

# **Asteron Life Limited**

**Financial report**

**for the financial year ended 30 June 2020**



# Asteron Life Limited

## Financial report

for the financial year ended 30 June 2020

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## Directors' report

The Board of Directors presents the Directors' report together with the financial report of Asteron Life Limited (the **Company**) for the financial year ended 30 June 2020.

With the agreement of the shareholder, the Company has taken advantage of reporting concessions available to it under Section 211(3) of the Companies Act 1993.

### Directors

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

#### Non-executive

K A Armstrong (appointed 4 May 2020)

D M Flacks (appointed Chairman 1 October 2019)

A R Gerry

Dr D F McTaggart

G T Ricketts (resigned as Chairman 30 September 2019, resigned as Director 31 December 2019)

#### Executive

S B Johnston (appointed 20 September 2019)

P W Smeaton

#### Registered office

Level 13, Asteron Centre

55 Featherston Street

Wellington 6011

New Zealand

#### Auditor

KPMG

18 Viaduct Harbour Avenue

Auckland 1010

New Zealand

### Dividends

During the financial year, the Company paid dividends totalling \$36,200,000 (2019: \$23,000,000). 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 life insurance and the administration of long term savings products. There has been no significant change in the nature of these activities during the year.

### Review of operations

The Company recorded a net profit after income tax for the year ended 30 June 2020 of \$39,346,000 compared with a net profit after income tax of \$42,692,000 for the year ended 30 June 2019.

### Events subsequent to reporting date

There is, at the date of this Report, no matter or circumstance that has arisen since 30 June 2020 that has significantly affected, or may significantly affect:

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

## Directors' report (continued)

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

#### **Kate Armstrong**

*LLB/BA*

Director since 2020. Ms Armstrong is a lawyer who has significant experience in the financial services sector, including investments, insurance and banking. She has been closely involved in the design and operation of customer and remediation programmes, and was previously on the Board of the Financial Services Council. MS Armstrong is a director of Vero Insurance New Zealand Limited and its wholly owned subsidiary Vero Liability Insurance Limited.

#### **David M Flacks**

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

Director since 2015 and appointed as Chairman in 2019. 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 and its wholly owned subsidiary 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 a director of Vero Insurance New Zealand Limited and its wholly owned subsidiary Vero Liability Insurance Limited. She chairs the Board Audit & Risk Committees of these 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, Vero Insurance New Zealand Limited, and its subsidiaries, Vero Liability Insurance Limited and AA Insurance Limited, AA Finance Limited and related holding companies comprising Suncorp New Zealand.

#### **Steve B Johnston**

*B.Bus (Management), B.Bus (Public Administration)*

Director and Suncorp Group Limited Chief Executive Officer & Managing Director since 2019. Mr Johnston joined Suncorp Group Limited in 2006 and has held various executive positions, most recently as Acting Group Chief Executive Officer. Prior to this, he was the Group Chief Financial Officer with responsibility for financial reporting and management, legal and company secretariat, taxation, investor relations, corporate affairs and sustainability. Mr Johnston is also a director of Vero Insurance New Zealand Limited.



## Directors' report (continued)

### Information on Directors in office at the date of this report (continued)


#### Paul W Smeaton

*BBM, MAICD*

Director and Suncorp Group Limited Chief Operating Officer - Insurance. Mr Smeaton has been with Suncorp since 1994, and was Suncorp New Zealand Chief Executive Officer from 2016 until 20 July 2020. He has over 30 years' financial services experience, having worked in banking, insurance, funds management and stock broking. Mr Smeaton is also a director of Vero Insurance New Zealand Limited, and its subsidiaries, Vero Liability Insurance Limited and AA Insurance Limited, AA Finance Limited and other related companies comprising Suncorp New Zealand.

The financial report of the Company was approved for issue by the Board on 6 August 2020.

Signed in accordance with a resolution of the Directors.

  
Director

  
Director

## **Corporate governance statement(continued)**

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

### **Board**

The role of the Board of Directors is to provide effective governance over the operations of the Company to ensure that the interests of its shareholder and ultimate parent company are protected.

The Board responsibilities include approving the strategic direction of the Company, approving the Company's budget and major operating and capital expenditure, monitoring executive management's performance, and approving the Company's risk policies, risk appetite statement and Internal Capital Adequacy Assessment Process (ICAAP).

The Directors of the Company are appointed by the parent 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 Company and how the candidate's attributes will balance and complement the future requirements of the Board. Other key considerations include culture fit and an understanding of the business of the Company and the environment in which it operates. The Board considers it 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. This is used as part of the annual Board performance evaluation process.

The independence of the non-executive Directors 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.

Ongoing Director education sessions are provided on topical issues and matters that require technical or specialist knowledge.

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.

### **Membership**

There are six Directors in office, four being independent non-executive Directors (Kate Armstrong, David Flacks, Alison Gerry, and Douglas McTaggart) and two being executive Directors (Steve Johnson, Chief Executive and Managing Director of Suncorp Group, and Paul Smeaton, Chief Operating Officer insurance of Suncorp Group (formerly Chief Executive Officer of Suncorp New Zealand until 20 July 2020). The Directors' Report includes brief details on the qualifications and experience of the Directors.

### **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 financial and operating environment, risk management systems and processes and ensuring a sound risk culture that maintains a focus on appropriate customer outcomes.

The BARC responsibilities include reviewing financial information, monitoring financial and tax risks, appointing the external auditor and safeguarding the independence of the external auditor, internal audit and the appointed actuary, monitoring material risks and compliance with risk management policies including compliance with applicable laws and regulations.

## Corporate governance statement (continued)

### *Membership*

All non-executive Directors are members of the BARC, and the Chair has a finance background (Alison Gerry).

### **Management Committees**

The Board has delegated the day-to-day operation and management of the Company to the Suncorp New Zealand (SNZ) Chief Executive Officer (CEO). To assist in these duties, management committees have been established by the CEO under their delegated authority to monitor and oversee key risks. Management committees in place are: Risk and Governance Committee (RGC), Asset and Liability Committee (ALCO), Insurance Risk Committee (IRC), Product and Pricing Sub-Committee (PPSC), Investment Sub-Committee (ISC), and Customer Conduct Committee (CCC).

### **Corporate Governance**

The Company is part of the Suncorp Group and complies with Suncorp Group 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 Company has also adopted NZ specific policies, standards and guidelines where appropriate. Key policies in place include: the Code of Conduct, Conflict of Interest Policy, Business Continuity Management Policy, Enterprise Risk Management Framework (ERMF), the Whistle-blower Policy, Product and Platform Management Policy, Investment Governance Policy, Securities Trading Policy, Diversity and Inclusion Policy and the Safety and Wellbeing Policy.

The Company's corporate governance policies, practices and processes are contained in the Company's Risk Management Programme (RMP) which has been approved by the Reserve Bank of New Zealand.

### **Strategy and Culture**

The Company's purpose is building futures and protecting what matters.

This purpose will be achieved through a focus on these strategic pillars: Differentiate through People; Customer Focused; Community and Industry Advocacy and Digital and Data Driven Transformation, together with a culture focused on caring for others, being courageous and doing the right thing.

The Company's strategy is centred around connecting New Zealanders to products, services and experiences that enhance and protect their financial wellbeing. Its vision is aligned with Suncorp Group: to be the number one choice for New Zealanders because we are the destination for the moments that matter.

All employees have balanced performance scorecards that, in addition to financial performance targets, include customer, risk, and people focused deliverables and also include evaluation of performance in terms of the cultural behaviours.

### **Corporate Responsibility**

The Company believes in conducting business in a way that protects and sustains the environment for current and future generations and are actively working to minimize the impact of their activities.

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

## Corporate governance statement (continued)

### 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.

### Community Involvement

The Suncorp Brighter Futures Community Giving Programme empowers employees to make a difference to causes they feel passionate about. Through Brighter Futures, Suncorp employees have a range of opportunities to get involved, give and share by volunteering, fundraising, and matched giving.

This year, the Company has invested in community partnerships with Shine and Grandparents raising Grandchildren – charities that address issues that matter most to SNZ employees and will form the focus of the Company's fundraising efforts in the coming year.

The Suncorp Brighter Futures Dollar Matching programme will match the fundraising amounts of employees, up to \$1,000 for individuals and \$2,500 for teams, to a registered charity in New Zealand or Australia. Employees' volunteering efforts outside of work are also eligible for dollar matching.

Employees may also take one day of paid volunteer leave each year to support local community projects.

### 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

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



# Independent auditor's report

To the shareholder of Asteron Life Limited

## Report on the audit of the financial statements

### Opinion

In our opinion, the accompanying financial statements of Asteron Life Limited (the "Company") on pages 13 to 66:

- i. present fairly in all material respects the Company's financial position as at 30 June 2020 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 2020;
- 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 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) ("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 on the Company's annual and half-year insurer solvency return, audit of the financial statements, assurance engagements over the registry and the custodian controls of its related party managed funds, and sensitive expenditure review. 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 as a body 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.



## Key changes in the assessment of audit risks

The COVID-19 pandemic has created significant additional risks across a number of areas of the business, particularly the assessment of policy assets and policy liabilities ceded under reinsurance. All forward looking assumptions are inherently more uncertain during these unprecedented times with increased uncertainty around economic outlook and emergence of claims and lapse experience. While the key audit matters “Valuation of policy assets, policy liabilities ceded under reinsurance, change in policy liabilities ceded under reinsurance, and change in insurance contract liabilities” and “Valuation of outstanding claims liabilities and reinsurance recoveries receivable”, detailed below, are unchanged from last year, the underlying audit risk has increased. This has impacted the extent and nature of audit evidence that we had to gather.

### 1) Valuation of policy assets (\$5.2 million) and Policy liabilities ceded under reinsurance (\$29.5 million) Change in insurance contract liabilities (-\$11.0 million) Change in policy liabilities ceded under reinsurance (\$7.2 million)

The key audit matter	How the matter was addressed in our audit
<p>Refer to Note 15 to the financial statements.</p> <p>The valuation of Policy assets and Policy liabilities ceded under reinsurance is a key audit matter because of the judgement required in projecting expected cash flows long into the future.</p> <p>All forward looking assumptions are inherently more uncertain in the current COVID-19 environment, in particular, assumptions around expected life, trauma and redundancy claims, the duration of disability income claims, policy lapse rates and premium revenues as a result of premium holiday options.</p> <p>The net movement in Policy assets and Policy liabilities ceded under reinsurance is a function of the same valuation uncertainties, being the year on year movement in the valuation. This movement includes the release of profit from the expected cash flows.</p> <p>Specific audit and actuarial expertise is required to evaluate complex actuarial methodologies and assumptions.</p> <p>Key assumptions involved in the valuation include:</p> <ul style="list-style-type: none"> <li>• discount rate and inflation</li> <li>• future expenses and indexation</li> <li>• mortality</li> <li>• disability</li> <li>• discontinuance</li> <li>• bonuses and future participating benefits.</li> </ul>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>— Assessing the effectiveness of controls around the authorisation and set up of new policies, validity-checks of claims and authorisation of claim payments.</li> <li>— Evaluating the key IT systems and the design and operating effectiveness of IT system controls.</li> <li>— Evaluating the key controls over the integrity of the base data used in the valuation process. The base data is projected over the expected life of the policy.</li> <li>— Assessing the appropriateness of any valuation model changes and the change control processes surrounding any changes.</li> <li>— Using our actuarial specialist to challenge the actuarial methods and key assumptions used in the valuation by comparing key assumptions and expected experience to: <ul style="list-style-type: none"> <li>— actual historical experience;</li> <li>— observable market data, including industry average and experience for certain classes of business and assumptions; and</li> <li>— actuarial and accounting standard requirements.</li> </ul> </li> <li>— Assessing the appropriateness of the Company’s documentation of the impact of COVID-19 on the adopted assumptions, including the process to determine these.</li> <li>— Assessing the historical accuracy of the estimate by testing the “analysis of profit”, which compares the Company’s expected profit to actual profit. This included challenging the consistency of the analysis compared with our understanding of the business and emerging claims and lapse experience.</li> <li>— Checking that information in the actuarial supporting documentation from the Company is consistent with the information disclosed in the financial statements, including the disclosures on the impact of COVID-19 in Note 2.3.</li> </ul>



