Vero Liability Insurance Limited

Financial report
for the financial year ended 30 June 2017

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Vero Liability Insurance Limited

Financial report

for the financial year ended 30 June 2017

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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 2017.

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 Directors of the Company at any time during or since the end of the financial year are:

Non-executive
M A Cameron (Appointed 1 September 2016)
D M Flacks
A R Gerry
G T Ricketts (Chairman)
P W Smeaton

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 1010
New Zealand

Dividends
During the financial year, the Company paid dividends totalling $3,200,000 (2016: $1,200,000). 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 2017 was $12,034,000 for the Company compared with net profit after income tax of $12,194,000 for the previous year ended 30 June 2016.

Events subsequent to reporting date
There is, at the date of this Report, no matter or circumstance that has arisen since 30 June 2017 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

Michael A Cameron

FCPA, FCA, FAICD, BBus (Accounting)

Director and the Chief Executive Officer and Managing Director of Suncorp Group since October 2015. Prior to this he was a non-executive Director of Suncorp Group Limited for three years. Mr Cameron has extensive domestic and international experience in business, including as a senior executive across financial services and property industries. Mr Cameron is an experienced Director having served on a number of ASX and not-for-profit boards.

David M Flacks

BA, MA, St John's College, University of Cambridge

Director since December 2013. Mr Flacks is an experienced governance and regulatory professional having been a senior corporate lawyer for many years. He is chair of a number of company boards as well as the Markets Disciplinary Tribunal of the NZX.

He is also a Director of Vero Insurance New Zealand Limited (the immediate parent company of Vero Liability Insurance Limited) and Asteron Life Limited (a related company of Vero Liability Insurance Limited).

Alison R Gerry

MAPPFin, BMS (Hons), CFTP

Director since July 2015. Ms Gerry is an experienced professional Director who has significant financial, commercial, governance and strategic experience in the financial services sector in New Zealand, Australia, London and Hong Kong. Ms Gerry is also a Director of Vero Insurance New Zealand Limited and Asteron Life Limited and chairs the Board Audit & Risk Committees of those companies.

Geoffrey T Ricketts CNZM

LLB (Hons), LLD (honoris causa), FInstD

Director since 2012. Mr Ricketts is a commercial lawyer, having been a partner of a major New Zealand law firm for over 25 years. He has extensive experience in New Zealand and Australia.

He is also a Director of a number of other companies. He is also the Chairman of Vero Insurance New Zealand Limited and Asteron Life Limited.

Paul W Smeaton

BBM, MAICD

Director since September 2015. Mr Smeaton has been with Suncorp since 1997 and has over 30 years' financial services experience, having worked in banking, insurance, funds management and stock broking. Mr Smeaton is Chief Executive Officer of Suncorp New Zealand and is also a Director of Vero Insurance New Zealand Limited and AA Insurance Limited, a subsidiary of Vero Insurance New Zealand Limited.

Mr Smeaton is also on the board of the Insurance Council of New Zealand.

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.

Directors' report (continued)

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.

This financial report of the Company was approved for issue by the Board on 31 July 2017.

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, Alison Gerry and David Flacks), two non-executive Directors who are not independent (Michael Cameron and Paul Smeaton) and two executive Directors being the 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 Company and how the candidate's attributes will balance and complement the future requirements 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 is 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. Other matters covered by the constitution include the appointment and removal of Directors, the minimum number of Directors, the quorum for Board meetings, meeting procedures, Directors' interests 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 regularly review its charter and its continuing adequacy.

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, Internal Capital Adequacy Assessment Process (**ICAAP**), 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'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's policies (amended to reflect New Zealand requirements where appropriate). These policies include Conflicts of Interest, Business Continuity Management, Whistleblower, Product Approval and Platform Management, Securities Trading, Equal Employment Opportunity and Diversity, and Safety and Wellbeing. 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 together with the Managing Director, and the majority of members are independent. Alison Gerry, an independent non-executive Director of the Company, has a finance 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 Suncorp New Zealand. Regular reports are also received from Suncorp Internal Audit (which provides objective internal audit services to the Suncorp Group), and the Company's external auditor. Other attendees of BARC meetings include representatives from Suncorp New Zealand's Risk and Finance functions, Suncorp Internal Audit, the Suncorp Chief Legal 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, ICAAP, 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 regularly review its charter.

Information on the Company's approach to Risk Management is contained in Note 22.

