# **Vero Liability Insurance Limited**

Financial report for the financial year ended 30 June 2019



# **Vero Liability Insurance Limited**

# Financial report

for the financial year ended 30 June 2019

| Cont  | tents                                       | Page |
|-------|---|------|
| Dire  | ctors' report                               | 3    |
| Corp  | porate governance statement                 | 6    |
| Inde  | ependent Auditor's report                   | 9    |
| State | ement of comprehensive income               | 13   |
| State | ement of financial position                 | 14   |
| State | ement of changes in equity                  | 15   |
| State | ement of cash flows                         | 16   |
| Note  | es to the financial statements              | 17   |
| 1.    | Reporting entity                            | 17   |
| 2.    | Basis of preparation                        | 17   |
| 3.    | Dividends                                   | 19   |
| 4.    | Revenue                                     | 20   |
| 5.    | Net incurred claims                         | 20   |
| 6.    | Profit before tax                           | 21   |
| 7.    | Income tax                                  |      |
| 8.    | Receivables and other assets                | 23   |
| 9.    | Investment securities                       |      |
| 10.   | Reinsurance and other recoveries receivable | 23   |
| 11.   | Deferred reinsurance premiums               | 23   |
| 12.   | Deferred acquisition costs                  |      |
| 13.   | Payables and other liabilities              |      |
| 14.   | Unearned premium liabilities                | 24   |
| 15.   | Outstanding claims liabilities              | 25   |
| 16.   | Share capital                               | 29   |
| 17.   | Capital management                          | 29   |
| 18.   | Credit rating                               |      |
| 19.   | Notes to the statement of cash flows        |      |
| 20.   | Financial instruments                       | 31   |
| 21.   | Risk management                             | 32   |
| 22.   | Commitments of expenditure                  | 40   |
| 23.   | Related parties                             | 41   |
| 24.   | Auditor's remuneration                      | 42   |
| 25.   | Contingent liabilities                      |      |
| 26.   | Significant accounting policies             | 43   |
| 27.   | Subsequent events                           |      |

#### 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 2019.

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.

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

#### Non-executive

D M Flacks

A R Gerry

D F McTaggart (appointed 26 September 2018)

G T Ricketts (Chairman)

P W Smeaton

#### Executive

A R Tulloch

B N Waymouth

#### Registered office

Level 13

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 \$18,500,000 (2018: \$16,000,000). 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 2019 was \$21,122,000 for the Company compared with net profit after income tax of \$17,427,000 for the previous year ended 30 June 2018.

#### Events subsequent to reporting date

There is, at the date of this Report, no matter or circumstance that has arisen since 30 June 2019 that has significantly affected, or may significantly affect:

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

#### Directors' report (continued)

Information on Directors in office at the date of this report

#### Non executives

#### **David M Flacks**

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

Director since 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 Regulatory Governance Committee of the NZX. Mr Flacks 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)

Director since 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.

#### Dr Douglas F McTaggart

BECON (Hons), MA, PHD, DUNIV, FAICD, SF FIN

Director since 2018. Dr McTaggart has an extensive background in financial markets and has deep academic and commercial experience. He is well-versed in operating in a rapidly changing regulatory environment and engaging effectively with regulators and government stakeholders. He is a former Chief Executive Officer of QIC, Under Treasurer of the Queensland Department of Treasury, and was a director of UGL Limited (September 2012-August 2015). Dr McTaggart is also a director of Suncorp Group Limited and Vero Insurance New Zealand Limited and its subsidiary AA Insurance Limited.

#### 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. Mr Ricketts is also the chairman of Vero Insurance New Zealand Limited and Asteron Life Limited.

#### **Paul W Smeaton**

BBM, MAICD

Director since 2015. Mr Smeaton has been with Suncorp since 1994 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 on the board of the Insurance Council of New Zealand.

#### Directors' report (continued)

#### **Executives**

#### Adrian R Tulloch

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

#### Benjamin N Waymouth

BA

Deputy Managing Director since 2001. Mr Waymouth has over 25 years' liability insurance underwriting and portfolio management experience in the New Zealand market including underwriting in the Lloyds companies market. Mr Waymouth has executive 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 2019.

Signed in accordance with a resolution of the Directors.

Director

Director

#### Corporate governance

#### 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 (Suncorp), an Australian public company which is listed on the Australian Securities Exchange.

Suncorp New Zealand (SNZ) is an operating model which conducts the general insurance and life insurance businesses of Suncorp's wholly-owned general and life insurance entities in New Zealand. SNZ also provides certain services to the Company. These include financial, tax and risk services.

This corporate governance statement contains an outline of the principal corporate governance practices, policies and processes of the Company.

The Board believes that high standards of corporate governance are essential for achieving business objectives and creating value for all stakeholders. The Board understands the important role it plays in Suncorp's social licence to operate, corporate culture and corporate governance.

The Board is committed to maintaining a robust corporate governance framework and a corporate culture that values ethical behaviour and integrity. The Board is responsible for the corporate governance framework which operates under Board-approved policies, charters and practices.

#### **Board of Directors**

At the date of this Statement, the Company had seven Directors. Four of the Directors are independent non-executive directors (Geoffrey Ricketts, Alison Gerry, David Flacks and Douglas McTaggart), one is a non-executive Director who is not independent (Paul Smeaton) and two are executive Directors (Adrian Tulloch, who is also the Managing Director and Benjamin Waymouth, who is also the Deputy Managing Director). Geoffrey Ricketts is the Chairman of the Board. Brief details of the Directors' qualifications and experience are set out in the Directors' Report.

The Directors of the Company are appointed by the Suncorp Board. Factors that are taken into account when considering a new appointment to the Board include the size of the Board, its composition and diversity, mix of competencies, qualities and skills held by existing Directors and how the skills of a new Director may be utilised for the effective and prudent management of the Board. Other key considerations include culture fit and an understanding of the business of the Company and the environment in which it operates. The Board considers it important to maintain an appropriate mix of long-serving Directors with established knowledge of the Company's business and corporate history, and new Directors who bring a fresh perspective to the Board.

The key skills, experience and qualities required for the effective management of the business are incorporated in a Board skills matrix.

Directors' independence is assessed in accordance with criteria adopted by the Board and the Governance Guidelines issued by the Reserve Bank of New Zealand for licensed insurers.

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.

The Board has adopted a Fit and Proper Policy. Each Director has met the requirements and criteria in this Policy and must complete an annual fit and proper declaration which is approved by the Board.

#### Corporate governance (continued)

#### Role of the Board

The Board of Directors is responsible for the overall performance of the Company. The Board has delegated the day-to-day operation and management 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.

The Board currently meets five times each calendar year. Additional meetings are held as required.

The Board also meets annually with SNZ senior executives to consider strategic matters.

The Board approves an annual programme of work and this is used as a guide to the preparation of the agenda for each scheduled Board meeting.

#### Duties and Responsibilities of the Board

The Board approves the strategic direction of the Company and monitors executive management's performance in the implementation and achievement of strategic and business objectives. This is achieved 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 limits delegated to management.

#### **Governance and Culture**

As part of the Suncorp Group, the Company complies with Suncorp's policies and requirements, except where these are inconsistent with the requirements of New Zealand law or regulatory requirements, or where the Board considers that they are not in the best interests of the Company. The Board of the Company has adopted a number of Suncorp's policies and frameworks (amended to reflect New Zealand requirements where appropriate). These include the Conflict of Interest Policy, Business Continuity Management Policy, Enterprise Risk Management Framework, the Whistleblower Policy, Product and Platform Management Policy, Securities Trading Policy, Equal Employment Opportunity and Diversity Policy, and Safety and Wellbeing Policy. Directors are also required to abide by Suncorp's Code of

Suncorp's culture is the aggregation of observed behaviours across all employees, driven by shared values, beliefs, symbols and systems. The behaviours that are needed to deliver targeted stakeholder outcomes are described in the behavioural framework, called Our Compass. This sets out the primary behavioural expectations that the Board believes form a foundation for successful performance.

#### **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. The majority of members of the BARC are independent. The Chair of the BARC is Alison Gerry, an independent Director of the Company, who has a finance background.

#### Corporate governance (continued)

#### **Board Audit and Risk Committee (continued)**

The BARC is required to meet not less than four times a year. The BARC has an annual Board-approved programme of work which is used as a guide to the preparation of each scheduled BARC meeting agenda. The BARC receives regular reports from senior executives including the Chief Risk Officer and the Chief Financial Officer. Regular reports are also received from Suncorp Internal Audit (which provides independent and objective internal audit services to the Suncorp Group), and the Company's external auditor. Other attendees of BARC meetings include the Deputy Managing Director, representatives from SNZ's Risk and Finance functions, Suncorp Internal Audit 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, reinsurance strategy and mandate reviews, investment policy, financial statements and solvency returns. The Board receives the minutes of each BARC meeting and an update from the BARC Chair on its activities.