## 2) Outstanding claims liabilities (-\$173.4 million) Reinsurance recoveries receivable (\$56.2 million)

The key audit matter	How the matter was addressed in our audit
<p>Refer to Notes 11 and 14 to the financial statements.</p> <p>The valuation of outstanding claims liabilities, including reinsurance recoveries receivable involves judgement given the inherent uncertainty over the final claims settlement for claims incurred but not yet reported to the Company.</p> <p>In the current COVID-19 environment, there is inherently more uncertainty in forward looking assumptions such as the emergence of delays in reported claims for incurred but unreported claims and the duration of disability income claims.</p> <p>Judgement arises over the estimate of payments for claims that have been incurred at reporting date but have not yet been reported to the Company and claims that have been reported but there is uncertainty over the amount which will be settled.</p> <p>This estimate relies on the quality of underlying data, including historic claims data, and the application of complex and subjective actuarial models and methodologies, judgements and assumptions about the future events.</p>	<p>We involved our actuarial specialists and performed audit procedures, which included:</p> <ul style="list-style-type: none"> <li>Assessing the effectiveness of controls to validate claims and authorise payments.</li> <li>For a sample of claims which have been reported to the Company but not yet paid, checking that the claims estimate is based on the latest available information and that the reinsurers' share of the claim is calculated correctly.</li> <li>Checking the credit ratings of reinsurers for any indication that the reinsurers may not have the ability to settle their claims.</li> <li>Evaluating the key controls over the integrity of the data used in the estimation process.</li> <li>Challenging the actuarial methods and key assumptions used in the valuation by comparing key assumption and expected experience to actual historical experience.</li> <li>Assessing the appropriateness of the Company's documentation of the impact of COVID-19 on the adopted assumptions, including the process to determine these.</li> <li>Assessing the historical accuracy of the estimate by testing the "analysis of profit", which compares the Company's expected profit to actual profit. We challenged the consistency of the analysis compared with our understanding of the business and emerging claims and lapse experience.</li> <li>Checking that information in the actuarial supporting documentation from the Company is consistent with the information disclosed in the financial statements, including the disclosures on the impact of COVID-19 in Note 2.3.</li> </ul>

## Other information

The Directors, on behalf of the Company, are responsible for the other information included in the entity's Financial Report. Other information includes the director's 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 as a body. Our audit work has been undertaken so that we might state to the shareholder those matters we are required to state to them in the independent auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholder as a body for our audit work, this 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 Paul Herrod.

For and on behalf of



KPMG  
Auckland

11 August 2020

**Statement of comprehensive income  
for the financial year ended 30 June 2020**

	Note	2020	2019
		\$'000	\$'000
Premium revenue	5	253,781	245,189
Outwards reinsurance premium expense		(41,631)	(39,613)
<b>Net premium revenue</b>		<b>212,150</b>	<b>205,576</b>
Investment revenue	5	37,761	41,456
<b>Net revenue</b>		<b>249,911</b>	<b>247,032</b>
Claims expense	6	(137,540)	(134,564)
Reinsurance recoveries revenue	5	36,156	37,883
<b>Net claims expense</b>	6	<b>(101,384)</b>	<b>(96,681)</b>
Policy acquisition expenses	6	(45,290)	(47,875)
Policy maintenance expenses	6	(44,404)	(40,824)
Investment management expenses	6	(1,212)	(1,178)
Change in insurance contract liabilities	6,15.1	(10,992)	(14,827)
Change in policy liabilities ceded under reinsurance	6,15.1	7,168	7,485
Change in investment contract liabilities	6,15.1	(10,378)	(7,220)
Change in unvested policyholder liabilities	6,15.1	6,130	6,564
Finance costs	22	(127)	-
<b>Total management expenses and policy liability movements</b>		<b>(99,105)</b>	<b>(97,875)</b>
<b>Net claims and expenses</b>	6	<b>(200,489)</b>	<b>(194,556)</b>
<b>Profit before tax</b>		<b>49,422</b>	<b>52,476</b>
Income tax expense	7.1	(10,076)	(9,784)
<b>Profit for the financial year attributable to owner of the Company</b>	4, 26	<b>39,346</b>	<b>42,692</b>
<b>Other comprehensive loss</b>			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Actuarial losses on defined benefit funds		(6,280)	(7,234)
Income tax credit	7.1	1,758	1,795
<b>Total other comprehensive loss</b>		<b>(4,522)</b>	<b>(5,439)</b>
<b>Total comprehensive income for the financial year attributable to owner of the Company</b>		<b>34,824</b>	<b>37,253</b>

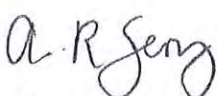
The statement of comprehensive income is to be read in conjunction with the accompanying notes.

**Statement of financial position  
as at 30 June 2020**

	Note	2020 \$'000	2019 \$'000
<b>Assets</b>			
Cash and cash equivalents		3,537	13,329
Trade and other receivables	8	22,015	21,020
Related party receivables	23.2	412	2,436
Other assets	8	2,047	2,407
Investment securities	9	652,218	615,690
Derivative assets	10	14,651	13,128
Reinsurance recoveries receivable	11	56,243	49,545
Policyholder loans		4,951	4,879
Policy assets	15.1	5,153	7,121
Policy liabilities ceded under reinsurance	15.1	29,530	22,362
Loans and other receivables	8	7	10
Property, plant and equipment	22	3,636	-
Deferred tax assets	7.4	5,977	3,928
<b>Total assets</b>		<b>800,377</b>	<b>755,855</b>
<b>Liabilities</b>			
Payables and other liabilities	12	23,490	18,530
Related party payables	23.2	5,737	6,089
Current tax payable	7.3	117	2,281
Outstanding claims liabilities	14	173,423	158,528
Deferred tax liabilities	7.4	124,205	121,674
Defined benefit fund liabilities	13	17,404	10,834
<b>Total liabilities</b>		<b>344,376</b>	<b>317,936</b>
<b>Net assets</b>		<b>456,001</b>	<b>437,919</b>
<b>Equity</b>			
Share capital	16	255,104	235,104
Retained profits	26	200,897	202,815
<b>Total equity</b>	26	<b>456,001</b>	<b>437,919</b>

The Board of Directors of Asteron Life Limited approved these financial statements for issue on 6 August 2020.

For and on behalf of the Board

  
Director

  
Director

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 2020**

	Note	Share Capital \$'000	Retained Profits \$'000	Total Equity \$'000
<b>Balance as at 1 July 2018</b>		235,104	188,562	423,666
Profit for the financial year	4	-	42,692	42,692
Total other comprehensive loss		-	(5,439)	(5,439)
<b>Total comprehensive income for the financial year</b>		-	37,253	37,253
<b>Transactions with owner</b>				
Dividends paid	3	-	(23,000)	(23,000)
<b>Balance as at 30 June 2019</b>		<b>235,104</b>	<b>202,815</b>	<b>437,919</b>
<b>Balance as at 1 July 2019</b>		<b>235,104</b>	<b>202,815</b>	<b>437,919</b>
Impact on initial application of NZ IFRS 16 (net of tax)		-	(542)	(542)
<b>Restated balance as at 1 July 2019</b>		<b>235,104</b>	<b>202,273</b>	<b>437,377</b>
Profit for the financial year	4	-	39,346	39,346
Total other comprehensive loss		-	(4,522)	(4,522)
<b>Total comprehensive income for the financial year</b>		-	34,824	34,824
<b>Transactions with owner</b>				
Dividends paid	3	-	(36,200)	(36,200)
Capital contribution	16	20,000	-	20,000
<b>Balance as at 30 June 2020</b>		<b>255,104</b>	<b>200,897</b>	<b>456,001</b>

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 2020**

	Note	2020	2019
		\$'000	\$'000
<b>Cash flows from operating activities</b>			
Premiums received		258,222	250,309
Reinsurance premiums paid		(41,585)	(39,684)
Policy payments		(140,426)	(139,106)
Reinsurance and other recoveries received		32,465	27,730
Operating expenses paid		(41,437)	(39,437)
Agents commission and bonuses paid		(47,042)	(50,452)
Distributions received		61	302
Interest received		15,371	15,872
Finance costs paid		(127)	-
Income tax paid*	7.3	(9,790)	(12,416)
Net movement in goods and services tax		(2,773)	2,960
<b>Net cash from operating activities</b>	19	<b>22,939</b>	<b>16,078</b>
<b>Cash flows (used in)/ from investing activities</b>			
Proceeds from the sale of investments		544,295	581,245
Purchase of investments		(559,081)	(574,012)
(Advances)/repayments of policy loans		(72)	490
Repayments of other loans		3	3
<b>Net cash (used in)/from investing activities</b>		<b>(14,855)</b>	<b>7,726</b>
<b>Cash flows used in financing activities</b>			
Repayment of lease liabilities		(1,677)	-
Proceeds from share issues		20,000	-
Dividends paid	3	(36,200)	(23,000)
<b>Net cash used in financing activities</b>		<b>(17,877)</b>	<b>(23,000)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(9,792)</b>	<b>804</b>
Cash and cash equivalents at the beginning of the financial year		13,329	12,525
<b>Cash and cash equivalents at end of the financial year</b>		<b>3,537</b>	<b>13,329</b>

\* Income tax paid includes cash flows from tax offsets and transfers

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



## Notes to the financial statements

### 1. Reporting entity

Asteron Life Limited (the **Company**) is a company incorporated and domiciled in New Zealand. Its registered office is at Level 13 Asteron Centre, 55 Featherston Street, Wellington and the head office is at Level 13 Vero Centre, 48 Shortland Street, Auckland.

The financial statements of the Company as at and for the financial year ended 30 June 2020 were issued by the Board of Directors on 6 August 2020.

The Company is a profit-oriented entity in the business of underwriting life insurance and the administration of long term savings products within New Zealand.

The Company's parent entity is Suncorp Group 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, defined benefit superannuation funds and other actuarially determined balances.

Significant accounting policies applied in the preparation of these financial statements are set out in Note 28. There have been no significant changes to accounting policies apart from the adoption of NZ IFRS 16 *Leases* (NZ IFRS 16).

NZ IFRS 16 has been applied from 1 July 2019 and the option not to restate prior period financial statements was elected. The change in classification and measurement from the adoption of NZ IFRS 16 was recognised in retained profits on 1 July 2019 as disclosed in Note 2.2.

The reporting period is from 1 July 2019 to 30 June 2020.

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

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

#### 2.1 Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with New Zealand Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards as appropriate for profit-oriented entities. The Company is an FMC reporting entity for the purpose 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).

## Notes to the financial statements (continued)

### 2.2 New or amended standards which became mandatory and were adopted during the financial year

#### NZ IFRS 16 Leases

NZ IFRS 16 *Leases* (NZ IFRS 16) replaced 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 removes the operating or finance lease distinction which was previously required under NZ IAS 17. Lessor accounting remains similar to NZ IAS 17 and lessors will continue to classify leases as finance and operating.

The right-of-use (ROU) asset and lease liabilities are 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 adopted NZ IFRS 16 using the modified retrospective approach. In accordance with the transitional provisions under NZ IFRS 16 the comparative information has not been restated and continues to be reported under the previous standard (NZ IAS 17).

The Company determined the right of use asset for all significant real estate leases as if NZ IFRS 16 had always been applied, and the resulting transitional adjustment was recognised in retained profits on the transition date.

