk margin	15,645	14,504
Gross outstanding claims liabilities	94,960	81,880
Current	36,451	35,634
Non-current	58,509	46,246
Gross outstanding claims liabilities	94,960	81,880

Notes to the financial statements (continued)

15.2 Reconciliation of movement in discounted outstanding claims liabilities

	Note	2015 $'000	2014 $'000
Net outstanding claims liabilities at the beginning of the financial year		**61,519**	61,004
Prior periods			
Payments net of reinsurance recoveries		**(20,589)**	(20,859)
Movement in discounting		**1,561**	2,008
Margin release on prior periods		**(6,351)**	(6,435)
Incurred claims due to changes in assumptions and experience		**5,960**	5,946
Change in discount rate		**867**	(945)
Current period			
Net ultimate incurred costs		**27,312**	24,309
Payments net of reinsurance recoveries		**(3,921)**	(3,509)
Net outstanding claims liabilities at end of the financial year		**66,358**	61,519
Reinsurance and other recoveries receivable	10	**28,602**	20,361
Gross outstanding claims liabilities		**94,960**	81,880

15.3 Claims development tables

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

Company	Accident year											2015
Accident year	**Prior $'000**	**2006 $'000**	**2007 $'000**	**2008 $'000**	**2009 $'000**	**2010 $'000**	**2011 $'000**	**2012 $'000**	**2013 $'000**	**2014 $'000**	**2015 $'000**	**Total $'000**
Estimate of ultimate claims cost:												
At end of accident year		20,202	23,693	18,079	21,132	18,465	16,231	18,287	19,361	18,938	21,029	21,029
One year later		16,823	16,966	17,655	20,553	14,266	17,029	19,720	20,578	19,999		19,999
Two years later		13,243	14,780	18,099	18,443	14,662	16,683	21,936	22,691			22,691
Three years later		11,123	13,490	17,276	18,735	16,298	18,860	22,673				22,673
Four years later		10,151	13,922	17,639	19,140	16,539	18,674					18,674
Five years later		12,393	13,380	18,912	18,761	16,595						16,595
Six years later		12,073	13,336	18,952	20,331							20,331
Seven years later		11,754	12,991	18,586								18,586
Eight years later		11,852	12,918									12,918
Nine years later		11,735										11,735
Current estimate of cumulative claims cost	24,379	11,735	12,918	18,586	20,331	16,595	18,674	22,673	22,691	19,999	21,029	209,610
Cumulative payments	24,379	11,666	12,737	17,496	18,271	15,097	16,239	16,807	15,358	8,788	3,670	160,508
Outstanding claims - undiscounted	-	69	181	1,090	2,060	1,498	2,435	5,866	7,333	11,211	17,359	49,102
Discount to present value		(1)	(5)	(59)	(124)	(86)	(132)	(345)	(444)	(695)	(1,108)	(2,999)
Outstanding claims	-	68	176	1,031	1,936	1,412	2,303	5,521	6,889	10,516	16,251	46,103
Claims handling expenses												4,610
Risk margin												15,645
Total net outstanding claims liabilities												66,358
Reinsurance and other recoveries receivable												28,602
Total gross outstanding claims liabilities												94,960

The claims development table discloses amounts net of reinsurance and third party recoveries to give the most meaningful insight into the impact on profit or loss.

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Notes to the financial statements (continued)

15.4 Actuarial Assumptions and Methods

a) Assumptions

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

	2015	2014
Weighted average term to settlement (years)	**2.16**	1.86
Economic inflation rate	**3.0%**	3.0%
Superimposed inflation rate	**6.0%**	6.0%
Discount rate	**3.0%**	4.0%
Claim handling expense ratio	**10.0%**	10.0%
Risk margin	**30.9%**	30.9%

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

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

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

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

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

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

The assumptions regarding uncertainty for each class are applied to the net central estimates, and the results aggregated, allowing for diversification in order to arrive at an overall provision, which is intended to have a 90% (2014: 90%) probability of sufficiency (**POS**).