Under the terms of its charter, the BARC is required to regularly review its charter and its continuing adequacy. The BARC is also required to evaluate its performance and the extent to which it has met the requirements of its charter. These findings are reported to the Board.

Information on the Company's approach to Risk Management is contained in Note 21.

#### Corporate Responsibility

Suncorp and the Company believe in conducting business in a way that protects and sustains the environment for current and future generations, and are actively working to minimise the impact of their activities.

Creating and preserving value for all of Suncorp's stakeholders is fundamental to their approach to corporate responsibility. Suncorp and the Company continually strive to improve their business practices to optimise outcomes, earn trust and maintain their social licence to operate.

#### **Action on Climate Change**

Suncorp's Climate Change Action Plan has been adopted by the Board of the Company. This defines how the Suncorp Group will work with its customers and communities to support a transition to a net-zero carbon emissions economy by 2050 through commitments to:

- 1. Strengthen governance processes (including assessment of climate risk)
- 2. Reduce environmental footprint
- 3. Increase community resilience
- 4. Accelerate emerging opportunities and climate-related innovation
- 5. Track and openly disclose climate-related performance.

Key areas of focus will be adapting to the physical impacts of climate change - severe weather events, rising sea levels and shifting temperature zones, responsible financial services practices, responsible investment and governance and reporting.

#### **Diversity & Inclusion**

The Company's goal is to attract diverse talent, to build leadership capability to enable employees to realise their full potential.

The Suncorp Diversity Council assists the Company in delivering these objectives by:

- Creating and overseeing a diversity strategy
- Recommending initiatives to support greater gender diversity
- Tracking progress including creating targets and regular scorecards
- Promoting and championing diversity

SNZ's Diversity Council is chaired by the SNZ Chief Executive Officer.



# 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 13 to 52:

- i. present fairly in all material respects the Company's financial position as at 30 June 2019 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 and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 30 June 2019:
- 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 (the "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 services. Subject to certain restrictions, partners and employees of our firm may also deal with the Company on normal terms within the ordinary course of trading activities of the business of the Company. These matters have not impaired our independence as auditor of the Company. The firm has no other relationship with, or interest in, the Company.





#### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholder may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements.

#### The key audit matter

#### How the matter was addressed in our audit

Outstanding claims liabilities and associated reinsurance and other recoveries

Outstanding claims liability \$127.1 million

Reinsurance and other recoveries \$39.5 million

Refer to Notes 10 and 15 to the financial statements.

The valuation of outstanding claims liabilities and related reinsurance assets involved a high level of judgement in estimating future payments for claims incurred, including case estimates for reported claims and those incurred but not yet reported to the Company.

The 'long tail' nature of the Company's liability insurance business has a greater level of uncertainty compared to 'short tail' non-life insurance classes of business, in the estimation of outstanding claims liabilities and related reinsurance assets.

Valuation of reinsurance assets involves a high degree of uncertainty due to the dependence on the estimate of related claims costs.

Valuation of reinsurance and other recoveries is affected by the same uncertainties.

We involved our actuarial specialists and performed audit procedures, which included:

- Testing key controls, including IT general and application controls over claim payments, case estimates and actuarial reconciliations.
- Using high-risk criteria to select a sample of claim payments and case estimates to check the accuracy of the claims information.
- Challenging the appropriateness of the Company's actuarial methods and key assumptions for the classes of business that were deemed to have higher claims estimations risks.

We assessed the selection of methods and key assumptions applied in the valuation of outstanding claims liabilities. We challenged the actuarial methods and key assumptions by:

- Analysing the accuracy of previous estimates;
- Comparing key assumptions to the broader insurance industry, previous periods and current period claims experience; and
- Sample testing of the key qualitative claims information that is used by the Company's actuarial team to form their assumptions.
- Assessing the Company's estimation of risk margins to identify possible management bias. We evaluated the Company's actuarial methodologies for consistency with those used in the industry and with prior periods.
- Testing material reinsurance contracts to check that recoveries recognised in the financial statements align with the terms of those contracts and the amount of the respective outstanding claims liability.





#### 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 and corporate governance statement. 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 independent auditor's report is made solely to the shareholder. 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 for our audit work, this independent auditor's 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) and 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:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Jamie Munro.

For and on behalf of

KPMG

KPMG Auckland

1 August 2019

# Statement of comprehensive income for the financial year ended 30 June 2019

|  | Note |                |                |
|--|------|----------------|----------------|
|  |      | 2019<br>\$'000 | 2018<br>\$'000 |
| Premium revenue  | 4    | 108,882        | 98,437         |
| Outwards reinsurance premium expense                       | 11   | (26,994)       | (24,455)       |
| Net premium revenue  |      | 81,888         | 73,982         |
| Claims expense   | 5    | (31,290)       | (42,389)       |
| Reinsurance and other recoveries revenue                   | 4, 5 | 1,856          | 15,593         |
| Net incurred claims  | 5    | (29,434)       | (26,796)       |
| Acquisition costs  | 12   | (29,534)       | (27,138)       |
| Other underwriting expenses                                |      | (5,563)        | (5,989)        |
| Underwriting expenses                                      | 10   | (35,097)       | (33, 127)      |
| Reinsurance commission revenue                             | 4    | 4,867          | 5,048          |
| Underwriting result  |      | 22,224         | 19,107         |
| Investment income on insurance funds                       | 4.1  | 6,091          | 4,042          |
| Investment expense on insurance funds                      |      | (209)          | (194)          |
| Insurance trading result                                   |      | 28,106         | 22,955         |
| Investment income on shareholder funds                     | 4.1  | 1,427          | 1,442          |
| Investment expense on shareholder funds                    |      | (97)           | (107)          |
| Profit before tax  | 6    | 29,436         | 24,290         |
| Income tax expense   | 7.1  | (8,314)        | (6,863)        |
| Profit for the financial year attributable to owner of the |      |                |                |
| Company  |      | 21,122         | 17,427         |
| Other comprehensive income                                 |      | -              |                |
| Total comprehensive income for the financial year          |      | 21,122         | 17,427         |

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



# Statement of financial position as at 30 June 2019

|   | Note           |         |         |
|---|----------------|---------|---------|
|   |                | 2019    | 2018    |
|   | and the second | \$'000  | \$'000  |
| Assets  |                |         |         |
| Cash and cash equivalents                         |                | 10,114  | 7,314   |
| Receivables and other assets                      | 8              | 37,641  | 29,246  |
| Investment securities                             | 9              | 141,310 | 142,200 |
| Reinsurance and other recoveries receivable       | 10             | 39,514  | 42,790  |
| Deferred reinsurance premiums                     | 11             | 19,263  | 16,684  |
| Deferred acquisition costs                        | 12             | 10,507  | 9,907   |
| Plant and equipment                               |                | 465     | 555     |
| Deferred tax assets                               | 7.4            | 659     | 627     |
| Total assets                                      |                | 259,473 | 249,323 |
| Liabilities                                       |                |         |         |
| Payables and other liabilities                    | 13             | 14,397  | 12,255  |
| Current tax liabilities                           | 7.3            | 4,817   | 5,039   |
| Unearned premium liabilities                      | 14             | 62,810  | 56,115  |
| Outstanding claims liabilities                    | 15             | 127,111 | 128,442 |
| Employee benefit obligations                      |                | 1,960   | 1,884   |
| Deferred tax liabilities                          | 7.4            | 2,942   | 2,774   |
| Total liabilities                                 |                | 214,037 | 206,509 |
| Net assets  |                | 45,436  | 42,814  |
| Equity  |                |         |         |
| Share capital                                     | 16             | 15,047  | 15,047  |
| Retained profits                                  |                | 30,389  | 27,767  |
| Total equity attributable to owner of the Company |                | 45,436  | 42,814  |
| Total equity                                      |                | 45,436  | 42,814  |

The Board of Directors of Vero Liability Insurance Limited approved these financial statements for issue on 31 July 2019.