On transition, the Company recognised a lease liabilities of \$5,893,000 presented in the 'Payables and other liabilities' line item and a right of use asset of \$5,140,000 presented in the 'Property, plant and equipment' line item, which resulted in a reduction to retained profits (net of tax) of \$542,000.

The table below presents a reconciliation of the operating lease commitments as disclosed in the Company's 30 June 2019 financial statements, to the lease liabilities recognised on transition date:

	Company
	2019
	\$'000
Operating lease commitment - 30 June 2019	6,152
Less:	
Impact of discounting future lease payments at the weighted average	(259)
Lease liability 1 July 2019	5,893

The Company's weighted average incremental borrowing rate (IBR) at transition date was 2.5%. The IBR is determined by the reference rate and the corresponding financing spread. The reference rate takes into account the risk-free rate, whereas the financing spread considers factors such as credit rating and lease term.

In determining the right of use asset and lease liabilities on transition, the Company applied practical expedients in accordance with the transitional requirements of NZ IFRS 16.



## Notes to the financial statements (continued)

### 2.3 Use of estimates and judgements

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

Significant estimates, judgements and assumptions are discussed in the following Notes:

- Policy assets, outstanding claims liabilities and policy liabilities ceded under reinsurance (refer to Notes 11, 14 and 15.3)
- Valuation of financial instruments (refer to Note 20.2)
- Provisions and contingent liabilities (refer to Note 25)

### COVID-19 impact on the use of estimates and assumptions

On 11 March 2020, the World Health Organization declared COVID-19 a global pandemic. COVID-19 is an infectious disease that can cause respiratory illness. While COVID-19 is a health crisis, it has caused socioeconomic disruption on a global scale. The Company has considered the impact of COVID-19 when preparing the financial statements and related Note disclosures. While the effects of COVID-19 do not change the significant estimates, judgements and assumptions in the preparation of financial statements, it has resulted in increased estimation uncertainty and the additional application of further judgement within those identified areas.

### COVID-19 financial reporting considerations in the preparation of the financial statements

Given the increased economic uncertainties from COVID-19, the Company has heightened its financial reporting procedures and governance practices surrounding the preparation of the financial statements. In addition to standard financial year end reporting practices, the Company has:

- critically assessed estimates, judgements and assumptions used in the preparation of the financial statements, including updating the Company's outlook on economic conditions from COVID-19;
- determined the impact COVID-19 has had on the financial statements and updated these disclosures accordingly; and
- assessed the carrying value of the Company's asset and liabilities at reporting date. Where there is a significant use of estimates and judgements in determining the carrying value of the Company assets and liabilities, the procedures in determining the carrying value of these assets and liabilities are summarised below.

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

### Policy assets, outstanding claim liabilities and policy liabilities ceded under reinsurance

Policy liabilities arising from life insurance contracts are computed at each reporting date using statistical and mathematical methods. The valuations are prepared by suitably qualified personnel on the basis of recognised actuarial methods and with due regard to the actuarial principles laid down in actuarial standards and guidance. The methodology takes into account the risks and uncertainties of the particular classes of business written.

## Notes to the financial statements (continued)

### 2.3 Use of estimates and judgements (continued)

The key factors that affect the estimation of these liabilities are:

- The cost of providing benefits and administering these insurance contracts;
- Mortality and morbidity experience on individual and group life insurance products; including enhancements to benefits of policyholders and other amounts arising from regulatory interventions;
- Persistency experience, which affects the Company's ability to recover the cost of acquiring new business over the lives of the contracts; and
- In addition, factors such as competition, interest rates, taxes, the performance of the capital markets and general economic conditions affect the level of these liabilities.

The uncertainties surrounding these assumptions means that it is likely that the actual observed claims incidence will vary from the liability estimated at the reporting date.

Details regarding actuarial estimates and judgements are detailed in Note 15.3.

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. Impairment is recognised where there is objective evidence that the Company may not receive amounts due to it and these amounts can be reliably measured. Impairment is measured as the difference between the carrying amount and present value of estimated future cash flows.

The Company has considered the impact from COVID-19 in its assumptions for measuring policy assets, outstanding claims liabilities and policy liabilities ceded under reinsurance. In determining the adequacy of policy assets, outstanding claims liabilities and policy liabilities ceded under reinsurance at the reporting date, the Company has reviewed the discount rates and assumptions including policyholder behaviours during and post COVID-19, the severity of claims post COVID-19, and how experience to date from the COVID-19 outbreak varies from existing assumptions about pandemic risk and how those risks are managed. As a result of this assessment, it was determined that there were no significant impacts from COVID-19 on the assumptions used in determining the policy assets, outstanding claims liabilities and policy liabilities ceded under reinsurance at reporting date (refer Notes 11, 14 and 15.3).

#### Valuation of financial instruments

The Company's investment securities are invested in high-quality liquid assets which are valued using inputs from observable market data as shown in the Company's fair value hierarchy disclosure in Note 20.2. The Company has ensured that the valuation of its trading and investment securities reflects a market participants' assumptions based on information available at the measurement date.

#### Financial risk management

The Company has adopted prudent practices to manage liquidity risk and to ensure an adequate level of liquidity is maintained to meet obligations as they fall due across a wide range of operating circumstances. The Company was well placed heading into the market dislocation following the COVID-19 pandemic and has continued to maintain funding and liquidity metrics comfortably above regulatory minimums.

## Notes to the financial statements (continued)

### 3. Dividends

	2020		2019	
	¢ per share	\$'000	¢ per share	\$'000
Ordinary shares				
Dividends paid	22	36,200	14	23,000
<b>Total dividends recognised in equity</b>	<b>22</b>	<b>36,200</b>	<b>14</b>	<b>23,000</b>

Dividend per share for the year ended 30 June 2020 was calculated based on the 162,342,450 shares on issue at the time of the dividends, which was before the issue of a further 20,000,000 shares on 27 March 2020.

### 4. Sources of operating profit

	2020	2019
	\$'000	\$'000
Profit for the financial year arose from:		
Planned margins of revenues over expenses released	34,718	33,691
Difference between actual and assumed experience	(2,395)	(1,859)
Investment earnings on assets in excess of policyholder liabilities	7,023	10,860
<b>Profit for the financial year</b>	<b>39,346</b>	<b>42,692</b>

The participating policyholders loss, as included in the movement in policyholder liabilities for the year ended 30 June 2020, was \$6.6 million (2019: \$6.6 million loss).

### 5. Revenue

	2020	2019
	\$'000	\$'000
<b>Insurance income</b>		
Premiums received or receivable	258,240	250,040
Premiums recognised as a change in gross policy liabilities (Note 15.1)	(4,459)	(4,851)
<b>Premium revenue</b>	<b>253,781</b>	<b>245,189</b>
Reinsurance recoveries revenue	36,156	37,883
<b>Total insurance revenue</b>	<b>289,937</b>	<b>283,072</b>
<b>Investment income</b>		
Interest income:		
Interest bearing securities	14,672	15,318
Other	299	337
Dividends	4,140	4,551
Changes in fair value of financial assets:		
Investments	17,181	17,458
Derivatives	1,469	3,792
<b>Investment revenue</b>	<b>37,761</b>	<b>41,456</b>
<b>Total revenue</b>	<b>327,698</b>	<b>324,528</b>

Premiums recognised as a change in policy liabilities pertain to the component of premium that relate to life investment contracts.



## Notes to the financial statements (continued)

### 6. Net claims and expenses

	2020	2019
	\$'000	\$'000
<b>Claims expenses</b>		
Death and terminal illness	66,799	70,217
Disability	61,968	55,290
Annuities	1,097	1,129
Maturities	3,842	3,716
Surrenders and withdrawals	20,543	19,285
Claims handling expenses	1,022	985
<b>Gross claims expenses</b>	<b>155,271</b>	<b>150,622</b>
Less: Savings product claims disclosed as a change in policy liabilities (Note 15.1)	(17,731)	(16,058)
<b>Total claims expense</b>	<b>137,540</b>	<b>134,564</b>
Reinsurance recoveries	(36,156)	(37,883)
<b>Net claims expense</b>	<b>101,384</b>	<b>96,681</b>
<b>Acquisition expenses</b>		
Management expenses	23,379	21,340
Commission expenses	21,911	26,535
<b>Total acquisition expenses</b>	<b>45,290</b>	<b>47,875</b>
<b>Maintenance expenses</b>		
Management expenses	19,954	17,555
Commission expenses	24,450	23,269
<b>Total maintenance expenses</b>	<b>44,404</b>	<b>40,824</b>
Investment management expenses	1,212	1,178
Change in insurance policy liabilities (Note 15.1)	10,992	14,827
Change in policy liabilities ceded under reinsurance (Note 15.1)	(7,168)	(7,485)
Change in investment contract liability benefits (Note 15.1)	10,378	7,220
Change in unvested policy liabilities (Note 15.1)	(6,130)	(6,564)
Finance costs	127	-
<b>Net claims and expenses</b>	<b>200,489</b>	<b>194,556</b>
Included within net claims and expenses are the following specific items:		
Movement in provision for bad and doubtful debts (Note 8)	100	216



## Notes to the financial statements (continued)

### 7. Income tax

#### 7.1 Income tax expense

	2020	2019
	\$'000	\$'000
<b>Profit before tax</b>	<b>49,422</b>	<b>52,476</b>
Prima facie income tax at 28%	13,838	14,693
<b>Movement in income tax expense due to:</b>		
Difference due to life insurance tax basis	80	(1,153)
Non-taxable gains on revaluation of financial assets	(995)	(102)
Non-deductible expenditure	1	9
Non-taxable dividends	(1,078)	(1,123)
Imputation credits	(427)	(471)
Other	19	(33)
Adjustment for prior years	(1,362)	(2,036)
<b>Income tax expense</b>	<b>10,076</b>	<b>9,784</b>
<b>Income tax expense recognised in profit consists of:</b>		
<b>Current tax expense</b>		
Current year	8,988	10,138
Adjustments for prior financial years	(1,362)	(2,036)
<b>Total current tax</b>	<b>7,626</b>	<b>8,102</b>
<b>Deferred tax expense</b>		
Current year	2,450	1,682
<b>Total deferred tax</b>	<b>2,450</b>	<b>1,682</b>
<b>Income tax expense</b>	<b>10,076</b>	<b>9,784</b>
<b>Income tax credit recognised in other comprehensive loss</b>		
Income tax credit on actuarial losses on defined benefit funds	(1,758)	(1,795)

#### 7.2 Imputation credits

	2020	2019
	\$'000	\$'000
<b>SGHNZ ICA Group</b>		
Imputation credits available for use in subsequent reporting periods	404,163	331,372

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.