Notes to the financial statements (continued)

b) Impact of changes in assumptions

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

	Movement in variables	2015 $'000	2014 $'000
Weighted average term to settlement - years	+0.5	**1,892**	1,473
	-0.5	**(1,839)**	(1,439)
Inflation rate	+1%	**1,248**	983
	-1%	**(1,236)**	(976)
Discount rate	+1%	**(1,295)**	(1,014)
	-1%	**1,334**	1,041
Claim handling expense ratio	+1%	**603**	559
	-1%	**(603)**	(559)
Risk margin	+1%	**507**	470
	-1%	**(507)**	(470)

c) Actuarial information

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

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

The outstanding claims reserves disclosed for the Company have been calculated in accordance with the New Zealand Society of Actuaries Professional Standard No.4.1 "Valuation of General Insurance Claims". The effective date of the Appointed Actuary's advice is 31 March 2015, updated to 30 June 2015. The Appointed Actuary is satisfied that they have obtained all of the information and explanations required.

He is satisfied that the actuarial information has been used appropriately in the preparation of the financial statements and included appropriately in the financial statements.

In particular, the Appointed Actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liabilities. There were no qualifications contained in his actuarial advice. The key assumptions used in the compilation of the reserves as at 30 June 2015 have been outlined above.

In addition, the Company's Board Audit and Risk Committee (**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.

Notes to the financial statements (continued)

16. Employee benefit obligations

	2015 $'000	2014 $'000
Employee entitlements	1,723	1,847
Total employee benefits obligation	1,723	1,847
Current	1,723	1,847
Total employee benefits obligation	1,723	1,847

16.1 Share-based payments

The Company 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 Suncorp Group Limited share plans. Shares offered in these share plans are granted by SGL over its own shares to employees of SGL subsidiaries.

SGL operates other equity-settled share plans that are not subject to performance conditions. Key features are set out below:

Equity plans	Suncorp Employee Share plan (tax exempt)
Eligible plan participant	All employees
Basis of share grant / issue	Market value of shares up to AUD $1,000 per employee per year may be granted by the Board based on the Suncorp Group's overall performance.
Vesting	Fully vested, not subject to forfeiture.
Dividend entitlements	Full entitlement to dividend from when the shares are acquired and held in the Plan.
Fair value	Market value of the shares on the date they were acquired.

The SGL Board approved a grant to each eligible employee ordinary shares of SGL to the value of AUD $1,000 (2014: AUD $1,000) under the Suncorp Employee share Plan (tax exempt) for the financial year. These shares will be acquired on-market for allocation to employees by the share plan in October 2015 (2014: October 2014).

The expense included in the profit or loss in relation to the Suncorp Employee Share plan for the financial year ended 30 June 2015 for the Company was $38,080 (2014: $35,310).

17. Share capital

	2015 Shares No. (000)	2015 Shares $'000	2014 Shares No. (000)	2014 Shares $'000
Issued and fully paid ordinary shares	15,000	15,000	15,000	15,000
Shareholder contribution under equity settled 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 2015, the Company had 15,000,100 ordinary shares with no par value issued to Vero Insurance New Zealand Limited (2014:15,000,100). All shares rank equally with one vote attached to each fully paid ordinary share.

Notes to the financial statements (continued)

18. Capital management

18.1 Capital management policies and objectives

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

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

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

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

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

The Company's Board Audit and Risk Committees 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 investment strategy.

18.2 Capital composition

The Company manages its capital by considering both regulatory and economic capital. The primary source of capital used is total equity attributable to owners. Total equity attributable to owners equates to capital as defined in the Solvency Standard and shown in Note 18.3 below.

18.3 Regulatory capital

Regulatory capital is made up of two components, actual solvency capital and minimum solvency capital with the difference representing the solvency margin. The calculation of the solvency margin for the Company is detailed below:

	2015 $'000	2014 $'000
Actual solvency	**20,583**	23,792
Minimum solvency capital	**14,097**	13,557
Solvency Margin	**6,486**	10,235
Solvency Ratio	**1.46**	1.75

19. Credit rating

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

Notes to the financial statements (continued)

20. Notes to the statement of cash flows

	2015 $'000	2014 $'000
Profit for the financial year	**12,191**	13,445
Non-cash items		
Movement in financial assets at fair value through profit or loss	**(1,293)**	1,187
Depreciation and amortisation expense	**132**	145
Profit on disposal of plant and equipment	**(5)**	(16)
Change in assets and liabilities		
Increase in receivables and other assets net of investment receivables	**(1,075)**	(3,091)
Increase in reinsurance and other recoveries receivable	**(8,241)**	(6,790)
Increase in deferred reinsurance premiums	**(1,682)**	(557)
Decrease/(increase) in deferred acquisition costs	**386**	(732)
Increase in deferred tax asset	**(100)**	(347)
Increase/(decrease) in payables and other liabilities net of investment payables	**2,326**	(355)
(Decrease)/increase in current tax liabilities	**(5,474)**	317
Increase in unearned premium liabilities	**1,396**	1,450
Increase in outstanding claims liabilities	**13,080**	7,305
Decrease in employee benefit obligations	**(124)**	(137)
(Decrease)/increase in deferred tax liabilities	**(108)**	205
Net cash from operating activities	**11,409**	12,029