For, and on behalf of the Board

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



# Statement of changes in equity for the financial year ended 30 June 2019

|                                    | Note |               |                        |          |
|------------------------------------|------|---------------|------------------------|----------|
|                                    |      |               | Retained               |          |
|                                    |      | Share capital | profits                | Total    |
|                                    |      | \$'000        | \$'000                 | \$'000   |
| Balance as at 1 July 2017          |      | 15,047        | 26,340                 | 41,387   |
| Profit for the financial year      |      | -             | 17,427                 | 17,427   |
| Total comprehensive income for the |      |               |                        |          |
| financial year                     |      | -             | 17,427                 | 17,427   |
| Transactions with owner            |      |               |                        |          |
| Dividends paid                     | 3    | -             | (16,000)               | (16,000) |
| Balance as at 30 June 2018         |      | 15,047        | 27,767                 | 42,814   |
| Profit for the financial year      |      | •             | 21,122                 | 21,122   |
| Total comprehensive income for the |      |               | Control of the Control |          |
| financial year                     |      | -             | 21,122                 | 21,122   |
| Transactions with owner            |      |               |                        |          |
| Dividends paid                     | 3    | •             | (18,500)               | (18,500) |
| Balance as at 30 June 2019         |      | 15,047        | 30,389                 | 45,436   |

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



# Statement of cash flows for the financial year ended 30 June 2019

| Note   |           |                            |
|--|-----------|----------------------------|
|  | 2019      | 2018                       |
| Cash flows from operating activities                             | \$'000    | \$'000                     |
| Premiums received  | 110,655   | 101 647                    |
| Claims paid  | (32,621)  | 101,647<br>(27,003)        |
| Interest received  | 5,276     | 5,594                      |
| Reinsurance and other recoveries received                        | 1,736     | 5,3 <del>94</del><br>6,711 |
| Outward reinsurance premiums paid                                | (28,502)  | (25,503)                   |
| Acquisition costs paid   | (25,267)  | (21,989)                   |
| Income tax paid  | (8,400)   | (2,600)                    |
| Underwriting and other operating expenses paid                   | (5,072)   | (5,679)                    |
| Net movement in goods and services tax                           | 511       | 143                        |
| Net cash from operating activities 19                            | 18,316    | 31,321                     |
| Cash flows from investing activities                             |           |                            |
| Proceeds from sale of investment securities                      | 224,793   | 162,137                    |
| Payments for purchase of investment securities                   | (221,747) | (176,940)                  |
| Proceeds from sale of plant and equipment                        | 2         | 4                          |
| Payments for purchases of plant and equipment                    | (64)      | (192)                      |
| Net cash from/(used) in investing activities                     | 2,984     | (14,991)                   |
| Cash flows from financing activities                             |           |                            |
| Dividends paid to owner of the Company                           | (18,500)  | (16,000)                   |
| Net cash used in financing activities                            | (18,500)  | (16,000)                   |
| Net increase in cash and cash equivalents                        | 2,800     | 330                        |
| Cash and cash equivalents at the beginning of the financial year | 7,314     | 6,984                      |
|  |           | 1                          |
| Cash and cash equivalents at the end of the financial year       | 10,114    | 7,314                      |

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



#### Notes to the financial statements

#### 1. Reporting entity

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

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

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

#### 2. Basis of preparation

The Company is a for-profit entity and the financial statements have been prepared on the historical cost basis unless the application of fair value measurements are required by the relevant accounting standards such as the measurement of financial instruments 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 26. There have been no significant changes to accounting policies apart from the adoption of NZ IFRS 9 and NZ IFRS 15.

The reporting period is from 1 July 2018 to 30 June 2019.

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.

#### Statement of compliance 2.1

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 which became mandatory and were adopted during the financial

The following new accounting standards were adopted:

#### **NZ IFRS 9 Financial Instruments**

NZ IFRS 9 Financial Instruments (NZ IFRS 9) replaces NZ IAS 39 Financial Instruments; Recognition and Measurement and sets out new requirements for the impairment of financial assets, classification and measurement of financial assets and financial liabilities and general hedge accounting. NZ IFRS 9 introduces a new model for classifying financial assets whereby financial assets are classified based on the business model under which the assets are held and managed and the nature of their underlying cash flows. NZ IFRS 9 contains three principal classification categories for financial assets: financial assets measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss (FVTPL).

The standard has been applied retrospectively. The impacts of implementation are immaterial.

#### Transitional impact

The adoption of an expected credit loss (ECL) model for impairment has had an immaterial impact on the provision for irrecoverable loans and receivables. There is no impact from the change in general hedge accounting as the Company do not apply general hedge accounting. There are no changes to the measurement of financial instruments. Changes in the classification of financial instruments are shown in the table below:

| Financial instruments   | Original classification under NZ IAS 39 | New classification under NZ IFRS 9 |
|---|---|------------------------------------|
| Cash and cash equivalents   | Loans and receivables                   | Amortised cost                     |
| Premium receivables, related parties receivables, reinsurance debtors, reinsurance and other recoveries receivables | Loans and receivables                   | Amortised cost                     |
| Financial assets and liabilities  | FVTPL                                   | FVTPL                              |

#### b) NZ IFRS 15 Revenue From Contracts With Customers

NZ IFRS 15 Revenue From Contracts With Customers (NZ IFRS 15) replaces existing revenue recognition guidance, including among others NZ IAS 18 Revenue and IFRIC 13 Customer Loyalty Programmes. NZ IFRS 15 provides a single comprehensive model for revenue recognition based on the satisfaction of performance obligations and requires additional disclosures on revenue. The majority of the Company's revenue relates to insurance contracts within the scope of NZ IFRS 4 Insurance Contracts and investment income within the scope of NZ IFRS 9. Therefore, the overall effect of the implementation of NZ IFRS 15 is not material to the Company.

#### Comparative information

Certain amounts and presentations in the comparative information have been restated or reclassified to conform to changes in the current financial year.

Amounts disclosed in the fair value hierarchy Note 20.2 have been updated to reflect financial instruments that are not traded in active markets in Level 2 instead of Level 1 to more appropriately reflect the applicable valuation methodology.



#### 2.4 Use of estimates and judgements

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

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

#### a) **Outstanding claims liability**

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

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

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

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

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

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

#### Assets arising from reinsurance contracts and other recoveries b)

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 credit risk.

#### 3. Dividends

| And the second of the second o | 2019        | e mergenera | 2018        | 1      |
|--|-------------|-------------|-------------|--------|
|  | ¢ per share | \$'000      | ¢ per share | \$'000 |
| Ordinary shares  |             |             |             |        |
| Final dividend   | 67          | 10,000      | 67          | 10,000 |
| Interim dividend   | 57          | 8,500       | 40          | 6,000  |
| Total dividends recognised in equity   | H           |             |             |        |
| attributable to owner of the Company   | 123         | 18,500      | 107         | 16,000 |



#### 4. Revenue

|   | 2019    | 2018    |
|---|---------|---------|
|   | \$'000  | \$'000  |
| Insurance income  |         |         |
| Gross written premium   | 115,577 | 104,327 |
| Movement in unearned premium                                      | (6,695) | (5,890) |
| Premium revenue   | 108,882 | 98,437  |
| Reinsurance and other recoveries revenue                          | 1,856   | 15,593  |
| Reinsurance commission revenue                                    | 4,867   | 5,048   |
| Total insurance income  | 115,605 | 119,078 |
| Investment income   |         |         |
| Interest income   | 5,349   | 5,459   |
| Net gain on financial assets at fair value through profit or loss | 2,169   | 25      |
| Total investment income   | 7,518   | 5,484   |
| Total revenue   | 123,123 | 124,562 |

#### 4.1 Investment Income

|  | 2019<br>\$'000 | 2018<br>\$'000 |
|--|----------------|----------------|
| Investment income on insurance funds   | 6,091          | 4.042          |
| Investment income on shareholder funds | 1,427          | 1,442          |
| Total investment income                | 7,518          | 5,484          |

#### 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<br>\$'000 | Prior Year<br>\$'000 | Total<br>\$'000 |
|---|------------------------|----------------------|-----------------|
| Year ended 30 June 2019                     |                        |                      | 100             |
| Gross incurred claims and related expenses  |                        |                      |                 |
| Undiscounted                                | 54,351                 | (24,968)             | 29,383          |
| Discount and discount movement              | (1,231)                | 3,138                | 1,907           |
| Gross incurred claims discounted            | 53,120                 | (21,830)             | 31,290          |
| Reinsurance and other recoveries            |                        | 100                  |                 |
| Undiscounted                                | (15,514)               | 14,391               | (1,123)         |
| Discount and discount movement              | 305                    | (1,038)              | (733)           |
| Reinsurance and other recoveries discounted | (15,209)               | 13,353               | (1,856)         |
| Net incurred claims                         | 37,911                 | (8,477)              | 29,434          |
| Year ended 30 June 2018                     |                        |                      |                 |
| Gross incurred claims and related expenses  |                        |                      |                 |
| Undiscounted                                | 49,015                 | (5,836)              | 43,179          |
| Discount and discount movement              | (2,169)                | 1,379                | (790)           |
| Gross incurred claims discounted            | 46,846                 | (4,457)              | 42,389          |
| Reinsurance and other recoveries            |                        |                      |                 |
| Undiscounted                                | (15,031)               | (992)                | (16,023)        |
| Discount and discount movement              | 709                    | (279)                | 430             |
| Reinsurance and other recoveries discounted | (14,322)               | (1,271)              | (15,593)        |
| Net incurred claims                         | 32,524                 | (5,728)              | 26,796          |