## Notes to the financial statements (continued)

### 7.3 Current tax

	2020	2019
	\$'000	\$'000
Balance at the beginning of the financial year	(2,281)	(6,595)
Income tax paid net of refunds	9,249	11,803
Current year tax on operating profit (Note 7.1)	(8,988)	(10,138)
Adjustment for prior financial years (Note 7.1)	1,362	2,036
Transfers between related parties (from tax offsets)	541	613
<b>Balance at the end of the financial year</b>	<b>(117)</b>	<b>(2,281)</b>

### 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.

	2020	2019
	\$'000	\$'000
<b>Deferred tax assets are attributable to:</b>		
Defined benefit scheme deficit	4,874	3,034
Depreciable and amortisable assets	1	1
Leases	162	-
Trade creditors and other payables	940	893
<b>Total deferred tax assets</b>	<b>5,977</b>	<b>3,928</b>
<b>Deferred tax liabilities are attributable to:</b>		
Deferred tax liability in policyholder liabilities (Note 15.2)	(122,911)	(121,265)
Investments	(1,294)	(409)
<b>Total deferred tax liabilities</b>	<b>(124,205)</b>	<b>(121,674)</b>
<b>Net deferred tax liability</b>	<b>(118,228)</b>	<b>(117,746)</b>
Expected to crystallise within 12 months	(285)	485
Expected to crystallise in greater than 12 months	4,968	3,034
Policyholder liabilities	(122,911)	(121,265)
<b>Net deferred tax liability</b>	<b>(118,228)</b>	<b>(117,746)</b>
<b>Movements</b>		
<b>Deferred tax assets</b>		
Balance at the beginning of the financial year	3,928	1,899
Charged to profit or loss (Note 7.1)	81	234
Impact on initial application of NZ IFRS16	210	-
Recognised in other comprehensive income	1,758	1,795
<b>Balance at the end of the financial year</b>	<b>5,977</b>	<b>3,928</b>
<b>Deferred tax liabilities</b>		
Balance at the beginning of the financial year	(121,674)	(119,758)
Charged to profit or loss (Note 7.1)	(2,531)	(1,916)
<b>Balance at the end of the financial year</b>	<b>(124,205)</b>	<b>(121,674)</b>



## Notes to the financial statements (continued)

### 7.5 Deferred tax on policy liabilities

Life insurance policy liabilities represent the net present value of estimated future cash flows and planned profit margins. Using the margin on services methodology, planned after tax profit margins are recognised in the statement of comprehensive income over the period services are provided to policyholders. Life insurance companies are not taxed on pre-tax net holding profit. They are taxed on both the business activity of the life insurer base and the growth and value of the policyholders' investments.

Taxable temporary differences, largely in respect of deferred acquisition costs, embedded within policy liabilities, which can be reliably measured, have been recognised and disclosed separately from the underlying policy liabilities.

### 8. Receivables

	2020	2019
	\$'000	\$'000
<b>Trade and other receivables</b>		
Premiums due	801	1,200
Trade and investment receivables	3,274	461
Amounts due from reinsurers	15,859	18,866
Other receivables	2,543	855
Provision for bad and doubtful debts	(462)	(362)
<b>Total trade and other receivables</b>	<b>22,015</b>	<b>21,020</b>
<b>Other assets</b>		
Accrued income	2,006	2,375
Prepaid expenses	41	32
<b>Total other assets</b>	<b>2,047</b>	<b>2,407</b>
<b>Loans and other receivables</b>		
Other loans	7	10
<b>Loans and other receivables</b>	<b>7</b>	<b>10</b>
<b>Total receivables</b>	<b>24,069</b>	<b>23,437</b>
Current	23,890	23,414
Non-current	179	23
<b>Total receivables</b>	<b>24,069</b>	<b>23,437</b>
<b>Movements in provision for bad and doubtful debts</b>		
Balance at the beginning of the financial year	362	146
Provision increase during the financial year	100	216
<b>Balance at the end of the financial year</b>	<b>462</b>	<b>362</b>

## Notes to the financial statements (continued)

### 9. Investment securities

	2020	2019
	\$'000	\$'000
<b>Financial assets at fair value through profit or loss</b>		
Interest bearing securities	370,013	341,565
Equities	-	13,639
Unit trusts	282,205	260,486
<b>Total investment securities</b>	<b>652,218</b>	<b>615,690</b>

### 10. Derivative assets

	2020			2019		
	Notional value	Fair value		Notional value	Fair value	
	\$'000	Asset	Liability	\$'000	Asset	Liability
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Forward foreign exchange contracts	1,164	37	-	3,054	48	-
Interest rate swaps	131,000	14,614	-	131,000	13,080	-
<b>Total derivatives</b>	<b>132,164</b>	<b>14,651</b>	<b>-</b>	<b>134,054</b>	<b>13,128</b>	<b>-</b>

The interest rate swap contracts with a notional value of \$41,000,000 and \$90,000,000 were entered into with Bank of New Zealand and Westpac Banking Corporation respectively (2019: \$41,000,000 and \$90,000,000). The Standard and Poors credit ratings of both counterparties as at balance date were AA-.

### 11. Reinsurance recoveries receivable

	2020	2019
	\$'000	\$'000
<b>Reinsurance recoveries receivable</b>	<b>56,243</b>	<b>49,545</b>
Current	8,155	7,767
Non-current	48,088	41,778
<b>Total reinsurance recoveries receivable</b>	<b>56,243</b>	<b>49,545</b>

### 12. Payables and other liabilities

	Note	2020	2019
		\$'000	\$'000
Trade creditors and accruals		6,094	9,023
Provisions		1,348	-
Collateral		10,120	7,840
Amounts due to reinsurers		1,713	1,667
Lease liabilities	22	4,215	-
<b>Total payables and other liabilities</b>		<b>23,490</b>	<b>18,530</b>
Current		20,989	18,530
Non-current		2,501	-
<b>Total payables and other liabilities</b>		<b>23,490</b>	<b>18,530</b>

Floating rate interest bearing collateral is held in relation to the interest rate swaps with Westpac Banking Corporation as disclosed in Note 10 and is subject to ISDA Credit Support Annex and other standard industry terms. The collateral is subject to interest based on the daily official cash rate.



## Notes to the financial statements (continued)

### 13. Defined benefit fund liabilities

The Company participates in two defined benefit superannuation funds which provide benefits to members on retirement, disability or death. These defined benefit superannuation funds are now closed to new members, with new employees now being offered membership of a defined contribution fund.

The following table summarises the surplus or deficit position for each defined benefit superannuation fund.

	2020			2019		
	Surplus \$'000	Deficit \$'000	Net \$'000	Surplus \$'000	Deficit \$'000	Net \$'000
Vero & Asteron New Zealand Staff Pension Scheme	-	(7,249)	(7,249)	-	(5,815)	(5,815)
Guardian Assurance Superannuation Plan	-	(10,155)	(10,155)	-	(5,019)	(5,019)
<b>Total net defined benefit liability</b>	-	(17,404)	(17,404)	-	(10,834)	(10,834)
<b>Non-current</b>	-	(17,404)	(17,404)	-	(10,834)	(10,834)
<b>Total net defined benefit liability</b>	-	(17,404)	(17,404)	-	(10,834)	(10,834)

The characteristics of the defined benefit superannuation funds and their associated risks are summarised as follows:

- Members receive regular pension payments or deferred pension payments. The amount of pension payable upon retirement of active members is determined based on final pensionable salary and pensionable service. Partial or full commutation of the pension may be allowed.
- The Financial Markets Conduct Act 2013 (FMCA), which replaced the Superannuation Schemes Act 1989) governs the superannuation industry and provides the framework within which superannuation funds operate. FMCA requires an actuarial valuation to be performed for each defined benefit superannuation fund at least every three years.
- The Trustees of each fund are responsible for the governance of the fund. The Trustees have a legal obligation to act solely in the best interests of fund beneficiaries. The Trustees have the following roles:
  - Administration of the fund and payment to the beneficiaries from fund assets when required in accordance with the fund rules;
  - Management and investment of the fund assets; and
  - Compliance with superannuation law and other applicable regulations.
- The Financial Markets Authority licenses and supervises regulated superannuation funds.
- There are a number of risks to which each fund exposes the Company. The more significant risks relating to the defined benefit superannuation funds are:
  - Investment risk – The risk that investment returns will be lower than assumed and the Company will need to increase contributions to offset this shortfall;
  - Mortality risk – The risk that the members of the fund will live longer than assumed, increasing the number of pension payments and thereby requiring additional Company contributions; and
  - Legislative risk – The risk is that legislative changes could be made which increase the cost of providing the defined benefits.

## Notes to the financial statements (continued)

### 13.1 Defined benefit superannuation funds (continued)

- Other Suncorp Group entities participate in the funds, the amounts included in these financial statements relate to the Company's share in relation to the members that are attributable to the Company. The Company is not liable for any deficits or contributions attributable to other Suncorp Group entities.
- There were no fund amendments, curtailments or settlements during the year.

#### a) Present value of superannuation commitments

	2020	2019
	\$'000	\$'000
Fair value of fund assets at the end of the financial year	34,095	35,376
Defined benefit obligations at the end of the financial year	(45,755)	(42,634)
Adjustments for contributions tax	(5,744)	(3,576)
<b>Net liability recognised in the statement of financial position</b>	<b>(17,404)</b>	<b>(10,834)</b>

The values of assets and liabilities shown above are the combined values of the two funds.

#### b) Reconciliation of movements

	2020	2019
	\$'000	\$'000
<b>Changes in the fair value of fund assets</b>		
Balance at the beginning of the financial year	35,376	35,844
Interest income	641	1,075
Actual return on plan assets less interest income	695	1,037
Contributions	17	19
Benefits paid	(2,563)	(2,512)
Premiums and expenses paid	(71)	(87)
<b>Balance at the end of the financial year</b>	<b>34,095</b>	<b>35,376</b>
<b>Changes in the present value of defined benefit obligations</b>		
Balance at the beginning of the financial year	(42,634)	(37,470)
Current service cost	(72)	(101)
Interest expense	(780)	(1,130)
Actuarial losses arising from changes in financial assumptions	(4,535)	(5,217)
Actuarial losses arising from liability experience	(368)	(1,316)
Benefits paid	2,563	2,512
Premiums and expenses paid	71	88
<b>Balance at the end of the financial year</b>	<b>(45,755)</b>	<b>(42,634)</b>
<b>Effect of the asset ceiling</b>		
Balance at the beginning of the financial year	-	629
Interest on effect of asset ceiling	-	20
Change in effect of asset ceiling (excluding interest)	-	(649)
<b>Balance at the end of the financial year</b>	<b>-</b>	<b>-</b>



## Notes to the financial statements (continued)

### 13.1 Defined benefit superannuation funds (continued)

#### c) Categories of fund assets

	2020	2019
	%	%
<b>Major categories of fund assets as a percentage of total fund assets</b>		
Equity	33.9	33.8
Fixed income	60.8	60.4
Other	0.9	1.3
Cash	4.4	4.5
	<b>100.0</b>	<b>100.0</b>

The table above reflects the aggregate assets of the two defined benefit superannuation funds the Company participates in.

A review of the strategic asset allocation is undertaken periodically with the last review being completed in October 2017. A new review commenced in October 2019 and is currently in progress. The strategic asset allocation is implemented via investment mandates with external fund managers which sets a target weighting across asset classes to ensure appropriate asset-liability matching as well as benchmark return objectives.

#### d) Principal actuarial assumptions

The principal actuarial assumptions used in determining the valuation of the defined benefit superannuation funds are as follows:

	2020	2019
	%	%
<b>Vero &amp; Asteron New Zealand Staff Pension Scheme</b>		
Discount rate (gross of tax)	1.0	1.9
Future salary increases	0.0 for 1 yr, 1.75 pa for 2 yrs, 2.0 pa thereafter	1.75 for 3 years then 2.0 thereafter
<b>Guardian Assurance Superannuation Plan</b>		
Discount rate (gross of tax)	1.0	1.9

Mortality assumptions are based on the New Zealand Life Tables 2012-2014 with a one-year age setback and an age related future mortality improvement scale, starting from 2013 (the mid-point of the period on which the base Life Table was produced). A one year offset is used to reflect the lower mortality expected of pensioners relative to the overall New Zealand population.

The weighted average duration (in years) of each of the defined benefit superannuation funds' obligation is:

	2020	2019
Vero & Asteron New Zealand Staff Pension Scheme	14	13
Guardian Assurance Superannuation Plan	13	12

## Notes to the financial statements (continued)

### 13.1 Defined benefit superannuation funds (continued)

#### e) Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding all other assumptions constant, would increase/(decrease) the aggregate defined benefit obligation by the amounts shown below:

	2020		2019	
	Increase \$'000	Decrease \$'000	Increase \$'000	Decrease \$'000
Discount rate movement (100 basis points) *	(4,841)	5,603	(4,328)	5,242
One year movement in life expectancy	2,549	(2,463)	2,179	(2,124)

\* Discount rates less than 0% are not considered reasonably possible at 30 June 2020 and therefore the impact of the decrease in the discount rate has been limited to a movement to 0%.