KPMG

Independent Auditor's Report

To the shareholder of Vero Liability Insurance Limited

Report on the financial statements

Opinion

In our opinion, the accompanying financial statements of Vero Liability Insurance Limited (the company) on pages 10 to 46:

i. present fairly in all material respects the company's financial position as at 30 June 2017 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

— the statement of financial position as at 30 June 2017;

— the statements of comprehensive income, changes in equity and cash flows for the year then ended; and

— notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)"). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the company in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the Auditor's Responsibilities for the Audit of the financial statements section of our report.

Our firm has also provided other services to the company in relation to regulatory assurance engagements. 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. The firm has no other relationship with, or interest in, the company.

Other Information

The Directors, on behalf of the company, are responsible for the other information included in the entity's Annual Report. Other information includes the directors' report. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Use of this Independent Auditor's Report

This report is made solely to the shareholder as a body. Our audit work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the Independent Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholder as a body for our audit work, this report, or any of the opinions we have formed.

Responsibilities of the Directors for the financial statements

The Directors, on behalf of the company, 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);

— implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and

— assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the financial statements

Our objective is:

— to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and

— to issue an Independent Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page6.aspx.

This description forms part of our Independent Auditor's Report.

KPMG

KPMG
Auckland
New Zealand

31 July 2017

Statement of comprehensive income
for the financial year ended 30 June 2017

	Note	2017 $'000	2016 $'000
Premium revenue	4	90,094	89,122
Outwards reinsurance premium expense	11	(20,636)	(20,800)
Net premium revenue		69,458	68,322
Claims expense	5	(43,312)	(40,465)
Reinsurance and other recoveries revenue	4, 5	13,925	11,160
Net incurred claims	5	(29,387)	(29,305)
Acquisition costs	12	(24,373)	(22,876)
Other underwriting expenses		(5,491)	(6,442)
Underwriting expenses		(29,864)	(29,318)
Reinsurance commission revenue	4	2,982	2,317
Underwriting result		13,189	12,016
Investment income on insurance funds	4.1	2,799	4,073
Investment expense on insurance funds		(187)	(180)
Insurance trading result		15,801	15,909
Investment income on shareholder funds	4.1	1,089	1,193
Investment expense on shareholder funds		(104)	(80)
Profit before tax	6	16,786	17,022
Income tax expense	7.1	(4,752)	(4,828)
Profit for the financial year attributable to owners of the Company		12,034	12,194
Other comprehensive income		-	-
Total comprehensive income for the financial year		12,034	12,194

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

KPMG

Statement of financial position
as at 30 June 2017

	Note	2017 $'000	2016 $'000
Assets			
Cash and cash equivalents		**6,984**	1,828
Receivables and other assets	8	**26,651**	25,717
Investment securities	9	**129,037**	119,623
Reinsurance and other recoveries receivable	10	**33,924**	29,686
Deferred reinsurance premiums	11	**14,763**	13,686
Deferred acquisition costs	12	**10,008**	9,118
Plant and equipment		**545**	576
Deferred tax assets	7.4	**673**	654
Total assets		**222,585**	200,888
Liabilities			
Payables and other liabilities	13	**12,270**	12,401
Current tax liabilities	7.3	**793**	2,215
Unearned premium liabilities	14	**50,225**	48,188
Outstanding claims liabilities	15	**113,056**	100,921
Employee benefit obligations	16	**2,051**	2,057
Deferred tax liabilities	7.4	**2,803**	2,553
Total liabilities		**181,198**	168,335
Net assets		**41,387**	32,553
Equity			
Share capital	17	**15,047**	15,047
Retained profits		**26,340**	17,506
Total equity attributable to owners of the Company		**41,387**	32,553
Total equity		**41,387**	32,553

The Board of Directors of Vero Liability Insurance Limited approved these financial statements for issue on 31 July 2017.

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 2017

	Note	Share capital $'000	Retained profits $'000	Total $'000
Balance as at 1 July 2015		15,047	6,512	21,559
Profit for the financial year		-	12,194	12,194
Total comprehensive income for the financial year		-	12,194	12,194
Transactions with the owners, recorded directly in equity				
Dividends paid	3	-	(1,200)	(1,200)
Balance as at 30 June 2016		**15,047**	**17,506**	**32,553**
Profit for the financial year		**-**	**12,034**	**12,034**
Total comprehensive income for the financial year		**-**	**12,034**	**12,034**
Transactions with the owners, recorded directly in equity				
Dividends paid	3	**-**	(3,200)	(3,200)
Balance as at 30 June 2017		**15,047**	**26,340**	**41,387**