#### 6. Profit before tax

|  | 2019   | 2018   |
|--|--------|--------|
|  | \$'000 | \$'000 |
| Profit before tax is arrived at after charging the following specific items: |        |        |
| Contributions to defined contribution superannuation schemes                 | 394    | 366    |
| Depreciation on plant and equipment  | 150    | 178    |
| Employee benefits  | 8,663  | 7,691  |
| Gain on disposal of plant and equipment                                      | 2      | •      |
| Operating lease rental expenses  | 689    | 606    |

#### 7. Income tax

#### 7.1 Income tax expense

|  | 2019     | 2018   |
|--|----------|--------|
|  | <u> </u> | \$'000 |
| Profit before tax                                    | 29,436   | 24,290 |
| Prima facie income tax at 28% (2018: 28%)            | 8,242    | 6,801  |
| Movement in income tax expense due to:               |          |        |
| Non-deductible expenditure                           | 73       | 64     |
| Adjustment for prior financial years                 | (1)      | (2)    |
| Income tax expense                                   | 8,314    | 6,863  |
| Income tax expense recognised in profit consists of: |          |        |
| Current tax expense                                  |          |        |
| Current year   | 8,173    | 6,845  |
| Adjustments for prior financial years                | 5        | 11     |
|  | 8,178    | 6,846  |
| Deferred tax expense                                 |          |        |
| Current year   | 142      | 20     |
| Adjustments for prior financial years                | (6)      | (3)    |
|  | 136      | 17     |
| Income tax expense                                   | 8,314    | 6,863  |

#### 7.2 Imputation credits

|  | Conditions in the property | Arrat & Bellet |
|--|----------------------------|----------------|
|  | 2019                       | 2018           |
|  | \$'000                     | \$'000         |
| SGHNZL ICA Group   | 331,372                    | 241,072        |
| Imputation credits available for use in subsequent reporting periods | 331,372                    | 241,072        |

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 the SGHNZL ICA Group.



#### 7.3 Current tax

|  | 2019<br>\$'000 | 2018<br>\$'000 |  |
|--|----------------|----------------|--|
| Balance at the beginning of the financial year | (5,039)        | (793)          |  |
| Income tax paid                                | 8,400          | 2,600          |  |
| Current year tax on operating profit           | (8,173)        | (6,845)        |  |
| Adjustment for prior financial years           | (5)            | (1)            |  |
| Balance at the end of the financial year       | (4,817)        | (5,039)        |  |

#### 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.

|  |           | -       |
|--|-----------|---------|
|  | 2019      | 2018    |
|  | \$'000    | \$'000  |
| Deferred tax assets are attributable to        |           |         |
| Depreciable assets                             | 58        | 56      |
| Employee benefits                              | 531       | 508     |
| Payables and other liabilities                 | <b>70</b> | 63      |
| Total deferred tax assets                      | 659       | 627     |
| Deferred tax liabilities are attributable to   |           |         |
| Deferred acquisition costs                     | (2,942)   | (2,774) |
| Total deferred tax liabilities                 | (2,942)   | (2,774) |
| Net deferred tax liabilities                   | (2,283)   | (2,147) |
| Movements                                      |           |         |
| Deferred tax assets                            |           |         |
| Balance at the beginning of the financial year | 627       | 673     |
| Movement recognised in profit or loss          | 32        | (46)    |
| Balance at the end of the financial year       | 659       | 627     |
| Deferred tax liabilities                       |           |         |
| Balance at the beginning of the financial year | (2,774)   | (2,803) |
| Movement recognised in profit or loss          | (168)     | 29      |
| Balance at the end of the financial year       | (2,942)   | (2,774) |



#### 8. Receivables and other assets

|  | 2019   | 2018   |
|--|--------|--------|
|  | \$'000 | \$'000 |
| Trade and other receivables                |        |        |
| Premiums due                               | 32,364 | 27,442 |
| Amounts due from related parties (Note 23) | -      | 9      |
| Prepaid expenses                           | 8      | 8      |
| Amounts due from reinsurers                | 3,982  | 586_   |
| Total trade and other receivables          | 36,354 | 28,045 |
| Other assets                               |        |        |
| Accrued income                             | 1,253  | 1,180  |
| Investment receivables                     | 34     | 21_    |
| Total other assets                         | 1,287  | 1,201  |
| Total receivables and other assets         | 37,641 | 29,246 |
| Current                                    | 37,641 | 29,246 |
| Total receivables and other assets         | 37,641 | 29,246 |

#### 9. Investment securities

|   | 2019    | 2018    |
|---|---------|---------|
|   | \$'000  | \$'000  |
| Financial assets at fair value through profit or loss |         |         |
| Debentures and corporate bonds                        | 63,109  | 69,160  |
| Government and semi-government securities             | 32,098  | 41,107  |
| Discounted securities*                                | 46,103  | 31,933  |
| Total investment securities                           | 141,310 | 142,200 |

<sup>\*</sup> Discounted securities include floating rate notes, term deposits and commercial papers.

#### 10. Reinsurance and other recoveries receivable

| Comprehensive the Comprehensive Comprehensiv | The Committee of the Co |                |
|--|--|----------------|
|  | 2019<br>\$'000   | 2018<br>\$'000 |
| Expected future reinsurance and other recoveries undiscounted  | 40,644   | 44,656         |
| Discount to present value  | (1,130)  | (1,866)        |
| Total reinsurance and other recoveries receivable  | 39,514   | 42,790         |
| Current  | 12,928   | 15,170         |
| Non-current  | 26,586   | 27,620         |
| Total reinsurance and other recoveries receivable  | 39,514   | 42,790         |

#### 11. Deferred reinsurance premiums

| The terms of the second of the property of the second of t | Samuel Company of the Company |                |
|--|-------------------------------|----------------|
|  | 2019<br>\$'000                | 2018<br>\$'000 |
| Balance at the beginning of the financial year   | 16,684                        | 14,763         |
| Reinsurance premium liability incurred   | 29,573                        | 26,376         |
| Reinsurance premium charged to profit or loss  | (26,994)                      | (24,455)       |
| Balance at the end of the financial year   | 19,263                        | 16,684         |



#### 12. Deferred acquisition costs

|   | 2019     | 2018     |
|---|----------|----------|
|   | \$'000   | \$'000   |
| Balance at the beginning of the financial year      | 9,907    | 10,008   |
| Acquisition costs deferred                          | 25,267   | 21,989   |
| Amortisation charged to profit or loss              | (29,534) | (27,138) |
| Reinsurance commission recognised in profit or loss | 4,867    | 5,048    |
| Balance at the end of the financial year            | 10,507   | 9,907    |

#### 13. Payables and other liabilities

|  | 2019   | 2018   |
|--|--------|--------|
|  | \$'000 | \$'000 |
| Trade creditors and accruals             | 1,457  | 1,647  |
| GST payable                              | 1,369  | 858    |
| Amounts due to reinsurers                | 8,861  | 7,790  |
| Amounts due to related parties (Note 23) | 2,710  | 1,960  |
| Total payables and other liabilities     | 14,397 | 12,255 |
| Current                                  | 14,397 | 12,255 |
| Total payables and other liabilities     | 14,397 | 12,255 |

#### 14. Unearned premium liabilities

|   | 2019<br>\$'000 | 2018<br>\$'000 |
|---|----------------|----------------|
| Balance at the beginning of the financial year      | 56,115         | 50,225         |
| Premiums written during the financial year (Note 4) | 115,577        | 104,327        |
| Premiums earned during the financial year (Note 4)  | (108,882)      | (98,437)       |
| Balance at the end of the financial year            | 62,810         | 56,115         |

#### 14.1 Liability adequacy test

The liability adequacy test which was performed as at 30 June 2019 identified a surplus for the Company (30 June 2018: surplus).