21. Financial instruments

21.1 Comparison of fair value to carrying amounts

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

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

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

Financial assets and liabilities that are not recognised and measured at fair value include cash and cash equivalents, receivables and other assets and payables. The basis of recognition and measurement of these financial assets and liabilities is described in Note 27. Their carrying value is a reasonable approximation of their fair value.

21.2 Fair value hierarchy

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

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

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

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Notes to the financial statements (continued)

21.2 Fair value hierarchy (continued)

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
As at 30 June 2015				
Financial assets				
Investment securities	**14,681**	**79,162**	**-**	**93,843**
As at 30 June 2014				
Financial assets				
Investment securities*	9,655	86,978	-	96,633

* The fair value hierarchy of term deposits and transferable certificates has been reclassified from Level 1 to Level 2 due to the investments not being traded in an active market. This reclassification amounted to $19,859,000 for the Company.

There have been no significant transfers between Level 1 and Level 2 during the year ended 30 June 2015 for the Company.

21.3 Accounting classification and fair values

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

	Designated at Fair Value	Loans and Receivables	Other Financial Liabilities	Carrying amount	Fair Value
2015	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	**-**	**8,848**	**-**	**8,848**	**8,848**
Receivables and other assets	**-**	**27,284**	**-**	**27,284**	**27,284**
Investment securities	**93,843**	**-**	**-**	**93,843**	**93,843**
	93,843	**36,132**	**-**	**129,975**	**129,975**
Payables and other liabilities*	**-**	**-**	**(10,731)**	**(10,731)**	**(10,731)**
2014					
Cash and cash equivalents	-	8,037	-	8,037	8,037
Receivables and other assets	-	26,214	-	26,214	26,214
Investment securities	96,633	-	-	96,633	96,633
	96,633	34,251	-	130,884	130,884
Payables and other liabilities*	-	-	(7,888)	(7,888)	(7,888)

* Payables and other liabilities excludes GST payable which is not a financial liability as it is created as a result of statutory requirements as opposed to being a contractual obligation.

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Notes to the financial statements (continued)

22. Risk management

22.1 Risk management objectives and structure

As the Company is an entity within the Suncorp Group, it works within the context of the Suncorp Group risk management objectives and structure as described below.

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

An Enterprise Risk Management Framework (**ERMF**) is in place for the Suncorp Group. It is subject to an annual review, updated for material changes as they occur and is approved by the Group Board, and separately endorsed by the Company's Board. The ERMF comprises:

- the Suncorp Group's risk appetite framework and its link to strategic business and capital plans. Risk Appetite is set at Suncorp Group level and at the BU level in Board-approved Risk Appetite Statements. Each company in the Group has its own RAS.
- accountabilities and governance arrangements for the management of risk within the Three Lines of Defence model.
- risk management processes.

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

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

Notes to the financial statements (continued)

22.1 Risk management objectives and structure (continued)

Management recommends to the Company Board, and the Board has approved, various frameworks, policies and limits relating to key categories of risk faced by the Company. Management has the primary responsibility and accountability for embedding the risk management framework within the business operations of the Company. The Company's parent Vero Insurance New Zealand Limited (**VINZL**), has a Chief Risk Officer (**CRO**) who has the management responsibility for risk, compliance and related issues of the Company including acting as the CRO for the Company. This person indirectly reports to the Group Chief Risk Officer employed by the ultimate parent company.

The Company and VINZL have in place a number of Management Committees, each with its own charter, to execute specified responsibilities in the risk framework.

These committees include a Vero NZ Asset and Liability Committee (**ALCO**) and a Vero NZ Risk and Governance Committee (**RGC**). The primary role of the Vero NZ ALCO is to oversee the management of selected financial risks arising from the activities of the Vero NZ business within the Company Board approved risk parameters: Insurance Risk: includes the following economic aspects– Pricing, Reserving, Concentration and Reinsurance; Counterparty Risk; Market Risk; Balance Sheet Risk; and Liquidity Risk.

The ALCO provides effective governance over aspects of the risk framework designed to optimise the long-term returns achieved by portfolios within any risk appetite or parameters established by the Board.