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

KPMG

Statement of cash flows
for the financial year ended 30 June 2017

	Note	2017 $'000	2016 $'000
Cash flows from operating activities			
Premiums received		89,564	90,689
Claims paid		(31,177)	(34,504)
Interest received		4,782	4,855
Reinsurance and other recoveries received		11,539	8,702
Outward reinsurance premiums paid		(22,646)	(21,079)
Acquisition costs paid		(22,281)	(20,349)
Income tax paid*		(5,942)	(2,674)
Underwriting and other operating expenses paid		(5,509)	(6,015)
Net cash from operating activities	20	18,330	19,625
Cash flows from investing activities			
Proceeds from sale of investment securities		114,244	115,969
Payments for purchase of investment securities		(124,086)	(141,232)
Proceeds from sale of plant and equipment		56	48
Payments for purchases of plant and equipment and capitalised software costs		(188)	(230)
Net cash used in investing activities		(9,974)	(25,445)
Cash flows from financing activities			
Dividends paid to owners of the Company		(3,200)	(1,200)
Net cash used in financing activities		(3,200)	(1,200)
Net increase/(decrease) in cash and cash equivalents		5,156	(7,020)
Cash and cash equivalents at the beginning of the financial year		1,828	8,848
Cash and cash equivalents at the end of the financial year		6,984	1,828

* Income tax paid includes cash flows from tax offsets with related parties

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

KPMG

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 2016 to 30 June 2017.

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.

Notes to the financial statements (continued)

2.3 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

	2017		2016	
	¢ per share	$'000	¢ per share	$'000
Ordinary shares				
Final dividend	21	3,200	3	500
Interim dividend	-	-	5	700
Total dividends recognised in equity attributable to owners of the Company	21	3,200	8	1,200

4. Revenue

	2017 $'000	2016 $'000
Insurance income		
Gross written premium	92,131	87,650
Movement in unearned premium	(2,037)	1,472
Premium revenue	90,094	89,122
Reinsurance and other recoveries revenue	13,925	11,160
Reinsurance commission revenue	2,982	2,317
Total insurance income	107,001	102,599
Investment income		
Interest income	5,020	4,930
Net (loss)/gain on financial assets at fair value through profit or loss	(1,132)	336
Total investment income	3,888	5,266
Total revenue	110,889	107,865

4.1 Investment Income

	2017 $'000	2016 $'000
Investment income on insurance funds	2,799	4,073
Investment income on shareholder funds	1,089	1,193
Total investment income	3,888	5,266

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 2017			
Gross incurred claims and related expenses			
Undiscounted	44,228	(442)	43,786
Discount and discount movement	(1,858)	1,384	(474)
Gross incurred claims discounted	42,370	942	43,312
Reinsurance and other recoveries			
Undiscounted	(10,301)	(3,835)	(14,136)
Discount and discount movement	491	(280)	211
Reinsurance and other recoveries discounted	(9,810)	(4,115)	(13,925)
Net incurred claims	32,560	(3,173)	29,387
Year ended 30 June 2016			
Gross incurred claims and related expenses			
Undiscounted	41,084	(2,250)	38,834
Discount and discount movement	(1,543)	3,174	1,631
Gross incurred claims discounted	39,541	924	40,465
Reinsurance and other recoveries			
Undiscounted	(9,467)	(1,195)	(10,662)
Discount and discount movement	318	(816)	(498)
Reinsurance and other recoveries discounted	(9,149)	(2,011)	(11,160)
Net incurred claims	30,392	(1,087)	29,305

6. Profit before tax

	2017 $'000	2016 $'000
Profit before tax is arrived at after charging/(crediting) the following specific items:		
Contributions to defined contribution superannuation schemes	339	339
Depreciation on plant and equipment	150	130
Employee benefits	7,643	7,940
Gain on disposal of plant and equipment	13	1
Operating lease rental expenses	491	499

Notes to the financial statements (continued)

7. Income tax

7.1 Income tax expense

	2017 $'000	2016 $'000
Profit before tax	**16,786**	17,022
Prima facie income tax at 28% (2016: 28%)	**4,700**	4,766
Movement in income tax expense due to:		
Non-deductible expenditure	**59**	62
Adjustment for prior financial years	**(7)**	-
Income tax expense	**4,752**	4,828
Income tax expense recognised in profit consists of:		
Current tax expense		
Current year	**4,518**	4,839
Adjustments for prior financial years	**3**	(274)
	4,521	4,565
Deferred tax expense		
Current year	**241**	(11)
Adjustments for prior financial years	**(10)**	274
	231	263
Income tax expense	**4,752**	4,828

7.2 Imputation credits

	2017 $'000	2016 $'000
SGHNZL ICA Group	**202,422**	166,819
Imputation credits available for use in subsequent reporting periods	**202,422**	166,819