#### Funding

The objective of funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable. The funding requirements are based on an actuarial valuation performed for each defined benefit superannuation fund at least once every three years. The actuarial valuations for funding purposes prepared under applicable actuarial standards are different to the actuarial valuations prepared in accordance with accounting standards. Assumptions used in actuarial valuations for funding purposes may also be different to those described in the section above.

For the Vero & Asteron New Zealand Staff Pension Scheme, other Suncorp Group entities also participate in the fund. The most recent statutory review was carried out as at 31 March 2017 (2020 review is currently in progress). The employers are currently contributing at a rate of 20% of active members' salaries (inclusive of contribution tax). In addition, currently each year lump sum contributions are considered; the amounts are subject to review by the trustees and employers following the actuary's interim actuarial advice. The most recent lump sum was \$950,000 (inclusive of contribution tax) made in the year ended 30 June 2016. The employers contributed \$342,000 (inclusive of contribution tax) to reimburse the scheme for its administration expenses during the year ended 30 June 2020.

For the Guardian Assurance Superannuation Plan the most recent statutory review was carried out as at 31 March 2018 and on the basis of that review no employer contributions are currently required.

### 14. Outstanding claims liabilities

	2020	2019
	\$'000	\$'000
Outstanding claims liabilities	173,423	158,528
Current	60,753	61,043
Non-current	112,670	97,485
<b>Total outstanding claims liabilities</b>	<b>173,423</b>	<b>158,528</b>



## Notes to the financial statements (continued)

### 15. Life policy liabilities

#### 15.1 Net policy liabilities/(assets)

The following table shows the movements in net life insurance and investment contract liabilities.

	Liability/(Asset)			Asset	Net	
	Insurance contracts \$'000	Investment contracts \$'000	Unvested policyholders benefit \$'000	Total gross policy liabilities \$'000	Gross policies ceded under reinsurance \$'000	Net policy liabilities \$'000
Balance as at 30 June 2018	(227,061)	189,742	25,922	(11,397)	14,877	(26,274)
Movement in policy liabilities reflected in profit or loss	14,827	7,220	-	22,047	7,485	14,562
Contributions and premiums recognised in policy liabilities	-	4,851	-	4,851	-	4,851
Withdrawals and claims expense recognised in policy liabilities	-	(16,058)	-	(16,058)	-	(16,058)
Movement in unvested policyholder benefits	-	-	(6,564)	(6,564)	-	(6,564)
Balance as at 30 June 2019	(212,234)	185,755	19,358	(7,121)	22,362	(29,483)
Current	(27,627)	-	-	(27,627)	6,003	(33,630)
Non-current	(184,607)	-	19,358	(165,249)	16,359	(181,608)
Investment contract	-	185,755	-	185,755	-	185,755
Balance as at 30 June 2019	(212,234)	185,755	19,358	(7,121)	22,362	(29,483)
Movement in policy liabilities reflected in profit or loss	10,992	10,378	-	21,370	7,168	14,202
Contributions and premiums recognised in policy liabilities	-	4,459	-	4,459	-	4,459
Withdrawals and claims expense recognised in policy liabilities	-	(17,731)	-	(17,731)	-	(17,731)
Movement in unvested policyholder benefits	-	-	(6,130)	(6,130)	-	(6,130)
Balance as at 30 June 2020	(201,242)	182,861	13,228	(5,153)	29,530	(34,683)
Current	(23,228)	-	-	(23,228)	6,399	(29,627)
Non-current	(178,014)	-	13,228	(164,786)	23,131	(187,917)
Investment contract	-	182,861	-	182,861	-	182,861
Balance as at 30 June 2020	(201,242)	182,861	13,228	(5,153)	29,530	(34,683)

## Notes to the financial statements (continued)

### 15.2 Components of life insurance contract liabilities

	Note	2020 \$'000	2019 \$'000
<b>Best estimate liability</b>			
Value of future policy benefits <sup>1</sup>		1,729,690	1,495,504
Value of future expenses		1,079,831	931,516
Balance of future premiums		(3,385,028)	(2,930,496)
<b>Total best estimate liability</b>		<b>(575,507)</b>	<b>(503,476)</b>
<b>Value of future profits</b>			
Policyholder bonuses <sup>2</sup>		-	77
Shareholder profit margins		467,646	390,068
<b>Total value of future profits</b>		<b>467,646</b>	<b>390,145</b>
Deferred tax liability in policyholder liabilities	7.4	(122,911)	(121,265)
<b>Net insurance policy liabilities net of deferred tax</b>		<b>(230,772)</b>	<b>(234,596)</b>
Life insurance reinsurance ceded		29,530	22,362
<b>Gross insurance contract policy liabilities</b>		<b>(201,242)</b>	<b>(212,234)</b>
<b>Policy liabilities subject to capital guarantee</b>		<b>10,325</b>	<b>11,054</b>

#### Notes

1. Future policy benefits include bonuses vested in policy owners in current and prior periods.
2. Future bonuses exclude current period bonuses.

### 15.3 Actuarial policies and methods for the life insurance business

#### a) Life liability estimation process

The effective date of the actuarial valuation of policy liabilities and solvency requirements is 30 June 2020. The actuarial valuation was prepared by Ms Kate Dron, Appointed Actuary, FIA FNZSA. The Appointed Actuary is satisfied as to the accuracy of the data upon which policy liabilities have been determined.

Policy liabilities for life insurance contracts are amounts which, when taken together with investment earnings are required to meet the payment of future benefits and expenses and incorporate profit margins on existing business to be released when earned in future periods.

Policy liabilities for life investment contracts are determined as the fair value of the financial instrument.

#### b) Disclosure of assumptions

The valuations included in the reported results are calculated using assumptions about certain key underlying variables. The assumptions are determined by the Appointed Actuary based on the results of annual investigations into the experience of the Company's in force business, industry experience data and data provided by the Company's reinsurers.

Policy liabilities have been calculated in accordance with the New Zealand Society of Actuaries Professional Standard No. 20 *Determination of Life Insurance Policy Liabilities (PS20)*.

The actuarial standards require the policy liabilities for life insurance contracts to be calculated in a way which allows for the systematic release of planned margins as services are provided to policy owners. Policy liabilities for investment contracts are calculated as the fair value of the liability.



## Notes to the financial statements (continued)

### b) Disclosure of assumptions (continued)

The profit carriers used and the method of valuation applied for the major product groups in order to achieve the systematic release of planned margins are as follows:

Business type	Method	Profit carrier
Lump sum risk business	Projection	Premiums
Disability income business	Projection	Premiums
Traditional non-participating business	Projection	Claims payments
Traditional participating business	Projection	Bonuses
Annuity	Projection	Annuity payments

### Discount Rates

Where the value of benefits under a life insurance contract is not contractually linked to the performance of the assets held, risk-free discount rates derived from the government bond curve are used to determine the present value of the liabilities. A discount rate based on the market return on the backing assets is applied where the value of benefits is contractually linked to the performance of the assets.

The risk-free discount rates (before tax) applied for all life insurance business, with the exception of contracts with discretionary participating features, vary between 0.24% and 1.68% (2019: 1.27% - 2.40%).

The discount rate for business with discretionary participating features is based on the market yield on backing assets. This yield was 1.39% (2019: 2.30%) gross of tax and investment expenses.

### Inflation

Allowance for future inflation of 2.10% per annum (2019: 2.10%) is assumed. This level is consistent with long term expectations.

### Future expenses and indexation

Future investment expenses have been assumed to be at the same percentage of assets under management as currently applies to the actual assets backing the liabilities. Future maintenance expenses per policy have been assumed at current levels increased by the rate of inflation set out above. For contracts which provide for the increase of future benefits in line with inflation, the benefit indexation rate has been assumed to be 2.5% per annum (2019: 2.10%). It is further assumed that the benefit indexation will be taken up by a percentage, determined in line with the Company's recent experience, of the eligible policyholders.

### Rates of taxation

Rates of taxation have been assumed to be at 28% (2019: 28%)

The rate of GST has been assumed to be 15% (2019: 15%).

### Asset mix

The assumptions regarding asset mix are based on the target mix of assets.



## Notes to the financial statements (continued)

### b) Disclosure of assumptions (continued)

#### Mortality

Mortality rates for risk products, which vary by sex, age and smoking status, have been based on the Company's recent experience. Further adjustments are applied for direct marketing products and for some closed products on the observed experience for this business. The rates shown in the following table are aggregate rates before smoker/non-smoker adjustments.

	2020	2019
Males	77.6% - 109% GR08-10	68% - 97% IA9597
Females	77.6% - 109% GR08-10	68% - 97% IA9597

GR08-10 are the Graduated Mortality Tables issued by Gen Re based upon New Zealand market experience.

Mortality rates for some direct marketed products are based on NZ population mortality tables and have been set at 65%-90% NZ90-92 (2019: 65%-90%) for males and 70%-100% NZ90-92 (2019: 65%-90%) for females.

Annuitant mortality rates, which vary by age and sex, have been based on industry experience. They are set at 73% (2019: 73%) of the IM80 and IF80 UK tables of the immediate annuity tables published by The Institute of Actuaries allowing for future mortality improvement.

#### Disability

Disability income benefit incidence and termination rates were based on the graduated morbidity tables for disability income business prepared by KPMG at the request of the Financial Services Council of Australia (FSC-KPMG ADI 2007-2011). In each case the rates were adjusted by factors dependent on the Company's recent experience and the nature of benefits. Claim incidence and termination rates are as shown below.

Incidence between 72% and 309% ADI 2007-2011 (2019: Incidence between 80% and 309% ADI 2007-2011).

Termination between 72% and 107% ADI 2007-2011 (2019: Termination between 72% and 115% ADI 2007-2011).

Claim rates for lump sum disability benefits were based on various tables reflecting New Zealand and Australian experience, adjusted by factors dependent on group experience and the nature of benefits.

#### Voluntary discontinuance

Future rates of discontinuance for the major classes of business assumed, varied by duration and class of business, were in the order of:

	2020 %	2019 %
Lump sum risk	1 - 26	1 - 26
Disability income	3 - 15	3 - 15
Conventional	2.5	2.5

Higher discontinuances are assumed for policyholders aged over 60. Higher discontinuances are assumed where premium rates have recently been increased.



## Notes to the financial statements (continued)

### b) Disclosure of assumptions (continued)

#### Bonuses

Future bonuses in policy liabilities are those supported by the supporting assets together with the current premium rates and other assumptions.

Bonus rates and interest crediting rates are reviewed at least once a year after taking into consideration the investment experience of the underlying assets, other experience of the business such as the experience of lapse and mortality, the reasonable expectation of the policyholders and equity among different lines of products. The actual bonus rates and interest crediting rates declared may include a certain degree of smoothing. Terminal bonus rates vary by duration and product lines.

#### Future participating benefits

For participating business, the Company's policy is to set reversionary bonus rates such that over long periods together with terminal bonuses where applied, the returns to policy owners are commensurate with the investment returns achieved on relevant assets, together with other sources of profit arising from this business. Distributions are split between policy owners and shareholders with the valuation allowing for shareholders to share in distributions up to the maximum allowable rate of 20%. In applying the policy owners' share of retained profits to provide bonuses, consideration is given to equity between generations of policy owners and equity between the various classes in force.

### c) Processes used to select assumptions

An explanation of the method used to determine the individual applied assumptions is described below.

#### Mortality and morbidity

An appropriate base table of mortality is chosen for the type of product being written. An investigation into the actual experience of the Company is performed and statistical methods are used to adjust the rates reflected in the table to a best estimate of expected mortality based on the investigation results and industry benchmarks. A similar process is adopted for morbidity.

#### Lapse

An investigation into the actual experience of the Company is performed and statistical methods are used to determine an appropriate lapse rate. Allowance is made for any trends in the data to arrive at a best estimate of future lapse rates.