#### 15. Outstanding claims liabilities

#### 15.1 Gross outstanding claims liabilities

|                                       |                | en a Maria de Cara |
|---------------------------------------|----------------|--------------------|
|                                       | 2019<br>\$'000 | 2018<br>\$'000     |
| Gross central estimate - undiscounted | 103,324        | 106,808            |
| Discount to present value             | (2,951)        | (4,510)            |
| Claim handling expenses               | 6,086          | 5,951              |
| Risk margin                           | 20,652         | 20,193             |
| Gross outstanding claims liabilities  | 127,111        | 128,442            |
| Current                               | 41,753         | 46,184             |
| Non-current                           | 85,358         | 82,258             |
| Gross outstanding claims liabilities  | 127,111        | 128,442            |

#### 15.2 Reconciliation of movement in discounted outstanding claims liabilities

| Note   |          | 1.00     |
|--|----------|----------|
|  | 2019     | 2018     |
|  | \$'000   | \$'000   |
| Net outstanding claims liabilities at the beginning of the financial |          |          |
| year   | 85,652   | 79,132   |
| Prior periods  |          |          |
| Payments net of reinsurance recoveries                               | (18,732) | (18,535) |
| Movement in discounting  | 949      | 1,438    |
| Margin release on prior periods                                      | (6,413)  | (5,719)  |
| Changes in assumptions and experience                                | (4,734)  | (1,990)  |
| Change in discount rate  | 1,721    | 543      |
| Current period   |          |          |
| Net ultimate incurred costs  | 37,911   | 32,524   |
| Payments net of reinsurance recoveries                               | (8,757)  | (1,741)  |
| Net outstanding claims liabilities at end of the financial year      | 87,597   | 85,652   |
| Reinsurance and other recoveries receivable 10                       | 39,514   | 42,790   |
| Gross outstanding claims liabilities                                 | 127,111  | 128,442  |



#### 15.3 Claims development table

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

|  |                          |                |                | Acc            | cident ye      | ar             |                |                |                |                | HER ALL        | 2019                 |
|--|--------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------------|
| Accident year  | Prior<br>\$'000          | 2010<br>\$'000 | 2011<br>\$'000 | 2012<br>\$'000 | 2013<br>\$'000 | 2014<br>\$'000 | 2015<br>\$'000 | 2016<br>\$'000 | 2017<br>\$'000 | 2018<br>\$'000 | 2019<br>\$'000 | Total<br>\$'000      |
| Estimate of ultimate   | claims c                 | ost:           |                |                |                |                |                |                |                |                |                |                      |
| At end of accident ye  | ear                      | 18,465         | 16,231         | 18,287         | 19,361         | 18,938         | 21,029         | 23,441         | 24,628         | 24,414         | 27,920         | 27,920               |
| One year later   |                          | 14,266         | 17,029         | 19,720         | 20,578         | 19,999         | 25,475         | 24,180         | 24,531         | 26,874         |                | 26,874               |
| Two years later  |                          | 14,662         | 16,683         | 21,936         | 22,691         | 20,700         | 23,899         | 23,160         | 22,380         |                | 0.00           | 22,380               |
| Three years later  |                          | 16,298         | 18,860         | 22,673         | 21,410         | 19,623         | 24,052         | 21,765         |                |                |                | 21,765               |
| Four years later   |                          | 16,539         | 18,674         | 22,158         | 20,843         | 19,467         | 24,193         |                |                |                |                | 24,193               |
| Five years later   |                          | 16,595         | 17,743         | 24,358         | 21,456         | 19,321         |                |                |                |                | 8              | 19,321               |
| Six years later  |                          | 15,692         | 17,777         | 23,591         | 20,959         |                |                |                |                |                |                | 20,959               |
| Seven years later  |                          | 15,692         | 17,652         | 21,371         |                |                |                |                |                |                |                | 21,371               |
| Eight years later  |                          | 15,762         | 17,737         |                |                |                |                |                |                |                |                | 17,737               |
| Nine years later   |                          | 15,978         |                |                |                |                |                |                |                |                | 9              | 15,978               |
| Current estimate of cumulative claims cost Cumulative                | 87,233                   | 15,978         | 17,737         | 21,371         | 20,959         | 19,321         | 24,193         | 21,765         | 22,380         | 26,874         | 27,920         | 305,731              |
| payments   | 87,014                   | 15,879         | 17,488         | 20,817         | 19,264         | 17,887         | 18,716         | 14,456         | 13,892         | 12,272         | 5,360          | 243,045              |
| Outstanding claims -<br>undiscounted<br>Discount to present<br>value | 219                      | 99             | 249            | 554<br>(12)    | 1,695          | 1,434          | 5,477<br>(131) | 7,309<br>(199) | 8,488<br>(257) | 14,602         | 22,560 (693)   | 62,686<br>(1,828)    |
| Outstanding claims   | 215                      | 98             | 245            | 542            | 1,658          | 1,403          | 5,346          | 7,110          | 8,231          | 14,143         | 21.867         | GASCISCA ALICENSISSI |
| Claims handling expe   | EVERYSHIELD AND DATES OF | 30             | 245            | 342            | 1,000          | 1,403          | 0,340          | 1,110          | 0,231          | 14,143         | 21,007         | 60,858<br>6,086      |
| Risk margin  | 11363                    |                |                |                |                |                |                |                |                |                |                | 20,653               |
| Total net outstanding  | claime li                | iahilities     |                |                |                |                |                |                |                |                |                | 87,597               |
| Reinsurance and other  |                          |                | able           |                |                |                |                |                |                |                | 1              | 39,514               |
| Total gross outstand   |                          |                |                |                |                |                |                |                |                |                | - 5            |                      |
| Total gross outstand   | uning cla                | iiis iiabii    | 11162          |                |                |                |                |                |                |                |                | 127,111              |

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.



#### 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:

|   | de transpagn proper a la propertie de la color |       |
|---|--|-------|
|   | 2019   | 2018  |
| Weighted average term to settlement (years) | 2.41   | 2.17  |
| Economic inflation rate                     | 3.0%   | 3.0%  |
| Superimposed inflation rate                 | 6.0%   | 6.0%  |
| Discount rate                               | 1.2%   | 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% (2018: 90%) probability of sufficiency (POS).



#### 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     | 2019    | 2018    |
|---|--------------|---------|---------|
|   | in variables | \$'000  | \$'000  |
| Weighted average term to settlement - years | 0.5          | (3,294) | (2,865) |
| voigned avoings term to settlement years    | -0.5         | 3,174   | 2,773   |
| Inflation rate                              | 1%           | (1,904) | (1,647) |
| indicon rate                                | -1%          | 1,880   | 1,630   |
| Discount rate                               | 1%           | 2,003   | 1,724   |
| Discount face                               | -1%          | (2,071) | (1,777) |
| Claim handling expense ratio                | 1%           | (796)   | (779)   |
| Orally Harraining experior ratio            | -1%          | 796     | 779     |
| Risk margin                                 | 1%           | (669)   | (655)   |
| - Tron margin                               | -1%          | 669     | 655     |

#### Actuarial information c)

Adam Follington, of The Quantium Group Pty Limited is the Appointed Actuary for the Company. Mr. Follington is a Fellow of the New Zealand Society of Actuaries. Mr Follington has no financial interest in the Company.

According to section 77(1) of the Insurance (Prudential Supervision) Act 2010 (IPSA) 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 Mr Follington's advice is 30 June 2019.

The Appointed Actuary is satisfied that they have obtained all 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 2019 have been outlined above.

In addition, the Company's Board Audit Risk Committee (BARC) receives a Financial Condition Report (FCR) annually from the Appointed Actuary of the Company in accordance with IPSA. 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.



#### 16. Share capital

| Carlot and the Committee of the Committe |           |        | e e galaciera de la composición dela composición dela composición de la composición dela composición dela composición dela composición de la composición dela composició |        |
|--|-----------|--------|--|--------|
|  | 2019      | 2019   | 2018   | 2018   |
|  | Shares    | Shares | Shares   | Shares |
|  | No. (000) | \$'000 | No. (000)  | \$'000 |
| Issued and fully paid ordinary shares  | 15,000    | 15,000 | 15,000   | 15,000 |
| Shareholder contribution under equity settled  |           |        |  |        |
| employee share plans   | <b>-</b>  | 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 2019, the Company had 15,000,100 ordinary shares with no par value issued to Vero Insurance New Zealand Limited (2018:15,000,100). All shares rank equally with one vote attached to each fully paid ordinary share.

#### 17. Capital management

#### 17.1 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, having regard to the need to hold sufficient capital to protect the interests of policy holders, and comply with relevant regulatory requirements. 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 IPSA. The Company manages its capital in accordance with the requirements of IPSA 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 2019.

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

The Company's Board Audit and Risk Committee oversees 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.

#### 17.2 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 "capital" as defined in the Solvency Standard and shown in Note 17.3 below.



#### 17.3 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:

| 是在1000年间,1000年间,1000年间,1000年间,1000年间 | <b>3. 18 10 10 10 10 10 10 10 10 10 10 10 10 10 </b> |                |
|--------------------------------------|--|----------------|
|                                      | 2019<br>\$'000                                       | 2018<br>\$'000 |
| Actual solvency                      | 44,777   | 33,688         |
| Minimum solvency capital             | 18,709   | 18,672         |
| Solvency Margin                      | 26,068   | 15,016         |
| Solvency Ratio                       | 2.39   | 1.80           |

#### 18. Credit rating

The Company has received an A+ credit rating from Standard & Poor's (2018: A+) which provides an indication of the Company's ability to pay current and future claims.