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

	2017 $'000	2016 $'000
Balance at the beginning of the financial year	**(2,215)**	(324)
Income tax paid	**5,940**	2,624
Current year tax on operating profit	**(4,518)**	(4,839)
Adjustment for prior financial years	**(3)**	274
Transfers between related parties	**3**	50
Balance at the end of the financial year	**(793)**	(2,215)

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:

	2017 $'000	2016 $'000
Deferred tax assets are attributable to		
Depreciable assets	52	37
Employee benefits	553	577
Payables and other liabilities	68	40
Total deferred tax assets	673	654
Deferred tax liabilities are attributable to		
Deferred acquisition costs	(2,803)	(2,553)
Total deferred tax liabilities	(2,803)	(2,553)
Net deferred tax liabilities	(2,130)	(1,899)
Movements		
Deferred tax assets		
Balance at the beginning of the financial year	654	976
Movement recognised in profit or loss	19	(322)
Balance at the end of the financial year	673	654
Deferred tax liabilities		
Balance at the beginning of the financial year	(2,553)	(2,612)
Movement recognised in profit or loss	(250)	59
Balance at the end of the financial year	(2,803)	(2,553)

8. Receivables and other assets

	2017 $'000	2016 $'000
Trade and other receivables		
Premiums due	24,762	22,195
Prepaid expenses	4	23
Amounts due from reinsurers	570	2,422
Total trade and other receivables	25,336	24,640
Other assets		
Accrued income	1,315	1,077
Total other assets	1,315	1,077
Total receivables and other assets	26,651	25,717
Current	26,651	25,717
Total receivables and other assets	26,651	25,717

Notes to the financial statements (continued)

9. Investment securities

	2017 $'000	2016 $'000
Financial assets at fair value through profit or loss		
Debentures and corporate bonds	60,774	55,824
Government and semi-government securities	32,006	27,807
Discounted securities*	36,257	35,992
Total investment securities	129,037	119,623

* Discounted securities include floating rate notes, term deposits and commercial papers.

10. Reinsurance and other recoveries receivable

	2017 $'000	2016 $'000
Expected future reinsurance and other recoveries undiscounted	35,360	30,911
Discount to present value	(1,436)	(1,225)
Total reinsurance and other recoveries receivable	33,924	29,686
Current	13,484	11,925
Non-current	20,440	17,761
Total reinsurance and other recoveries receivable	33,924	29,686

11. Deferred reinsurance premiums

	2017 $'000	2016 $'000
Balance at the beginning of the financial year	13,686	13,375
Reinsurance premium liability incurred	21,713	21,111
Reinsurance premium charged to profit or loss	(20,636)	(20,800)
Balance at the end of the financial year	14,763	**13,686**

12. Deferred acquisition costs

	2017 $'000	2016 $'000
Balance at the beginning of the financial year	9,118	9,328
Acquisition costs deferred	22,281	20,349
Amortisation charged to profit or loss	(24,373)	(22,876)
Reinsurance commission recognised in profit or loss	2,982	2,317
Balance at the end of the financial year	10,008	9,118

13. Payables and other liabilities

	2017 $'000	2016 $'000
Trade creditors and accruals	1,236	716
GST payable	715	1,030
Investment payables	1,644	941
Amounts due to reinsurers	6,917	7,850
Amounts due to related parties (Note 24)	1,758	1,864
Total payables and other liabilities	**12,270**	**12,401**
Current	12,270	12,401
Total payables and other liabilities	**12,270**	**12,401**

14. Unearned premium liabilities

	2017 $'000	2016 $'000
Balance at the beginning of the financial year	48,188	49,660
Premiums written during the financial year (Note 4)	92,131	87,650
Premiums earned during the financial year (Note 4)	(90,094)	(89,122)
Balance at the end of the financial year	**50,225**	**48,188**

14.1 Liability adequacy test

The liability adequacy test which was performed as at 30 June 2017 identified a surplus for the Company (30 June 2016: surplus).