### d) Effects of changes in actuarial assumptions from 30 June 2019 to 30 June 2020

Assumption category	2020	
	Future profit	Policy liability
	increase/(decrease) \$'000	increase/(decrease) \$'000
Discount rates (risk business)	26,002	-
Mortality and morbidity	(12,623)	-
Lapse and surrender rates	17,242	-
Maintenance expenses	(4,583)	3,492
Premium rate changes	4,791	-
Other/model changes	9,479	139
<b>Total</b>	<b>40,308</b>	<b>3,631</b>

Note the overall impact from movements in discount rates on risk business is near zero due to offsetting impacts amongst sub products, particularly level premium life business. Not included is the impact on the outstanding claims and claim expenses reserves (-\$4.2m) and premium smoothing reserve (\$3.2m).

## Notes to the financial statements (continued)

### e) Sensitivity analysis

Life insurance and investment contracts are affected by the same subset of variables (mainly arising from financial risks and risks associated with events in human life like death or diseases) and as a result are presented together in this Note.

The tables below illustrate the sensitivity of reported profit or loss to changes in assumptions that have a material effect on it. Note that for morbidity the sensitivity analysis for the IP component is an increase in incidence, with no change in assumed terminations.

	2020			2019		
	Change in variable	Profit/(loss) after tax		Change in variable	Profit/(loss) after tax	
		Before reinsurance \$'000	After reinsurance \$'000		Before reinsurance \$'000	After reinsurance \$'000
Change in discount rates	+1%	(1,488)	(1,488)	+1%	(748)	(748)
	-1%	(2,904)	(2,904)	-1%	(1,282)	(1,282)
Change in mortality and morbidity	+10%	(9,341)	(6,986)	+10%	(9,104)	(7,075)
	-10%	5,914	3,559	-10%	4,802	2,773
Change in lapse rate	+10%	-	-	+10%	-	-
	-10%	-	-	-10%	-	-
Change of expense assumption	+10%	(1,031)	(1,031)	+10%	(865)	(865)
	-10%	1,031	1,031	-10%	865	865

### 16. Share capital

	2020		2019	
	Shares No. (000)	Shares \$'000	Shares No. (000)	Shares \$'000
Issued and fully paid ordinary shares	182,342	209,230	162,342	189,230
Preference shares	45,000	45,000	45,000	45,000
Shareholder contribution under equity settled employee share plans	-	874	-	874
<b>Total share capital</b>	<b>227,342</b>	<b>255,104</b>	<b>207,342</b>	<b>235,104</b>
<b>Movements in issued and fully paid ordinary shares</b>				
Balance at the beginning of the financial year	162,342	189,230	162,342	189,230
Shares Issued	20,000	20,000	-	-
<b>Balance at the end of the financial year</b>	<b>182,342</b>	<b>209,230</b>	<b>162,342</b>	<b>189,230</b>

As at 30 June 2020, the Company had 182,342,450 ordinary shares issued to Suncorp Group New Zealand Limited (2019: 162,342,450). The company issued 20,000,000 ordinary shares to its parent Suncorp Group New Zealand Limited on 27 March 2020. The Company does not have authorised capital or par value in respect of its issued shares which all rank equally and are fully paid.

The dividends on the redeemable preference shares are payable at the discretion of the Company. Similarly, the redeemable preference shares are redeemable at the discretion of the Company. In the event of liquidation of the Company, the holder of the redeemable preference shares do not participate in any distribution of profits or assets of the Company.

Each ordinary and preference share is entitled to one vote.



## Notes to the financial statements (continued)

### 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 by managing the level, mix and use of capital resources. The primary objective is to ensure there are sufficient capital resources to maintain and grow the business, in accordance with risk appetite. The Suncorp Group's Internal Capital Adequacy Assessment Process (ICAAP) provides the framework to ensure that the Suncorp Group as a whole, and each regulated entity, is independently 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's is a licensed insurance company in accordance with the Insurance (Prudential Supervision) Act 2010 (IPSA). All manages its capital in accordance with the requirements of IPSA and the Solvency Standard for Life Insurance Business (the **Solvency Standard**) issued by the Reserve Bank of New Zealand.

The Company is required to maintain a minimum solvency margin of at least \$0 for each of the shareholder and statutory funds, i.e. actual solvency capital as determined under the Solvency Standard should be at or above the minimum solvency capital level. The Company is also required to retain a minimum fixed capital of at least \$5 million. Fixed capital is the minimum amount of Actual Solvency Capital (as defined in the Solvency Standard) that the Company is required to hold at all times.

The Company satisfied all externally imposed capital requirements which it was subject to during the year ended 30 June 2020.

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

The 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 Company's product and asset mix, reinsurance program, catastrophe exposure and investment strategy.

#### 17.2 Capital composition

The Company manages its capital by considering both regulatory and economic capital. The primary source of capital used by the Company is total equity attributable to owners. Total equity attributable to owners is included in the definition of "capital" in the Solvency Standard.

#### 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:

	2020			2019		
	Statutory Fund \$'000	Shareholder Fund \$'000	Total \$'000	Statutory Fund \$'000	Shareholder Fund \$'000	Total \$'000
Actual solvency capital	411,688	14,311	425,999	409,095	954	410,049
Minimum solvency capital	377,111	695	377,806	366,074	266	366,340
<b>Solvency margin</b>	<b>34,577</b>	<b>13,616</b>	<b>48,193</b>	<b>43,021</b>	<b>688</b>	<b>43,709</b>
<b>Solvency ratio</b>	<b>1.09</b>	<b>20.60</b>	<b>1.13</b>	<b>1.12</b>	<b>3.60</b>	<b>1.12</b>

## Notes to the financial statements (continued)

### 18. Credit rating

The Company holds a credit rating of A+ from Standard & Poor's (2019: A+).

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

	2020	2019
	\$'000	\$'000
<b>Profit for the financial year</b>	<b>39,346</b>	<b>42,692</b>
<b>Non-cash items</b>		
Investment income - changes in fair value of financial assets	(18,650)	(21,250)
Non-cash investment income	(4,095)	(4,259)
Change in policy liabilities (including unvested)	8,068	7,998
Movement in defined benefit funds through profit	290	233
Deferred tax movement for defined benefit scheme	1,758	1,795
Tax on opening retained profits adjustment for IFRS 16	210	-
Depreciation expense	1,504	-
<b>Change in assets and liabilities</b>		
Decrease/(increase) in receivables net of investment receivables	5,584	(7,529)
Increase in reinsurance recoveries receivable	(6,698)	(3,667)
Decrease in other assets	360	238
Increase in outstanding claims liabilities	14,895	11,513
(Decrease)/increase in payables net of investment payables	(4,679)	3,948
Decrease in tax balances	(1,682)	(4,427)
Decrease in policy liabilities due to premiums and claims	(13,272)	(11,207)
<b>Net cash from operating activities</b>	<b>22,939</b>	<b>16,078</b>

### 20. Financial instruments

#### 20.1 Measurement

Investments and derivatives 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 at the closing quoted market price.

Financial assets and liabilities that are not recognised and measured at fair value include cash and cash equivalents, policyholder and other loans, trade and other receivables, related party receivables and payables, and payables and other liabilities. The basis of recognition and measurement of these financial assets and liabilities is described in Note 28.



## Notes to the financial statements (continued)

### 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 – 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 and derivatives 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. For derivatives the fair value is based on broker quotes adjusted for credit valuation to reflect credit risk. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.

	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
<b>As at 30 June 2020</b>				
<b>Assets</b>				
Investment securities	66,791	585,334	93	652,218
Derivatives	-	14,651	-	14,651
<b>Total</b>	<b>66,791</b>	<b>599,985</b>	<b>93</b>	<b>666,869</b>
<b>As at 30 June 2019</b>				
<b>Assets</b>				
Investment securities	85,060	530,630	-	615,690
Derivatives	-	13,128	-	13,128
<b>Total</b>	<b>85,060</b>	<b>543,758</b>	<b>-</b>	<b>628,818</b>

There have been no material transfers between Level 1 and Level 2 during the year ended 30 June 2020.

There has been a transfer of one of the Nikko AM NZ unit trusts from level 2 to level 3 of the fair value hierarchy during the financial year ended 30 June 2020.

In light of the wind up of the underlying fund of the Nikko AM Wholesale Multi Strategy unit trust, the Company is expected to receive its cash redemptions over a period of approximately 3 years. The Company was provided with the latest available unit price of this fund being as at 31 May 2020 by their investment manager, Nikko AM NZ. In order to assess the reasonableness of this unit price as at 30 June 2020 (i.e. pricing/value being stale is the unobservable input), the Company used a discounted cash flow model (i.e. valuation technique) on the expected redemption cashflows from the underlying unit trust (using the relevant RBNZ bank bill rates and Government Bond yields). The Company noted the difference in the fair value of the investment was immaterial. Hence, the Company considers the unit price provided by their investment manager to be an appropriate value as at 30 June 2020.



## Notes to the financial statements (continued)

### 20.3 Accounting classification

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

	Financial assets mandatorily at fair value through profit and loss \$'000	At amortised cost		
		Financial assets \$'000	Financial liabilities \$'000	Carrying amounts \$'000
<b>As at 30 June 2020</b>				
Cash and cash equivalents	-	3,537	-	3,537
Trade and other receivables and loans	-	22,022	-	22,022
Related party receivables	-	412	-	412
Other assets	-	2,047	-	2,047
Policyholder loans	-	4,951	-	4,951
Investment securities	652,218	-	-	652,218
Derivatives	14,651	-	-	14,651
<b>Total</b>	<b>666,869</b>	<b>32,969</b>	<b>-</b>	<b>699,838</b>
Payables and other liabilities	-	-	(23,490)	(23,490)
Related party payables	-	-	(5,737)	(5,737)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>(29,227)</b>	<b>(29,227)</b>
<b>As at 30 June 2019</b>				
Cash and cash equivalents	-	13,329	-	13,329
Trade and other receivables and loans	-	21,030	-	21,030
Related party receivables	-	2,436	-	2,436
Other assets	-	2,407	-	2,407
Policyholder loans	-	4,879	-	4,879
Investment securities	615,690	-	-	615,690
Derivatives	13,128	-	-	13,128
<b>Total</b>	<b>628,818</b>	<b>44,081</b>	<b>-</b>	<b>672,899</b>
Payables and other liabilities	-	-	(18,530)	(18,530)
Related party payables	-	-	(6,089)	(6,089)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>(24,619)</b>	<b>(24,619)</b>

## Notes to the financial statements (continued)

### 20.4 Master netting or similar arrangements

The Company is party to certain interest rate swap agreements with New Zealand based financial institutions which are settled on a net basis. The financial asset and liability positions under these contracts are offset within the statement of financial position. The table below shows the impact of this offsetting:

	Gross amounts \$'000	Offsetting applied \$'000	Net amount presented in the statement of financial position \$'000	Related cash collateral which are not offset \$'000	Net exposure \$'000
<b>As at June 2020</b>					
<b>Financial assets</b>					
Interest rate swaps	14,614	-	14,614	(10,120)	4,494
<b>As at 30 June 2019</b>					
<b>Financial assets</b>					
Interest rate swaps	13,080	-	13,080	(7,850)	5,230

## 21. Risk management

### 21.1 Risk management overview

The Company's Board has ultimate responsibility for risk management and is assisted by the Board Audit and Risk Committee (BARC) in its oversight of material risk categories and adherence to Board approved risk appetite and risk policies. The Company's management apply the three lines of defence model for risk management as follows:

Line of Defence	Responsibility of	Accountable for
First	All employees	Identifying, assessing and managing risk within risk appetite and policy and framework requirements.
Second	Chief Risk Office of the Company	Owning and monitoring the application of risk frameworks, and measures and reports on risk performance and compliance. Is independent from the first line.
Third	Internal audit function	Independent assurance over internal controls and risk management practices



## Notes to the financial statements (continued)

### 21.1 Risk management overview (continued)

The material risks managed by the Company include strategic, financial, insurance, and operational (including compliance) risks:

Key risks	Definition
Strategic risk	The risk that the Company's business model or strategy is not viable due to external change and the risk of failed execution of the strategy.
Financial – Credit, counterparty and contagion risk	The risk that the other party in an agreement will default / will not meet its contractual obligations in accordance with agreed terms. Contagion risk is the risk that problems impacting one entity within the Suncorp Group may compromise the financial position of other entities within the Suncorp Group.
Financial – Liquidity risk	The risk that the Company will be unable to service its cash flow obligations today or in the future.
Financial – Market/investment risk	The risk of unfavourable changes in foreign exchange rates, interest rates, equity prices, credit spreads and market volatilities.
Financial – 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). This includes product design, pricing, reinsurance, underwriting, claims and reserving risks.
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 Group 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.