#### 19. Notes to the statement of cash flows

|  | 2019    | 2018    |
|--|---------|---------|
| Due St. fourther Suggested and   | \$'000  | \$'000  |
| Profit for the financial year  | 21,122  | 17,427  |
| Non-cash items   |         |         |
| Movement in financial assets at fair value through profit or loss        | (2,169) | (25)    |
| Depreciation expense   | 150     | 178     |
| Profit on disposal of plant and equipment                                | 2       | -       |
| Change in assets and liabilities   |         |         |
| (Increase) in receivables and other assets net of investment receivables | (8,382) | (2,574) |
| (Increase) in reinsurance and other recoveries receivable                | 3,276   | (8,866) |
| (Increase) in deferred reinsurance premiums                              | (2,579) | (1,921) |
| (Increase)/decrease in deferred acquisition costs                        | (600)   | 101     |
| (Increase)/decrease in deferred tax asset                                | (32)    | 46      |
| Increase in payables and other liabilities net of investment payables    | 2,142   | 1,629   |
| (Decrease)/increase in current tax liabilities                           | (222)   | 4,246   |
| Increase in unearned premium liabilities                                 | 6,695   | 5,890   |
| (Decrease)/increase in outstanding claims liabilities                    | (1,331) | 15,386  |
| Increase/(decrease) in employee benefit obligations                      | 76      | (167)   |
| Increase/(decrease) in deferred tax liabilities                          | 168     | (29)    |
| Net cash from operating activities                                       | 18,316  | 31,321  |



#### 20. Financial instruments

#### 20.1 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 26.

#### 20.2 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.

|                       | Level 1 | Level 2 | Level 3 | Total   |
|-----------------------|---------|---------|---------|---------|
|                       | \$'000  | \$'000  | \$'000  | \$'000  |
| As at 30 June 2019    |         |         |         |         |
| Financial assets      |         |         |         |         |
| Investment securities | 9,564   | 131,746 |         | 141,310 |
| As at 30 June 2018    |         |         |         |         |
| Financial assets      |         |         |         |         |
| Investment securities | 8,809   | 133,391 | ***     | 142,200 |

There have been no material transfers between Level 1 and Level 2 during the year ended 30 June 2019.



#### 20.3 Accounting classification

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

|                                 | Financial      | Financial        | Financial      |          |
|---------------------------------|----------------|------------------|----------------|----------|
|                                 | Assets at Fair | Assets at        | Liabilities at | Carrying |
|                                 | Value          | Amortised Cost / | Amortised Cost | Amount   |
| 2019                            | \$'000         | \$'000           | \$'000         | \$'000   |
| Cash and cash equivalents       | -              | 10,114           |                | 10,114   |
| Receivables and other assets    | -              | 37,641           |                | 37,641   |
| Investment securities           | 141,310        | -                | _              | 141,310  |
|                                 | 141,310        | 47,755           | •              | 189,065  |
| Payables and other liabilities* | •              | -                | (13,028)       | (13,028) |
| 2018                            |                |                  |                |          |
| Cash and cash equivalents       | -              | 7,314            | -              | 7,314    |
| Receivables and other assets    | -              | 29,246           | -              | 29,246   |
| Investment securities           | 142,200        |                  | _              | 142,200  |
|                                 | 142,200        | 36,560           | -              | 178,760  |
| Payables and other liabilities* | -              | -                | (11,397)       | (11,397) |

<sup>\*</sup> Payables and other liabilities exclude 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.

#### 21. Risk management

#### 21.1 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 practices as long as they are in the best interests of the Company.

The Company's Board recognises that effective risk management is integral 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.

The Suncorp Group Board approved Enterprise Risk Management Framework (ERMF) has been adopted by the Company. It is subject to an annual review, updated for material changes as they occur and is approved by the Company's Board. The ERMF requires:

- Company Board-approved Risk Appetite Statements (RAS) are linked to strategic business and capital plans. Risk Appetite is both set at Suncorp Group level and at the Function level in Board approved RAS. The Company has its own RAS;
- accountabilities and governance arrangements for the management of risk within the Three Lines of Defence model; and
- risk management processes.



#### 21.1 Risk management objectives and structure (continued)

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  | <ul> <li>Identify and manage the risks inherent in their operations including control testing</li> <li>Ensure compliance with all legal and regulatory requirements and Company adopted Suncorp Group, and Company specific policies</li> <li>Promptly escalate any significant actual and emerging risks for management attention</li> </ul>                           |
| Second – Independent<br>functions own and monitor<br>the application of risk<br>frameworks, and measure<br>and report on risk<br>performance and<br>compliance          | All risk functions  | <ul> <li>Design, implement and manage the ongoing maintenance of risk frameworks and related policies</li> <li>Advise and partner with the business in the design and execution of risk frameworks and practices</li> <li>Develop, apply and execute risk frameworks</li> <li>Facilitate the reporting of the appropriateness and quality of risk management</li> </ul> |
| Third – Independent<br>assurance over internal<br>controls and risk<br>management practices   | Internal auditors<br>and specific<br>obligations of<br>the Appointed<br>Actuaries | <ul> <li>Decides the level and extent of independent testing required to verify the efficacy of internal controls</li> <li>Validates the overall risk framework</li> <li>Provides assurance that the risk management practices are functioning as intended</li> </ul>   |

The Company's Board has approved 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) and its related company Asteron Life Limited together comprise Suncorp New Zealand (SNZ). SNZ has a Chief Risk Officer who has the management responsibility for the Chief Risk Office operations including risk, governance, regulatory affairs and compliance advice and services to SNZ and the Company. The Chief Risk Officer also provides specific conduct risk related oversight over the Company. The SNZ Chief Risk Officer reports to the SNZ CEO and indirectly reports to the Suncorp Group Chief Risk Officer.

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

These committees include an Asset and Liability Committee (ALCO) and a Risk and Governance Committee (RGC), and a Customer Conduct Committee.

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: (including the following economic aspects - Pricing, Reserving, Concentration and Reinsurance); Credit Risk; Market Risk; Asset and Liability Risk; and Liquidity Risk.

The Customer Conduct Committee exists to assist senior management who oversee the management of conduct risk impacting on customers from an 'end-to-end' perspective and make recommendations for improving customer outcomes and mitigating conduct risk. It also has oversight of any customer remediation activities occurring within SNZ.



#### 21.1 Risk management objectives and structure (continued)

The ALCO provides 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 complies with 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 subject to annual review and is submitted to the Reserve Bank of New Zealand. Material changes to the RMP require RBNZ's prior consent.

The key risks addressed by the ERMF 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. This includes consideration of matters relating to external clients and business practices, including regulatory, statutory, fiduciary, and suitability requirements |
| 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. This includes consideration of the creation and promotion of a culture of ethical conduct  |
| Strategic risk               | The risk that the Company's business model or strategy is not viable due to external change and the execution of the Company's strategy  |

Conduct risk is considered in the ERMF in the context of the organisation's risk culture, and relates to risk of inappropriate, unethical or unlawful behaviour on the part of Suncorp's employees and partners. Suncorp recognises that a strong organisational culture deriving from a clear and unambiguous tone from the top is a key enabler to managing Conduct risk and maximising the outcomes for our customers, shareholders and employees. The company has implemented a Conduct Risk Management Programme to provide a structured approach to conduct related matters.

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

- Note 21.2 Insurance risk management; and
- Note 21.3 to 21.5 Risk management for financial instruments: credit, liquidity and market risks.

Financial instrument risk is not assessed on a look through basis.



#### 21.2 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 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 risk 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 or series of events 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.



#### 21.3 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   |
|--------------------------------------|---|
|                                      | 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.  |
| Premiums receivable                  | 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 and 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.

For investment securities, credit ratings of counterparties for which credit risk is assessed only relate to the interest-bearing securities of the Company which include interest-bearing securities held at fair value through profit or loss.

There has been no material change in the credit risk faced by the Company, nor 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.



### 21.3 Credit risk (continued)

|                                  |         | Cr                            | edit Ratin                | g        |                   |              |                           |
|----------------------------------|---------|-------------------------------|---------------------------|----------|-------------------|--------------|---------------------------|
|                                  | AAA     | AA                            | Α                         | i<br>BBB | Non-<br>nvestment | Not<br>Rated | Total                     |
| 2019                             | \$'000  | \$'000                        | \$'000                    | \$'000   | grade<br>\$'000   | \$'000       | \$'000                    |
|                                  |         | -24.54.14-00626-00658-0084-00 | 2476472226682076420744766 |          | \$ 000<br>-       |              | CAGAGGESGASGGCSGGCSCGCCCC |
| Cash and cash equivalents        | 40 440  | 5,460                         | 4,654                     | 2 204    |                   |              | 10,114                    |
| Investment securities            | 13,418  | 88,238                        | 35,770                    | 3,884    | •                 | •            | 141,310                   |
| Reinsurance and other recoveries | -       | 11,133                        | 24,316                    | •        | -                 | 4,065        | 39,514                    |
| Other assets                     | -       |                               | -                         | -        |                   | 1,253        | 1,253                     |
| Premiums due                     | -       | -                             |                           | •        |                   | 32,364       | 32,364                    |
| Amounts due from reinsurers      | -       | 3,475                         | 507                       | •        | •                 | -            | 3,982                     |
|                                  | 13,418  | 108,306                       | 65,247                    | 3,884    | -                 | 37,682       | 228,537                   |
| 2018                             |         |                               |                           |          |                   |              |                           |
| Cash and cash equivalents        | -       | 7,304                         | 10                        | -        | -                 | -            | 7,314                     |
| Investment securities            | 12,431  | 96,600                        | 28,429                    | 4,740    | -                 | -            | 142,200                   |
| Reinsurance and other recoveries | <u></u> | 5,366                         | 32,234                    | _        |                   | 5,190        | 42,790                    |
| Other assets                     | -       | •                             | -                         | -        | -                 | 1,180        | 1,180                     |
| Premiums due                     | -       | -                             | -                         | -        | -                 | 27,442       | 27,442                    |
| Amounts due from related parties | -       | -                             | -                         | -        | -                 | 9            | 9                         |
| Amounts due from reinsurers      |         | 240                           | 346                       | _        | -                 | <u></u>      | 586                       |
|                                  | 12,431  | 109,510                       | 61,019                    | 4,740    | -                 | 33,821       | 221,521                   |