15. Outstanding claims liabilities

15.1 Gross outstanding claims liabilities

	2017 $'000	2016 $'000
Gross central estimate - undiscounted	92,732	82,614
Discount to present value	(3,831)	(3,437)
Claim handling expenses	5,498	4,949
Risk margin	18,657	16,795
Gross outstanding claims liabilities	**113,056**	**100,921**
Current	44,823	38,349
Non-current	68,233	62,572
Gross outstanding claims liabilities	**113,056**	**100,921**

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Notes to the financial statements (continued)

15.2 Reconciliation of movement in discounted outstanding claims liabilities

	Note	2017 $'000	2016 $'000
Net outstanding claims liabilities at the beginning of the financial year		**71,235**	66,358
Prior periods			
Payments net of reinsurance recoveries		**(16,584)**	(19,915)
Movement in discounting		**1,453**	1,176
Margin release on prior periods		**(4,657)**	(4,950)
Incurred claims due to changes in assumptions and experience		**378**	1,313
Change in discount rate		**(347)**	1,374
Current period			
Net ultimate incurred costs		**32,560**	30,392
Payments net of reinsurance recoveries		**(4,906)**	(4,513)
Net outstanding claims liabilities at end of the financial year		**79,132**	71,235
Reinsurance and other recoveries receivable	10	**33,924**	29,686
Gross outstanding claims liabilities		**113,056**	100,921

15.3 Claims development tables

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

	Accident year											2017
Accident year	**Prior $'000**	**2008 $'000**	**2009 $'000**	**2010 $'000**	**2011 $'000**	**2012 $'000**	**2013 $'000**	**2014 $'000**	**2015 $'000**	**2016 $'000**	**2017 $'000**	**Total $'000**
Estimate of ultimate claims cost:												
At end of accident year		18,079	21,132	18,465	16,231	18,287	19,361	18,938	21,029	23,439	24,620	24,620
One year later		17,655	20,553	14,266	17,029	19,720	20,578	19,999	25,475	24,180		24,180
Two years later		18,099	18,443	14,662	16,683	21,936	22,691	20,700	23,899			23,899
Three years later		17,276	18,735	16,298	18,860	22,673	21,410	19,623				19,623
Four years later		17,639	19,140	16,539	18,674	22,158	20,843					20,843
Five years later		18,912	18,761	16,595	17,743	24,358						24,358
Six years later		18,952	20,331	15,692	17,777							17,777
Seven years later		18,586	19,502	15,692								15,692
Eight years later		18,556	19,318									19,318
Nine years later		18,630										18,630
Current estimate of cumulative claims cost		18,630	19,318	15,692	17,777	24,358	20,843	19,623	23,899	24,180	24,620	208,940
Cumulative payments		18,059	18,335	15,448	17,234	20,164	17,909	15,089	15,229	10,614	3,488	151,569
Outstanding claims - undiscounted	-	571	983	244	543	4,194	2,934	4,534	8,670	13,566	21,132	57,371
Discount to present value	-	(17)	(23)	(7)	(14)	(122)	(97)	(170)	(361)	(605)	(978)	(2,394)
Outstanding claims	-	554	960	237	529	4,072	2,837	4,364	8,309	12,961	20,154	54,977
Claims handling expenses												5,498
Risk margin												18,657
Total net outstanding claims liabilities												79,132
Reinsurance and other recoveries receivable												33,924
Total gross outstanding claims liabilities												113,056

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.

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:

	2017	2016
Weighted average term to settlement (years)	1.90	2.16
Economic inflation rate	3.0%	3.0%
Superimposed inflation rate	6.0%	6.0%
Discount rate	2.3%	2.1%
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.

Economic 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 after analysing the relative uncertainty of the outstanding claims estimate for each class of business and the diversification between classes.

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% (2016: 90%) probability of sufficiency (**POS**).

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Notes to the financial statements (continued)

b) Impact of changes in assumptions

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

	Movement in variables	2017 $'000	2016 $'000
Weighted average term to settlement - years	0.5	**2,547**	2,374
	-0.5	**(2,468)**	(2,298)
Inflation rate	1%	**1,331**	1,365
	-1%	**(1,321)**	(1,352)
Discount rate	1%	**(1,394)**	(1,429)
	-1%	**1,433**	1,473
Claim handling expense ratio	1%	**719**	648
	-1%	**(719)**	(648)
Risk margin	1%	**605**	544
	-1%	**(605)**	(544)

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. 30 "Valuation of General Insurance Claims". The effective date of the Mr Marshall's advice is 31 March 2017, updated to 30 June 2017.

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 2017 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.

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Notes to the financial statements (continued)

16. Employee benefit obligations

	2017 $'000	2016 $'000
Employee entitlements	2,051	2,057
Total employee benefits obligation	2,051	2,057
Current	2,051	2,057
Total employee benefits obligation	2,051	2,057

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 SGL 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 $750 (2016: AUD $750) 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 2017 (2016: October 2016).

The expense included in the profit or loss in relation to the Suncorp Employee Share plan for the financial year ended 30 June 2017 for the Company was $40,599 (2016: $40,580).