Conduct risk is considered in the Enterprise Risk Management Framework in the context of the organisation's risk culture, and relates to risk of inappropriate, unethical or unlawful behaviour on the part of employees and partners. The Company 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 customers, shareholders and employees. The Company has implemented a Conduct Risk Management Programme to provide a structured approach to conduct related matters.

The Company has a number of Management Committees are in place to execute specified responsibilities in the risk framework.

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

The primary role of the ALCO is to oversee the management of selected financial risks arising from business activities 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 ALCO provides governance over aspects of the risk framework related to Finance Risk.



## Notes to the financial statements (continued)

### 21.1 Risk management overview (continued)

The RGC provides governance over the management of non-financial risks arising from the business activities within the Board approved risk parameters: Insurance Risk, Compliance Risk, Operational Risk and Strategic 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.

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

- Note 21.2 Insurance risk management
- 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, technical pricing and pricing adequacy reviews;
- roles and responsibilities for pricing, the development and approval of new products and changes to existing products;
- processes that identify and respond to changes in the internal and external environment impacting insurance products;
- underwriting, including processes to consider aggregate exposures from a portfolio perspective to determine the actual exposure to particular risks or an event, monitoring of significant accumulation and concentration of risk, and guidelines around the utilisation of reinsurance in pricing and underwriting;
- delegated authorities (via the business licence framework) to control underwriting risk at a policy and portfolio level;
- 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 classes of insurance business, industry segments and the use of reinsurer coverage.

The concentration of insurance risk is also managed by ensuring an appropriate mixture of individual and group insurance business split between mortality, morbidity and annuity benefit payments. Exposure to risk of large claims for individual lives is managed through monitoring of the Company's in-force business and the mix of new business written each year.

#### b) Terms and conditions of insurance business

In force insurance contracts issued by the Company introduce an exposure to external variables with potential impacts on cash flows (related to liability for claim payments)

The following table provides an overview of the key variables which may impact future cash flows of the various life insurance and investment contracts issued by the Company.



## Notes to the financial statements (continued)

### 21.2 Insurance risk management (continued)

Type of contract	Details of contract workings	Nature of compensation for claims	Key variables affecting the timing and uncertainty of future cash flows
Long term non-participating life insurance contracts with fixed and guaranteed terms (Term and Life Disability).	Guaranteed benefits paid on death, ill health or maturity benefits are fixed and guaranteed and not at the discretion of the insurer.	Benefits, defined by the insurance contract, are not directly affected by the performance of underlying assets or the performance of the contracts as a whole.	Mortality, morbidity, market interest rates, lapses and expenses.
Long term insurance contracts with discretionary participating benefits (Endowment and Whole of Life).	These policies include a defined initial guaranteed sum assured which is payable on death. The guaranteed amount increases throughout the duration of the policy by the addition of regular bonuses annually which, once added, are not removed.	Benefits arising from the discretionary participation feature are based on the performance of specified pool of contracts or a specified type of contract.	Mortality, morbidity, market earning interest rates, lapses and expenses.
Non-discretionary participating investment contracts without guaranteed returns.	The gross value of premiums received is invested in units and the investment account is the value of the units. Investment management fees are deducted from policyholders annually based on the average value of funds under management.	The investment return is calculated with reference to the earnings on assets backing the investment contracts less any applicable management fees.	Market risk, interest rates and expenses.

### 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
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 receivables	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 Company's 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.



## Notes to the financial statements (continued)

### 21.3 Credit risk (continued)

The Company has no specific concentration of risk with a single counterparty arising from the use of financial instruments in managing its investment portfolios other than normally arise through dealings on recognised exchanges and off exchange dealings (over the counter contracts). The counterparties to over the counter contracts are limited to companies with strong credit ratings from a recognised credit rating agency. These counterparties are normally banks operating in New Zealand.

For investment linked business, the liability to policyholders is linked to the performance and value of the assets that back those liabilities. The shareholder has no direct exposure to any credit risk in those assets. Unit linked assets totalling \$2 million (2019: \$2 million) are therefore not included in the two below sets of schedules. Policyholder loans are fully secured by the policy values on which the loans are made. As the shareholder has no direct exposure to any credit risk on the policyholder loans, these assets are excluded from the two below sets of schedules.

There has been no material change in the credit risk faced by the Company or processes for managing the risk during the period. The Aggregate Risk Exposures Policy, prescribes processes and requirements to comply with APRA Prudential Standard 3PS221 *Aggregate Risk Exposures*. SNZ 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.

	Credit Rating				Non-investment grade	Not Rated	Total
	AAA \$'000	AA \$'000	A \$'000	BBB \$'000			
<b>As at 30 June 2020</b>							
Cash and cash equivalents	-	762	159	-	-	2	923
Loans and trade and other receivables	-	15,706	-	-	-	6,316	22,022
Related party receivables	-	-	412	-	-	-	412
Other assets	-	-	-	-	-	2,047	2,047
Reinsurance recoveries receivable	-	56,243	-	-	-	-	56,243
Investment securities	9,682	274,234	70,840	15,257	-	-	370,013
Policy liabilities ceded under reinsurance	-	29,530	-	-	-	-	29,530
<b>Total</b>	<b>9,682</b>	<b>376,475</b>	<b>71,411</b>	<b>15,257</b>	<b>-</b>	<b>8,365</b>	<b>481,190</b>
<b>As at 30 June 2019</b>							
Cash and cash equivalents	-	10,151	791	-	-	-	10,942
Loans and trade and other receivables	-	18,710	-	-	-	2,320	21,030
Related party receivables	-	-	486	-	-	1,950	2,436
Other assets	-	-	-	-	-	2,372	2,372
Reinsurance recoveries receivable	-	49,545	-	-	-	-	49,545
Investment securities	11,375	239,294	81,563	9,333	-	-	341,565
Policy liabilities ceded under reinsurance	-	22,362	-	-	-	-	22,362
<b>Total</b>	<b>11,375</b>	<b>340,062</b>	<b>82,840</b>	<b>9,333</b>	<b>-</b>	<b>6,642</b>	<b>450,252</b>

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.



## Notes to the financial statements (continued)

### 21.3 Credit risk (continued)

		Past due but not impaired					
	Neither past due nor impaired	0-3 mths	3-6 mths	6-12 mths	>12 mths	Impaired	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 30 June 2020							
Loans and receivables	15,730	5,969	140	4	179	-	22,022
As at 30 June 2019							
Loans and receivables	12,523	8,182	254	48	23	-	21,030

#### Other loans receivables

The Company provides loans to agents in respect of business development. As at 30 June 2020 the total carrying value was \$7,000 (2019: \$10,000). No provisions have been recognised for impaired or past due but not impaired loans (2019: \$nil).

#### Derivatives

The Company uses derivatives for portfolio management purposes. They are used as an alternative where longer duration physical assets are not readily available, in order to achieve a desired level of total exposure as a means to hedge against market movements. Total exposure is the sum of the market value of the physical assets plus the equivalent physical asset value attributed to the derivatives.

Deliberate gearing up or leverage exposure to an asset class is not permitted.

The most commonly used derivatives by the Company are interest rate swaps and foreign currency forward contracts.

Derivatives are valued on a market-to-market basis such that the statement of comprehensive income and the statement of financial position reflect all unrealised gains and losses on derivatives.

The Company has a risk management statement which describes the controls used to manage the risks associated with the use of derivatives. Limits are set on the effective exposure implied by the use of derivatives and on transaction levels and aggregate counterparty exposure. The limits and criteria on which they are set are regularly reviewed, while all review, monitoring and control processes are independent of portfolio activity.

### 21.4 Liquidity risk

The Company is exposed to daily calls on its available cash resources from maturing policies and policy claims and surrenders. Liquidity risk is the risk that payment of obligations may not be met in a timely manner at a reasonable cost. The Directors agree limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover maturities, claims and surrenders at unexpected levels of demand. Liquidity risk is also managed by placing limits on the percentage of liquid shareholder and participating investment assets.

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 following table summarises the maturity profile of the Company's financial liabilities based on the remaining undiscounted contractual obligations. It also includes the maturity profile for life insurance and life investment contract policy liabilities based on the discounted estimated timing of net cash outflows.

This table shows the estimated timing of future net cash outflows resulting from insurance contract liabilities. This includes estimated future surrenders, death/disability claims and maturity benefits, offset by expected future premiums or contributions and reinsurance recoveries. All values are discounted to the current date using the assumed future investment earning rate for each product.



## Notes to the financial statements (continued)

### 21.4 Liquidity risk (continued)

For investment-linked business the liability to policyholders is linked to the performance and value of the assets that back those liabilities. The shareholder has no direct exposure to any risk in those assets. Therefore the table in this section shows the investment contract liability portion in policy liabilities separately without any maturity profile analysis.

	1 year or less \$'000	1 to 5 years \$'000	Over 5 years \$'000	No term \$'000	Investment contracts \$'000	Total \$'000
<b>As at 30 June 2020</b>						
Payables and other liabilities	19,142	-	-	-	-	19,142
Related party payables	5,737	-	-	-	-	5,737
Lease liabilities	1,799	2,549	-	-	-	4,348
Outstanding claims liabilities	60,525	44,185	68,485	-	228	173,423
Policy liabilities	(23,228)	(68,702)	(109,312)	13,228	182,861	(5,153)
<b>Total</b>	<b>63,975</b>	<b>(21,968)</b>	<b>(40,827)</b>	<b>13,228</b>	<b>183,089</b>	<b>197,497</b>
<b>As at 30 June 2019</b>						
Payables and other liabilities	18,481	-	-	-	49	18,530
Related party payables	6,089	-	-	-	-	6,089
Outstanding claims liabilities	61,029	40,736	56,749	-	14	158,528
Policy liabilities	(27,627)	(77,232)	(107,375)	19,358	185,755	(7,121)
<b>Total</b>	<b>57,972</b>	<b>(36,496)</b>	<b>(50,626)</b>	<b>19,358</b>	<b>185,818</b>	<b>176,026</b>

### 21.5 Market risk

The Company takes on exposure to market risks including currency risk, fair value and cash flow interest rate risk, and price risk. Market risks arise from open positions in interest rates, currency and equity products, all of which are exposed to general and specific market movements. The market risks that the Company primarily faces are equity risk and interest rate risk due to the nature of its investments and liabilities.

For all the assets backing life insurance contracts that are sensitive to equity risk, the Company has developed investment guidelines to manage the Company's exposure to equity price risk primarily by setting benchmarks for asset mix.

Investment activity for the Company is undertaken in accordance with investment mandates agreed by the Directors of the Company. The mandates stipulate the investment allocation mix, the match of investment assets and liabilities and the use of derivatives.

The Company monitors the sensitivity of reported profit to market risk by assessing the expected change in the values of assets which would affect the profit.

For investment linked business, the liability to policyholders is linked to the performance and value of the assets that back those liabilities. The shareholder has no direct exposure to risk in those assets. The assets that back the unit linked liabilities are therefore not included in the tables shown below.