The primary role of the Vero NZ RGC is to oversee the management of governance and other non-financial aspects of selected risks arising from the activities of the business within the Company Board approved risk parameters: Insurance Risk, Compliance Risk, Operational Risk and Strategic Risk.

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

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

Key risks	Definition
Credit risk (counterparty risk)	The risk that a counterparty will not meet its obligations in accordance with agreed terms
Liquidity risk	The risk that the Company will be unable to service its cash flow obligations today or in the future
Market risk	The risk of unfavourable changes in foreign exchange rates, interest rates, equity prices, credit spreads, commodity prices, and market volatilities
Asset and liability risk	The risk to earnings and capital from mismatches between assets and liabilities with varying maturity and repricing profiles and from mismatches in term
Insurance risk	The risk of financial loss and the inability to meet liabilities due to inadequate or inappropriate insurance product design, pricing, underwriting, concentration risk, reserving, claims management and/or reinsurance management
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events
Compliance risk	The risk of legal or regulatory sanctions, financial loss, or loss to reputation which the Company may suffer as a result of its failure to comply with all applicable regulations, codes of conduct and good practice standards
Strategic risk	The risk that our business model or strategy is not viable due to uncertainties in the future operating environment

Notes to the financial statements (continued)

22.2 Company insurance risk management

a) Policies and practices for mitigating insurance risk

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

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

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

b) Terms and conditions of insurance business

Insurance contracts are generally entered into on an annual basis and at the time of entering into a contract all terms and conditions are negotiable or, in the case of renewals, renegotiated. Non-standard and long-term policies may only be written if expressly approved by a relevant delegated authority. There are no special terms and conditions in any non-standard contracts that would have a material impact on the financial statements.

22.3 Credit risk

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

Key sources of credit risk	How are these managed
Premiums receivable	Payment default will result in the termination of the insurance contract with the policyholders, eliminating both the credit risk and insurance risk for the unpaid balance. Where business is written through intermediaries, limited credit is provided under the terms and conditions of the agreement with the respective intermediary, with debtor control ensuring constant attention is paid to minimise overdue debts.
Investments in financial instruments	Investments in financial instruments in the investment portfolios are held in accordance with the investment mandates. Credit limits have been established within these guidelines to ensure counterparties have appropriate credit ratings. An investment framework is in place that sets and monitors investment strategies and arrangements.
Reinsurance recoveries	Eligible recoveries under reinsurance arrangements are monitored and managed internally and by specialised reinsurance brokers operating in the international reinsurance market.

Notes to the financial statements (continued)

22.3 Credit risk (continued)

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.

The carrying amount of the relevant asset classes in the statement of financial position represents the maximum amount of credit exposures.

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.

	Credit Rating						
	AAA	AA	A	BBB	Non-investment grade	Not Rated	Total
2015	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	-	6,719	2,129	-	-	-	8,848
Investment securities	11,696	53,283	26,968	1,896	-	-	93,843
Reinsurance and other recoveries	-	5,076	19,353	-	-	4,173	28,602
Other assets	-	-	-	-	-	1,002	1,002
Premiums due	-	-	-	-	-	25,234	25,234
Amounts due from reinsurers	-	799	249	-	-	-	1,048
	11,696	65,877	48,699	1,896	-	30,409	158,577
2014							
Cash and cash equivalents	-	466	7,571	-	-	-	8,037
Investment securities	-	73,534	19,792	3,307	-	-	96,633
Reinsurance and other recoveries	-	11,323	5,291	-	-	3,747	20,361
Other assets	-	-	-	-	-	954	954
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

Notes to the financial statements (continued)

22.3 Credit risk (continued)

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

		Past due but not impaired					
	Neither past due nor impaired	0-3 mths	3-6 mths	6-12 mths	>12 mths	Impaired	Total
2015	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Premiums due	**24,310**	**910**	**14**	**-**	**-**	**-**	**25,234**
2014							
Premiums due	21,578	932	92	-	-	-	22,602

22.4 Liquidity risk

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

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

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

Notes to the financial statements (continued)