17. Share capital

	2017 Shares No. (000)	2017 Shares $'000	2016 Shares No. (000)	2016 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 2017, the Company had 15,000,100 ordinary shares with no par value issued to Vero Insurance New Zealand Limited (2016:15,000,100). 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 they were subject to during the year ended 30 June 2017.

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 capital computations and maintains 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 is included in the definition of "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:

	2017 $'000	2016 $'000
Actual solvency	30,714	28,699
Minimum solvency capital	16,825	15,858
Solvency Margin	13,889	12,841
Solvency Ratio	1.83	1.81

19. Credit rating

The Company has received an A+ credit rating from Standard & Poor's (2016: 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

	2017 $'000	2016 $'000
Profit for the financial year	12,034	12,194
Non-cash items		
Movement in financial assets at fair value through profit or loss	1,131	(336)
Depreciation expense	150	130
Profit on disposal of plant and equipment	13	1
Change in assets and liabilities		
(Increase)/decrease in receivables and other assets net of investment receivables	(934)	1,567
Increase in reinsurance and other recoveries receivable	(4,238)	(1,084)
Increase in deferred reinsurance premiums	(1,077)	(311)
(Increase)/decrease in deferred acquisition costs	(890)	210
(Increase)/decrease in deferred tax asset	(19)	322
(Decrease)/increase in payables and other liabilities net of investment payables	(834)	277
(Decrease)/increase in current tax liabilities	(1,422)	1,891
Increase/(decrease) in unearned premium liabilities	2,037	(1,472)
Increase in outstanding claims liabilities	12,135	5,961
(Decrease)/increase in employee benefit obligations	(6)	334
Increase/(decrease) in deferred tax liabilities	250	(59)
Net cash from operating activities	18,330	19,625

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.

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.

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 2017				
Financial assets				
Investment securities	31,206	97,831	-	129,037
As at 30 June 2016				
Financial assets				
Investment securities	20,954	98,669	-	119,623

There have been no material transfers between Level 1 and Level 2 during the year ended 30 June 2017.

21.3 Accounting classification

The carrying amount of financial assets and liabilities shown in the statement of financial position are as follows:

	Designated at Fair Value	Loans and Receivables	Other Financial Liabilities	Carrying amount
2017	$'000	$'000	$'000	$'000
Cash and cash equivalents	-	6,984	-	6,984
Receivables and other assets	-	26,651	-	26,651
Investment securities	129,037	-	-	129,037
	129,037	33,635	-	162,672
Payables and other liabilities*	-	-	(11,555)	(11,555)
2016				
Cash and cash equivalents	-	1,828	-	1,828
Receivables and other assets	-	25,717	-	25,717
Investment securities	119,623	-	-	119,623
	119,623	27,545	-	147,168
Payables and other liabilities*	-	-	(11,371)	(11,371)

* 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, as long as they are in the best interests of the Company.

The Company's Board recognises that effective risk management is considered to be critical to the achievement of the Company's objectives. The Company's Board Audit and Risk Committee (**BARC**) is responsible for making recommendations to 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.

A Group Board Approved 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 also approved by the Company's Board. The ERMF comprises:

- the Suncorp Group's Risk Statement (**RAS**) and its link to strategic business and capital plans. Risk Appetite is set at Suncorp Group level and at the Function level in Board-approved Risk Appetite Statements (**RAS**). The Company 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 policies, frameworks, standards and guidelines, and the Company's risk appetite	All business areas	• 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 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 • 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

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Notes to the financial statements (continued)

22.1 Risk management objectives and structure (continued)

The Company's 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 an Asset and Liability Committee (**ALCO**) and a Risk and Governance Committee (**RGC**). The primary role of the ALCO is to oversee the management of selected financial risks arising from the activities of the Company within the 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 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.

The Company's risk strategy is documented in the Board-approved Risk Management Programme (**RMP**). The RMP is intended to fulfil the requirements for a Risk Program to be put in place for licensed insurers in New Zealand pursuant to the Insurance (Prudential Supervision) Act 2010 and is to be read in conjunction with the ERMF which cascades to the Company via the RMP in a New Zealand context. The RMP is s subject to annual review and is submitted to the Reserve Bank of New Zealand.

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

Key risks	Definition
Credit and Counterparty risk	The risk that the other party in an agreement will default / will not meet its contractual 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, 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 that for any class of risk insured, the present value of actual claims payable, will exceed the present value of actual premium revenues generated (net of reinsurance).
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes legal risk, but excludes strategic and reputational risks
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 the Company's business model or strategy is not viable due to uncertainties in the future operating environment

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Notes to the financial statements (continued)

22.1 Risk management objectives and structure (continued)

Further discussions on the application of the Company's risk management practices are presented in the following sections:

- Note 22.2 Insurance risk management
- Note 22.3 to 22.5 Group risk management for financial instruments: credit, liquidity and market risks

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.