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.

|                     | Pas      | t due but n | ot impaire                              | d          |         |        |
|---------------------|----------|-------------|---|------------|---------|--------|
| Neither             |          |             | *************************************** |            |         |        |
| past due            |          |             |   |            |         |        |
| nor                 |          |             | 6-12                                    |            |         |        |
| impaired            | 0-3 mths | 3-6 mths    | mths >                                  | 12 mths In | npaired | Total  |
| 2019 \$'000         | \$'000   | \$'000      | \$'000                                  | \$'000     | \$'000  | \$'000 |
| Premiums due 30,684 | 1,296    | 117         | 267                                     | -          | -       | 32,364 |
| 2018                |          |             |   |            |         |        |
| Premiums due 26,849 | 547      | 46          | **                                      | _          | _       | 27,442 |

# 21.4 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
- 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.



### 21.4 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.

|                                |          |           |              | 1 1 1 1 |         |
|--------------------------------|----------|-----------|--------------|---------|---------|
|                                | Carrying | 1 year or |              | Over 5  |         |
|                                | amount   | less      | 1 to 5 years | years   | Total   |
| 2019                           | \$'000   | \$'000    | \$'000       | \$'000  | \$'000  |
| Amounts due to reinsurers      | 8,861    | 8,861     | -            |         | 8,861   |
| Trade creditors and accruals   | 1,457    | 1,457     |              |         | 1,457   |
| Outstanding claims liabilities | 127,111  | 41,753    | 76,686       | 8,672   | 127,111 |
| Amounts due to related parties | 2,710    | 2,710     | •            |         | 2,710   |
|                                | 140,139  | 54,781    | 76,686       | 8,672   | 140,139 |
| 2018                           |          |           |              |         |         |
| Amounts due to reinsurers      | 7,790    | 7,790     | -            | -       | 7,790   |
| Trade creditors and accruals   | 1,647    | 1,647     | -            | -       | 1,647   |
| Outstanding claims liabilities | 128,442  | 46,184    | 76,757       | 5,501   | 128,442 |
| Amounts due to related parties | 1,960    | 1,960     | <u></u>      | -       | 1,960   |
|                                | 139,839  | 57,581    | 76,757       | 5,501   | 139,839 |

#### 21.5 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 are constrained. Investments 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.



#### a) Interest rate risk

Interest rate risk arises from the investments in fixed rate interest-bearing securities. Interest rates have an impact on values of both 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 or 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. A movement of 100 basis points (2018:100 basis points) is considered reasonably possible and has been applied to the sensitivity analysis. This is disclosed in Note 15.4(b), represented by the impact of change in discount rate.

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. A movement of 100 basis points (2018: 100 basis points) is considered reasonably possible and has been applied to the sensitivity analysis.

|                        |          | 2019      |                           |          | 2018     |                           |
|------------------------|----------|-----------|---------------------------|----------|----------|---------------------------|
|                        |          | Change in | Profit (loss) after tax & |          |          | Profit (loss) after tax & |
|                        | Exposure | variable  | equity                    | Exposure | variable | equity                    |
|                        | \$'000   | %         | \$'000                    | \$'000   | %        | \$'000                    |
| Fixed interest bearing | 81,115   | +1        | (2,012)                   | 95,774   | +1       | (1,982)                   |
| investment securities  | 01,110   | -1        | 2,106                     | 33,774   | -1       | 2,074                     |
|                        | 81,115   |           |                           | 95,774   |          |                           |

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.



### 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 (2018: 100 basis points) change in yield is as follows:

|  |                    | 2019               |  |                    | 2018               |  |
|--|--------------------|--------------------|--|--------------------|--------------------|--|
|  | Exposure<br>\$'000 | Change in variable | Profit (loss)<br>after tax &<br>equity<br>\$'000 | Exposure<br>\$'000 | Change in variable | Profit (loss)<br>after tax &<br>equity<br>\$'000 |
| Discounted securities and corporate bonds  | 109,212            | +1<br>-1           | (1,549)<br>1,620                                 | 101,093            | +1                 | (1,352)  |
| Government and local government securities | 32,098             | +1<br>-1           | (463)<br>486                                     | 41,107             | +1<br>-1           | (630)<br>664                                     |
|  | 141,310            |                    | 700  | 142,200            |                    |  |

# d) Equity price risks

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

### 21.6 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 17.

### 22. Commitments of expenditure

|  | 2019           | 2018   |
|--|----------------|--------|
|  | <b>\$</b> '000 | \$'000 |
| Lease commitments  |                |        |
| Commitments for minimum lease payments in relation to non- |                |        |
| cancellable operating leases are payable as follows:       |                |        |
| Within one year  | 983            | 915    |
| Later than one year but not later than 5 years             | 3,930          | 3,661  |
| Later than 5 years   | 573            | 1,449  |
| Non cancellable operating leases                           | 5,486          | 6,025  |

The Company leases commercial office premises and car parks in Auckland, New Zealand with varying lease terms of up to 9 years from the date of inception with periodic rent reviews.



### 23. Related parties

### 23.1 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.

#### 23.2 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.

|   | 0040                                    | 9040                                    |
|---|---|---|
|   | 2019<br>\$'000                          | 2018<br>\$'000                          |
| Premiums received                           |   | Ψ σ σ σ σ σ σ σ σ σ σ σ σ σ σ σ σ σ σ σ |
| Fellow subsidiaries of the ultimate parent  | 17                                      | 16                                      |
| Premiums paid                               |   |   |
| Fellow subsidiaries of the ultimate parent  | 19                                      | 17                                      |
| Accounting and administration fees received |   |   |
| Parent                                      | 282                                     | 506                                     |
| Fellow subsidiaries of the ultimate parent  |   | 2                                       |
| Accounting and administration services paid |   |   |
| Parent                                      | 679                                     | 2,241                                   |
| Fellow subsidiaries of the ultimate parent  | 3,133                                   | 3,369                                   |
| Management services and profit shares paid  |   |   |
| Other related parties (Rasal)               | 2,802                                   | 2,454                                   |
| Dividend paid                               | 10 mm 1 m |   |
| Parent                                      | 18,500                                  | 16,000                                  |

Aggregate amounts receivable from or payable to related parties as at 30 June 2019 and 30 June 2018 are as follows:

| per destructives the explaining of the control of t | and the second second |        |
|--|-----------------------|--------|
|  | 2019                  | 2018   |
|  | \$'000                | \$'000 |
| Amounts receivable from:   |                       |        |
| Fellow subsidiaries of the ultimate parent   |                       | 9      |
| Total amounts receivable from related parties  |                       | 9      |
| Sport  |                       |        |
| Amounts payable to:  |                       |        |
| Parent   | 625                   | 361    |
| Fellow subsidiaries of the ultimate parent   | 291                   | 134    |
| Other related parties  | 1,794                 | 1,465  |
| Total amounts payable to related parties   | 2,710                 | 1,960  |

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



### 23.3 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 other than by a Suncorp Group entity located in New Zealand is not included in this disclosure. This applies to M A Cameron for the year ended 30 June 2019 and for the year ended 30 June 2018, and Dr D F McTaggart for the year ended 30 June 2019. They were remunerated by a related party of the ultimate parent outside of New Zealand and did not receive any compensation specifically related to their activities as a KMP of the Company. The KMP compensation is as follows:

|                              | 2019   | 2018   |
|------------------------------|--------|--------|
|                              | \$'000 | \$'000 |
| Short-term employee benefits | 4,578  | 4,243  |
| Post employment benefits     | 50     | 45     |
| Long-term benefits           | 180    | 38     |
| Share based payment          | 701    | 656    |
| Total Compensation           | 5,509  | 4,982  |

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.

#### 24. Auditor's remuneration

|   | ,      |        |
|---|--------|--------|
|   | 2019   | 2018   |
|   | \$'000 | \$'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                        | 77     | 59     |
| Tax advisory services   | -      | 2      |
| Total auditor's remuneration  | 218    | 202    |

#### 25. Contingent liabilities

There were no contingent liabilities as at 30 June 2019 (2018: \$nil).