22.4 Liquidity risk (continued)

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

	Carrying amount	1 year or less	1 to 5 years	Over 5 years	Total
2015	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Amounts due to reinsurers	7,818	7,818	-	-	7,818
Trade creditors and accruals	685	685	-	-	685
Investment payables	760	760	-	-	760
Outstanding claims liabilities	94,960	36,451	50,893	7,616	94,960
Amounts due to related parties	1,468	1,468	-	-	1,468
	105,691	47,182	50,893	7,616	105,691
2014					
Amounts due to reinsurers	5,921	5,921	-	-	5,921
Trade creditors and accruals	825	825	-	-	825
Outstanding claims liabilities	81,880	35,634	42,178	4,068	81,880
Amounts due to related parties	1,142	1,142	-	-	1,142
	89,768	43,522	42,178	4,068	89,768

22.5 Market risk

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

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

The Insurance Funds investment portfolios support the outstanding claims liabilities of the business. The portfolios are managed over benchmarks set in a manner consistent with the expected duration of claims payments ensuring any variations from a matched position is constrained. 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 securities 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 or loss.

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

Notes to the financial statements (continued)

a) Interest rate risk

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

A change in the market value of investments in interest-bearing securities is immediately recognised in the profit and loss. The insurance funds hold significant interest-bearing securities in support of corresponding insurance provisions and are invested in a manner consistent with the expected duration of claims payments.

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

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

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

	2015			2014		
	Exposure	Change in variable	Profit (loss) after tax & equity	Exposure	Change in variable	Profit (loss) after tax & equity
	$'000	%	$'000	$'000	%	$'000
Interest bearing investment securities	93,843	+1	(1,108)	96,633	+1	(817)
		-1	1,147		-1	852
	93,843			96,633		

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

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

b) Foreign exchange risk

The Company has no material foreign exchange risk.

Notes to the financial statements (continued)

c) Credit spread risk

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

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

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

	2015			2014		
	Exposure	Change in variable	Profit (loss) after tax & equity	Exposure	Change in variable	Profit (loss) after tax & equity
	$'000	%	$'000	$'000	%	$'000
Discounted securities and corporate bonds	71,597	+1	(777)	73,336	+1	(600)
		-1	799		-1	625
Government and local government securities	22,246	+1	(331)	23,297	+1	(217)
		-1	348		-1	227
	93,843			96,633		

d) Equity/commodity price risks

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

22.6 Capital management

The Company's capital management policies and objectives together with details of the amount of equity retained for the purpose of financial soundness are described in Note 18.

23. Commitments of expenditure

	2015 $'000	2014 $'000
Lease commitments		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	1,015	1,015
Later than one year but not later than 5 years	4,060	598
Later than 5 years	4,652	-
Non cancellable operating leases	9,727	1,613

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.

Notes to the financial statements (continued)

24. Related parties

24.1 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.

24.2 Transactions and balances

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

	2015 $'000	2014 $'000
Premiums received		
Fellow subsidiaries of the ultimate parent	15	15
Premiums paid		
Fellow subsidiaries of the ultimate parent	18	17
Accounting and administration fees received		
Parent	1,478	1,234
Fellow subsidiaries of the ultimate parent	12	-
Accounting and administration services paid		
Parent	4,112	3,771
Fellow subsidiaries of the ultimate parent	3	3
Management services and profit shares paid		
Other related parties	1,942	2,066
Group tax loss offsets paid		
Parent	5,476	5,168
Fellow subsidiaries of the ultimate parent	5,000	-
Dividend paid		
Parent	15,300	21,200

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

	2015 $'000	2014 $'000
Amounts receivable from:		
Parent	-	378
Total amounts receivable from related parties	-	378
Amounts payable to:		
Parent	459	-
Fellow subsidiaries of the ultimate parent	7	1
Other related parties	1,002	1,141
Total amounts payable to related parties	1,468	1,142

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

Notes to the financial statements (continued)

24.3 Key management personnel

Key Management Personnel (**KMP**) are those persons who have authority and responsibility for planning, directing and controlling the activities of the Company, directly and indirectly. KMP include all Directors of the Company (executive and non-executive) as well as Senior Executives who report to the Managing Director. G T Ricketts is remunerated directly by Suncorp Group while G C Dransfield, E S Edgar and D M Flacks are remunerated by the Company's parent Vero Insurance New Zealand Limited.

	2015 $'000	2014 $'000
Short-term employee benefits	1,794	1,886
Total Compensation	**1,794**	1,886

25. Auditor's remuneration

	2015 $'000	2014 $'000
During the year the auditor of the Company was paid for the following services:		
Audit fees		
Audit of annual accounts of the Company	**141**	137
Non-audit fees		
Assurance engagements on RBNZ solvency returns	**59**	58
Total auditor's remuneration	**200**	195

26. Contingent liabilities

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

27. Significant accounting policies

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

27.1 Foreign currency

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

KPMG

Notes to the financial statements (continued)

27.2 Revenue and expense recognition

a) Premium Revenue

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

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

b) Claims expense

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

c) Reinsurance

Reinsurance commission income

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 pattern of recognising the corresponding premium revenue.