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Notes to the financial statements (continued)

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 mandates to ensure counterparties have appropriate credit ratings. A framework is in place that sets and monitors investment strategies and arrangements.
Reinsurance recoveries	Credit risk with respect to reinsurance programs is minimised by placement of cover with a number of reinsurers with strong credit ratings and in line with the applicable risk appetite statement. Eligible recoveries under reinsurance arrangements are monitored and managed internally and by specialised reinsurance brokers operating in the international reinsurance market.

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 processes for managing the risk during the period. The Aggregate Risk Exposures Policy prescribes processes and requirements to comply with APRA Prudential Standard 3PS 221 Aggregate Risk Exposures. The Company has reporting obligations to the Suncorp Group for breaches of limits prescribed in the Policy. Currently the limits apply to aggregate exposures to each of the Australian major banks.

Notes to the financial statements (continued)

22.3 Credit risk (continued)

	Credit Rating						
	AAA	AA	A	BBB	Non-investment grade	Not Rated	Total
2017	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	-	6,724	260	-	-	-	6,984
Investment securities	9,665	88,938	27,779	2,655	-	-	129,037
Reinsurance and other recoveries	-	6,215	22,587	-	-	5,122	33,924
Other assets	-	-	-	-	-	1,315	1,315
Premiums due	-	-	-	-	-	24,762	24,762
Amounts due from reinsurers	-	422	148	-	-	-	570
	9,665	102,299	50,774	2,655	-	31,199	196,592
2016							
Cash and cash equivalents	-	1,772	56	-	-	-	1,828
Investment securities	9,738	76,493	30,525	2,867	-	-	119,623
Reinsurance and other recoveries	-	3,771	20,892	-	-	5,023	29,686
Other assets	-	-	-	-	-	1,077	1,077
Premiums due	-	-	-	-	-	22,195	22,195
Amounts due from reinsurers	-	1,171	1,251	-	-	-	2,422
	9,738	83,207	52,724	2,867	-	28,295	176,831

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
2017	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Premiums due	24,247	478	37	-	-	-	24,762
2016							
Premiums due	21,852	316	27	-	-	-	22,195

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.

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Notes to the financial statements (continued)

22.4 Liquidity risk (continued)

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

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

	Carrying amount	1 year or less	1 to 5 years	Over 5 years	Total
2017	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Amounts due to reinsurers	6,917	6,917	-	-	6,917
Trade creditors and accruals	1,236	1,236	-	-	1,236
Investment payables	1,644	1,644	-	-	1,644
Outstanding claims liabilities	113,056	44,823	65,553	2,680	113,056
Amounts due to related parties	1,758	1,758	-	-	1,758
	124,611	56,378	65,553	2,680	124,611
2016					
Amounts due to reinsurers	7,850	7,850	-	-	7,850
Trade creditors and accruals	716	716	-	-	716
Investment payables	941	941	-	-	941
Outstanding claims liabilities	100,921	38,349	57,475	5,097	100,921
Amounts due to related parties	1,864	1,864	-	-	1,864
	112,292	49,720	57,475	5,097	112,292

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 recently, a movement of 100 basis points (2016: 100 basis points) is considered reasonably possible and has been applied to the sensitivity analysis.

	2017			2016		
	Exposure	Change in variable	Profit (loss) after tax & equity	Exposure	Change in variable	Profit (loss) after tax & equity
	$'000	%	$'000	$'000	%	$'000
Fixed interest bearing investment securities	92,780	+1	(1,725)	83,631	+1	(1,669)
		-1	1,810		-1	1,840
	92,780			83,631		

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.

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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 (2016: 100 basis points) change in yield is as follows:

	2017			2016		
	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	97,031	+1	(1,212)	91,816	+1	(1,237)
		-1	1,267		-1	1,372
Government and local government securities	32,006	+1	(513)	27,807	+1	(432)
		-1	543		-1	469
	129,037			119,623		

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

	2017 $'000	2016 $'000
Lease commitments		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	1,080	1,015
Later than one year but not later than 5 years	4,321	4,060
Later than 5 years	2,791	3,637
Non cancellable operating leases	8,192	8,712

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.