### 26. Significant accounting policies

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

### 26.1 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 or 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.

### 26.2 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 years' 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 revenue

Commission received from reinsurers is recognised as revenue systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which it relates. This pattern of amortisation corresponds to the 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 on financial assets or liabilities at amortised cost is recognised in profit or loss using the effective interest method. Interest income and expense on financial assets or liabilities at fair value are recognised in profit or loss when earned or incurred.

Dividends and distribution income are recognised when the right to receive income is established.

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 26.8(d) while investment income from shareholder funds represents revenue from financial assets that do not back general insurance liabilities.

#### 26.3 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.

#### 26.4 Goods and services 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.

#### 26.5 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.



#### 26.6 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 amortised cost, using the effective interest method, less any impairment losses. Any impairment charge is recognised in the profit or 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.

#### 26.7 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.

#### 26.8 Financial assets

The Company determines whether each financial asset's contractual cash flows are solely principal payments and interest (SPPI) and how the financial asset is managed.

### 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 classified by the Company as at fair value through profit or loss.

Financial assets where contractual cash flows are not SPPI will be classified at fair value through profit or loss (FVTPL). Assets that are SPPI but managed on a fair value basis will also be classified at FVTPL. Where financial assets other than FVTPL back liabilities at fair value through profit or loss, this would create an accounting mismatch and the financial assets can be classified as at FVTPL to remove this mismatch.

Financial assets at FVTPL are initially recognised on the trade date at fair value. Transaction costs are recognised in the profit or loss as incurred. Subsequently, the assets are measured at fair value on each reporting date based on the 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 arm's length transactions, discounted cash flow analysis, option pricing models or other valuation techniques commonly used by market participants.

Fair value for the various types of financial assets is determined as follows:

- Listed unit trusts and shares by reference to the quoted market price.
- Listed government and semi government securities by reference to the quoted market price.
- Unlisted investments at valuation based on recent arm's length transactions, reference to other instruments that have substantially the same characteristics, discounted cash flow analysis and other pricing models. The assumptions and valuations inputs in applying these market standard valuation methodologies are determined using observable market inputs, which include, but are not limited to, benchmark yields, reported trades of similar or identical instruments, broker-dealer quotes and reference data including market research.

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



#### b) Financial assets at amortised cost

Financial assets other than financial assets at FVTPL, are subsequently 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.

The Company recognises an allowance for expected credit losses (ECL) for all debt instruments not held at fair value through profit or loss. Further information on ECL and impairment provisioning is provided in Note 26.10.

#### c) Derecognition of financial assets

Financial assets are derecognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and all risk and rewards of ownership have been substantially transferred.

#### d) General insurance activities

Certain assets are assessed under NZ IFRS 4 Insurance Contracts (those assets that are held to back general insurance liabilities), and under NZ IFRS 9 (those assets not backing general insurance liabilities).

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 mandatorily measured at FVTPL.

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.

Financial assets not backing general insurance liabilities

Financial assets that do not back general insurance liabilities include investment securities, and loans and receivables. These investment securities are mandatorily measured at FVTPL. Loans and receivables are measured at amortised cost.

### 26.9 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.

### 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 classified by the Company as at fair value through profit or loss.

#### Financial liabilities at amortised cost b)

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



#### 26.10 Impairment

The Company recognises an allowance for ECL for all debt instruments not held at fair value through profit or loss. ECL are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows include cash inflows from the sale of collateral held or other credit enhancements (if any) that are integral to the contractual terms.

For cash and cash equivalents, trade receivables and due to related parties (the debtors), the Company applies a simplified approach in calculating ECL. Under the simplified approach the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at each reporting date. The Company determines the ECL based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors (i.e. probability of default) and the economic environment.

### a) Calculation of recoverable amount

The recoverable amount of 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 pretax 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 or loss only to the extent that it increases the asset back to its original carrying amount before any impairment was recorded.

#### 26.11 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. The Company does not have any finance leases.

#### 26.12 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;
- 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.

#### 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 or 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.

# 26.13 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 a constructive obligation exists.

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 or 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.

### Other long-term employee benefits

#### Long service leave

A liability for long service leave is recognised in the statement of financial position. The liability is measured as the 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.

### 26.14 Deferred insurance activities

# 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.

### 26.15 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.



### 26.16 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 the entire portfolio of contracts. If a LAT deficiency occurs at a company level, it is recognised in the profit or loss with a write-down of the DAC asset. Any remaining balance is recognised as an unexpired risk liability in the statement of financial position.

#### 26.17 Contributed capital

#### Ordinary shares a)

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.

#### **Dividends** c)

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.

#### 26.18 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.

### 26.19 Changes in accounting estimates and errors

# **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 or loss in the period of the change and future periods, as applicable.

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

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

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



### 26.20 New accounting standards and interpretations not vet adopted

### NZ IFRS 16 Leases

NZ IFRS 16 Leases (NZ IFRS 16) was issued in February 2016 and will replace NZ IAS 17 Leases (NZ IAS 17) and related Interpretations. NZ IFRS 16 introduces a single on-balance sheet lease accounting model for lessees which will remove the operating or finance lease distinction for lessees under NZ IAS 17. Lessor accounting remains similar to the current standard and lessors will continue to classify leases as finance and operating.

Under NZ IFRS 16, the Company will recognise a right-of-use (ROU) asset representing its right to use the underlying asset, and a lease liability representing the present value of future lease payments. Consequently, the Company will recognise depreciation of the ROU asset and interest expense on the lease liability in the Statement of Comprehensive Income. In comparison to NZ IAS 17, the expense profile will be larger in the earlier stages of the lease. This is due to the interest expense being determined on the lease liability which amortises over the lease term and depreciation on the ROU asset is in accordance with the methods prescribed under NZ IAS 16 Property, Plant and Equipment.

The ROU asset and lease liability is recognised for all leases with the exception of short-term leases (less than 12 months) and leases of low-value items which are exempted under NZ IFRS 16.

#### Transition

The Company has elected to transition to NZ IFRS 16 on 1 July 2019 using the modified retrospective approach. Therefore, the cumulative effect of adopting NZ IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings on 1 July 2019, with no restatement of comparative information.

In accordance with the modified retrospective approach, the ROU asset can be determined on a lease by lease basis as either an amount equal to the lease liability or as if NZ IFRS 16 has always been applied. The difference between the ROU asset and the lease liability will be recognised as an adjustment to the Company's retained earnings as at 1 July 2019.

Based on the elected transition method, the Company will recognise a lease liability of approximately \$5 million, and a ROU asset of approximately \$5 million with a nil impact on retained earnings.

The Company's lease portfolio includes real estate leases.

The Company's future minimum lease payments under non-cancellable operating leases are disclosed in note 22.

#### b) NZ IFRS 17 Insurance Contracts

NZ IFRS 17 Insurance Contracts (NZ IFRS 17) will replace NZ IFRS 4 Insurance Contracts for annual periods beginning on or after 1 January 2021, becoming mandatory for the Company's financial statements for the year ending 30 June 2022. However, in June 2019 the International Accounting Standards Board (IASB) released an exposure draft, Amendments to IFRS 17, proposing various amendments to IFRS 17 which includes deferring the effective date by one year to 1 January 2022. The IASB aims to finalise these amendments in mid-2020, with the expectation that the XRB will also adopt this one-year deferral for NZ IFRS 17.

Under NZ IFRS 17, on initial recognition, a group of insurance contracts are measured based on the fulfilment cashflows (present value of estimated future cash flows with a provision for risk) and the contract service margin (CSM), the unearned profit that will be recognised over the cover period. Subsequent to initial recognition, the liability for the group of insurance contracts comprises the liability for the remaining coverage (fulfilment cash flows and CSM) and the liability for incurred claims (fulfilment cash flows for claims and expenses already incurred but not yet paid).



# 26.20 New accounting standards and interpretations not yet adopted (continued)

# NZ IFRS 17 Insurance Contracts (continued)

NZ IFRS 17 will materially change the recognition and measurement of insurance contracts and the corresponding presentation and disclosures in the Company's financial statements. The potential effects on adoption of the standard are currently being assessed.

### 27. Subsequent events

There were no material events post 30 June 2019 which would require adjustment to the amounts reflected in the 30 June 2019 financial statements or disclosures thereto.





22 July 2019

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

**Dear Directors** 

# 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
    outstanding claims of Catastrophe Events and 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 2019; 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 2019; and
- (h) No condition has been imposed under Section 21 (2)(c) as at 30 June 2019.

Kind regards,

Al Followt

Adam Follington

Appointed Actuary, Vero Liability Insurance Limited Fellow of the New Zealand Society of Actuaries

Tel: + 61 212 715 667