Reinsurance and other recoveries revenue

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

Outwards reinsurance expense

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

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

d) Investment Revenue

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

Investment revenue is classified as either investment income on insurance funds or shareholder funds. Investment income on insurance funds represents revenue derived from financial assets backing general insurance liabilities as detailed in Note 27.7(c) while investment income from shareholder funds represents revenue from financial assets that do not back general insurance liabilities.

Notes to the financial statements (continued)

27.3 Income tax

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

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

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

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

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

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

a) Goods and service tax

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

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

27.4 Cash and cash equivalents

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

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

27.5 Receivables and other assets

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.

27.6 Payables and other liabilities

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

Notes to the financial statements (continued)

27.7 Financial assets

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

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

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

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

At each reporting date measurement depends upon the chosen classification.

a) Financial assets at fair value through profit or loss

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

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

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

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

b) Loans and receivables

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

c) General insurance activities

Financial assets backing general insurance liabilities

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

The Company has designated financial assets held in portfolios intended to match the average duration of a corresponding insurance liability as assets backing general insurance liabilities. These financial assets include investment securities and are designated at fair value through profit or loss as they are managed and their performance evaluated on a fair value basis for internal and external reporting in accordance with the investment strategy.

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

Notes to the financial statements (continued)

c) General insurance activities (continued)

Financial assets not backing general insurance liabilities

Financial assets that do not back general insurance liabilities include investments and loans and receivables. Investments have been designated at fair value through profit or loss as they are managed and their performance evaluated on a fair value basis for internal and external reporting in accordance with the investment strategy. Loans and receivables related to investments are measured at each reporting date at amortised cost using the effective interest method.

27.8 Financial liabilities

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

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

a) Financial liabilities at fair value through profit or loss

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

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

b) Financial liabilities at amortised cost

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

27.9 Lease transactions

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

27.10 Plant and Equipment

a) Recognition and initial measurement

An item of plant and equipment is recognised (capitalised) as an asset if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Plant and equipment is initially measured at cost, which comprises:

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

b) Subsequent measurement

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

Notes to the financial statements (continued)

c) Depreciation

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

The following depreciation rates have been used:

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

d) Retirement

The carrying amount of 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.

27.11 Impairment

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

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

a) Calculation of recoverable amount

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

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

b) Reversal of impairment

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

Notes to the financial statements (continued)

27.12 Employee benefit obligations

a) Short term employee benefits

Wages, salaries and annual leave

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

Sick leave

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

Short term bonus plans

A liability is recognised for short term bonus plans when the benefit calculations are formally documented and determined before signing the financial statements and past practice supports the calculation.

Other leave and non-monetary benefits

The cost associated with parental leave as well as non-monetary benefits such as car-parking, payments of professional memberships and discounts is recognised in the period in which the employee takes the benefits. A liability is not recognised for any non-accumulating benefits employees have not taken during the period.

b) Post-employment benefits (superannuation)

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

c) Other long term employee benefits

Long service leave

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

Annual Leave

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

d) Termination benefits

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

Notes to the financial statements (continued)

27.13 Deferred insurance activities

a) Deferred acquisition costs (DAC)

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

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

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

b) Deferred reinsurance premiums

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

27.14 Outstanding claims liabilities

The outstanding claims liability is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date and includes an additional risk margin to allow for the inherent uncertainty in the central estimate. Standard actuarial methods are applied to all classes of business to assess the net central estimate of outstanding claims liabilities. The outstanding claims liability is heavily dependent on assumptions and judgements. The details of actuarial assumptions and the process for determining the risk margins are set out in Note 15.4.

27.15 Unearned premium liabilities

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

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

27.16 Contributed capital

a) Ordinary shares

Ordinary shares are recognised as equity.

b) Transaction Costs

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

c) Dividends

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

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

Notes to the financial statements (continued)

27.17 Contingent liabilities and contingent assets

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

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

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

27.18 Changes in accounting estimates

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

27.19 New accounting standards and interpretations not yet adopted

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

28. Subsequent events

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

17 July 2015

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 2015 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 2015; 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 2015; and

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

Yours sincerely

Karl Marshall

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