	2017 $'000	2016 $'000
Premiums received		
Fellow subsidiaries of the ultimate parent	15	15
Premiums paid		
Fellow subsidiaries of the ultimate parent	12	19
Accounting and administration fees received		
Parent	442	805
Fellow subsidiaries of the ultimate parent	-	2
Accounting and administration services paid		
Parent	2,884	3,968
Fellow subsidiaries of the ultimate parent	765	9
Management services and profit shares paid		
Other related parties	1,980	1,972
Group tax loss offsets/tax transfers paid		
Parent	3	50
Dividend paid		
Parent	3,200	1,200

Aggregate amounts receivable from or payable to related parties as at 30 June 2017 and 30 June 2016 are as follows:

	2017 $'000	2016 $'000
Amounts payable to:		
Parent	599	842
Fellow subsidiaries of the ultimate parent	150	7
Other related parties	1,008	1,015
Total amounts payable to related parties	1,758	1,864

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

Notes to the financial statements (continued)

24.3 Key management personnel

The Key Management Personnel (**KMP**) compensation is provided by the Company, the parent of the Company or related parties of the ultimate parent entity. Remuneration provided by Suncorp Group entities located outside of New Zealand is not included in this disclosure. This applies to M A Cameron for the year ended 30 June 2017 and G T Ricketts for the year ended 30 June 2016 who were remunerated by a related party of the ultimate parent. The KMP compensation is as follows:

	2017 $'000	2016 $'000
Short-term employee benefits	3,954	3,594
Post employment benefits	53	43
Long-term benefits	49	101
Termination benefits	-	-
Share based payment	471	252
Total Compensation	4,527	3,990

Compensation of KMP has been determined in accordance with their roles within Suncorp Group. In some cases employee service contracts do not include any compensation, including bonuses, specifically related to the role of KMP of the Company and to allocate a figure may be misleading. In some cases there is no link between KMP compensation and performance of the Company. Therefore, in such cases as there is no reasonable basis for allocating a KMP compensation amount to the Company, the entire compensation of the KMP has been disclosed above.

25. Auditor's remuneration

	2017 $'000	2016 $'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	141
Non-audit fees		
Assurance engagements on RBNZ solvency returns	59	59
Total auditor's remuneration	200	200

26. Contingent liabilities

There were no contingent liabilities as at 30 June 2017 (2016: 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.

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Notes to the financial statements (continued)

27.2 Revenue and expense recognition

a) Premium Revenue

Premium revenue comprises amounts charged to policyholders. Premiums exclude 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.

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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.

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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.

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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

Annual leave

Liabilities for 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 Statements of Financial Position. The liability is measured as the value of expected future payments to be made in respect of services provided by employees up to the reporting date.

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.

NZ IFRS 15 *Revenue From Contracts With Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including among others NZ IAS 18 *Revenue* and IFRIC 13 *Customer Loyalty Programmes*. This standard will become mandatory for the Company's 30 June 2020 financial statements. The potential effects on adoption of the standard are currently being assessed.

IFRS16 *Leases* was issued and introduces changes to lessee accounting. It requires recognition of lease liabilities and assets other than short-term leases or leases of low-value assets on the statement of financial position. This will replace the operating/finance lease distinction and accounting requirements prescribed in IAS 17 *Leases.* This standard will become mandatory for the Company's 30 June 2020 financial statements. The potential effects on adoption of the standard are currently being assessed.

NZ IFRS 9, NZ IFRS 15 and NZ IFRS 16 are available for early adoption but have not been applied by the Company in this financial report.

IFRS 17 *Insurance Contracts* was issued by the International Accounting Standards Board in May 2017. An NZ IFRS version is expected to be issued in due course. The standard will replace the existing IFRS 4 and establishes the principles for recognition, measurement, presentation and disclosure of insurance contracts. This standard becomes mandatory for the Company's 30 June 2022 financial statements. The potential effects on adoption of the standard are currently being assessed.

28. Subsequent events

On 31 July 2017 the Directors resolved to pay ordinary dividends of $10,000,000 being 67 cents per share.

There were no other material events post 30 June 2017 which would require adjustment to the amounts reflected in the 30 June 2017 financial statements or disclosures thereto.

QUANTIUM

17 July 2017

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

Dear Sirs/Madam

Appointed Actuary – Report Required under Section 78 of the Insurance (Prudential Supervision) Act 2010

Section 78 of the Insurance (Prudential Supervision) Act 2010 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 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
- I have relied upon work conducted by the Suncorp NZ actuarial team relating to the estimation of risk margins as part of the review. While I was not involved in the calculation of these items, I have reviewed them and consider them appropriate to be used within the financial statements; 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 2017; 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 2017; and

(h) No condition has been imposed under Section 21 (2)(c) as at 30 June 2017.

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