COVID-19 has increased global market volatility and the market risk faced by the Company, however the investment portfolios have minimal equity exposure and largely invest in high credit quality fixed interest securities. There has been no material change to the policies and processes for managing the risks during the period as market volatility is expected over time.

## Notes to the financial statements (continued)

### 21.5 Market risk (continued)

#### a) Interest rate risk

The Company manages some of its exposure to interest rate risk by matching assets to liabilities. Separate asset/liability matching analyses are employed for separate categories of products within each business. Although this 'hedging' is not reflected in the accounting policies adopted or in the presentation of the results and statement of financial position included in these financial statements, it does mitigate the Company's exposure to such risk to some extent. The Company seeks to manage significant exposure to interest rate risk while maximising the return to participating policyholders and shareholders. Derivatives may be held to enable the matching of asset and liability to further mitigate exposure to interest rate movements.

The substantial proportion of both interest bearing and non-interest-bearing assets are investments held in respect of policy liabilities. The management of the risks associated with policy liabilities, including the interest rate risk, is subject to the requirements of the Reserve Bank of New Zealand Solvency Standard for Life Insurance Business. This includes satisfying solvency requirements, which in turn includes consideration of how assets and liabilities are matched. The Company enters into interest rate swap contracts for the purpose of extending the duration (weighted average time to maturity) of the fixed interest investments held to match the duration of the underlying policy liabilities that they back.

A change in interest rate impacts the fair value of the Company's fixed rate and interest-bearing assets and liabilities, and its interest rate swaps. Fair value changes impact on profit or loss or equity only where the instruments are carried at fair value.

For investment linked business, the liability to policyholders is linked to the performance and value of the assets that back those liabilities. The shareholder has no direct exposure to risk in those assets. The assets that back the unit linked liabilities are therefore not included in the table below.

Fair value sensitivity due to changes in interest rates (based on the assets held at balance date) on the Company's fixed rate assets and interest rate swaps is disclosed below.

Details of the Company's solvency are disclosed in Note 17.3.

The following table shows the sensitivity to movements in the underlying interest rates of the interest-bearing assets/(liabilities) to which the Company is exposed. The exposure of derivative financial instruments to interest rate risk is on the notional value of the derivative contracts as disclosed in the table below.

(Note: the analysis of interest rate sensitivity for interest-bearing investment assets has been analysed with respect to movements in yields rather than direct movements in market value).

	2020			2019		
	Exposure	Change in variable	Profit/(loss) after tax and equity	Exposure	Change in variable	Profit/(loss) after tax and equity
	\$'000		\$'000	\$'000		\$'000
Fixed interest bearing investment securities	368,933	+1.0%	(8,991)	336,800	+1%	(8,168)
		-1.0%	8,863		-1%	8,370
Interest rate swaps	131,000	+1.0%	(2,760)	131,000	+1%	(3,656)
		-1.0%	2,760		-1%	3,656
<b>Total</b>	<b>499,933</b>			<b>467,800</b>		

Movements in market interest rates impact the price of the securities (and hence their fair value measurement) and so would impact profit and equity.



## Notes to the financial statements (continued)

### 21.5 Market risk (continued)

#### b) Foreign exchange risk

The Company is exposed to currency risk in that future movements in the New Zealand dollar against currencies of the countries in which foreign investments are held will affect the cash flows and the market values of these investments.

The Company also invests in certain New Zealand Dollar denominated unit trusts that have underlying exposures to other foreign currencies. The Company has no direct exposure to foreign currency risk associated with these investments.

The Company has undertaken forward exchange contracts to mitigate this currency risk in respect of some investments denominated in foreign currencies and the underlying foreign currency exposure on some of its investments in overseas unit trusts. The table below shows assets denominated in overseas currencies after allowing for the effect of forward foreign exchange contracts.

The carrying amounts and profit or loss sensitivity to movements in the currencies of the Company's overseas financial assets are denominated in the following currencies.

	2020			2019		
	Exposure	Change in	Profit/(loss)	Exposure	Change in	Profit/(loss)
	\$'000	variable	after tax and equity	\$'000	variable	after tax and equity
			\$'000			\$'000
AUD	145	+10%	(9)	217	+10%	(14)
		-10%	12		-10%	17

#### 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 points (2019: 100 basis points) change in yield is as follows:

	2020			2019		
	Exposure	Change in	Profit (loss)	Exposure	Change in	Profit (loss)
	\$'000	variable	after tax and equity	\$'000	variable	after tax and equity
		%	\$'000		%	\$'000
Discounted securities, corporate bonds and derivatives	215,158	+1%	(6,237)	212,815	+1%	(7,352)
		-1%	6,237		-1%	7,352
Government and local government securities	169,506	+1%	(5,750)	141,879	+1%	(4,714)
		-1%	5,750		-1%	4,714
<b>Total</b>	<b>384,664</b>			<b>354,694</b>		

#### d) Equity price risks

For all the assets backing life insurance contracts that are sensitive to equity risk, the Company has developed investment guidelines to manage the Company's exposure to equity price risk primarily by setting benchmarks for asset mix.

## Notes to the financial statements (continued)

### 21.5 Market risk (continued)

The following table shows the sensitivity to movements in the value of the equity assets to which the Company is directly exposed.

	2020			2019		
	Exposure	Change in	Profit/(loss)	Exposure	Change in	Profit/(loss)
	\$'000	variable	after tax and equity	\$'000	variable	after tax and equity
			\$'000			\$'000
Domestic equities/unit trusts	14,473	+5%	521	13,986	+5%	503
		-5%	(521)		-5%	(503)
International equities/unit trusts	12,328	+5%	444	12,237	+5%	441
		-5%	(444)		-5%	(441)
Fixed interest/unit trusts	104,053	+5%	3,746	90,616	+5%	3,262
		-5%	(3,746)		-5%	(3,262)
<b>Total</b>	<b>130,854</b>			<b>116,839</b>		

### 21.6 Capital management

The Group and 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. Property, plant and equipment and leases

	Company	
	2020	2019
	\$'000	\$'000
Right of use asset	3,636	-
Other plant and equipment	-	-
<b>Property, plant and equipment and leases</b>	<b>3,636</b>	<b>-</b>

Right of use asset and lease liabilities which are presented in the statement of financial position as 'Property, plant and equipment' and 'Payables and other liabilities' line items respectively, are presented in further detail below:

	2020	2020
	Real Estate	Total
	\$'000	\$'000
Right of use asset at 1 July 2019	5,140	5,140
Depreciation charge for the year	(1,504)	(1,504)
<b>Right of use asset at 30 June 2020</b>	<b>3,636</b>	<b>3,636</b>
<b>Lease liability at 30 June 2020</b>	<b>4,215</b>	<b>4,215</b>
Current	1,714	1,714
Non-current	2,501	2,501
<b>Lease liability at 30 June 2020</b>	<b>4,215</b>	<b>4,215</b>

Interest expense on the lease liabilities for the Company of \$127,000 was recognised as Finance costs in the statement of comprehensive income.

Total cash outflow for lease liabilities presented in the statement of cash flows was \$1,677,000.



## Notes to the financial statements (continued)

### 23. Related parties

#### 23.1 Controlling entities

The ultimate parent of the Company is Suncorp Group Limited. The parent of the Company is Suncorp Group New Zealand Limited.

#### 23.2 Transactions and balances

The following table shows transactions with related parties other than key management personnel.

	2020	2019
	\$'000	\$'000
<b>Service and administration fees received</b>		
Parent	-	19
Subsidiaries of ultimate parent	2,751	2,627
Other	179	174
<b>Service and administration fees paid</b>		
Parent	447	419
Subsidiaries of ultimate parent	40,475	36,006
Other	25	7
<b>Commissions paid</b>		
Other	6,517	7,503
<b>Audit fees paid</b>		
Other	46	48
<b>Non-audit fees paid</b>		
Subsidiaries of ultimate parent	32	32
Other	10	11
<b>Issue of Shares</b>		
Parent	20,000	-
<b>Commissions received</b>		
Subsidiaries of ultimate parent	530	723
<b>Management fees received</b>		
Subsidiaries of ultimate parent	1,196	1,352
<b>Premiums received</b>		
Subsidiaries of ultimate parent	552	455
Other	1	1
<b>Premiums paid</b>		
Subsidiaries of ultimate parent	83	85
<b>Group tax loss offsets/tax transfers paid</b>		
Parent	541	554
Subsidiaries of ultimate parent	-	59
<b>GST Transfers paid</b>		
Fellow subsidiaries of the ultimate parent	446	-
<b>Dividends paid</b>		
Parent	36,200	23,000

The "Other" entity category presented in the table above and the following table includes managed superannuation schemes together with AA Life Services Limited which is a joint venture company owned 50% by the Company's parent Suncorp Group New Zealand Limited.

## Notes to the financial statements (continued)

### 23.2 Transactions and balances (continued)

Aggregate amounts receivable from or payable to related parties as at 30 June 2020 and 30 June 2019 are shown in the table below:

	2020	2019
	\$'000	\$'000
<b>Amounts receivable from</b>		
Parent	-	138
Subsidiaries of ultimate parent	412	112
Other	-	2,186
<b>Total amounts receivable from related parties</b>	<b>412</b>	<b>2,436</b>
<b>Amounts payable to</b>		
Parent	42	-
Subsidiaries of ultimate parent	5,476	6,089
Other	219	-
<b>Total amounts payable to related parties</b>	<b>5,737</b>	<b>6,089</b>

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

### 23.3 Key management personnel

The Key Management Personnel (KMP) compensation is provided by the Company or by a related party 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 S B Johnston for the year ended 30 June 2020 and Dr D McTaggart for the years ended 30 June 2020 and 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 KMPs of the Company. The KMP compensation is as follows:

	2020	2019
	\$'000	\$'000
Short-term employee benefits	5,692	6,739
Post employment benefits	182	328
Long-term benefits	601	531
Share based payment	1,369	1,341
<b>Total compensation</b>	<b>7,844</b>	<b>8,939</b>

Compensation of KMP has been determined in accordance with their roles within Suncorp Group. In some cases where the employee holds roles across various entities within the Suncorp group, 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. KMP hold various insurance policies with the Company or related companies which are operated in the normal course of business.



## Notes to the financial statements (continued)

### 24. Auditor's remuneration

	2020	2019
	\$'000	\$'000
During the year, the auditor of the Company was paid for the following services:		
<b>Audit fees - current year</b>		
Audit of annual accounts of the Company	406	425
Audit of annual accounts of managed funds*	46	48
<b>Non-audit fees current year</b>		
Managed funds custodian reasonable assurance*	32	32
Solvency returns	102	118
Managed funds registry audit*	10	11
Forensic audit procedures over sensitive expenditure	12	-
<b>Total auditor's remuneration</b>	<b>608</b>	<b>634</b>

\* Audit fees are paid by the Company on behalf of related party managed funds and superannuation schemes.

### 25. Provisions and contingent liabilities

#### 25.1 Provisions

Provisions are recognised for present obligations arising from past events where a payment (or other economic transfer) is probable to be necessary to settle the obligation and can be reliably estimated.

The below provision is included within Payables and other liabilities (refer Note 12).

	2019	Amounts	2020
	\$'000	Additions used	\$'000
	\$'000	\$'000	\$'000
Customer remediation	-	1,348	-
<b>Total</b>	-	<b>1,348</b>	<b>1,348</b>
Current	-	1,348	-
<b>Total</b>	-	<b>1,348</b>	<b>1,348</b>

#### Customer remediation

The requirement for anticipated customer remediation has been assessed across the Company. Significant resources have been committed to a comprehensive program of work, to ensure that material issues are identified and addressed.

The provision for customer remediation represents management's best estimate of the amount required to discharge the Company's obligations. It is possible that the final outcome could be below or above the provision, if the actual outcome differs to the assumptions used in estimating the provision. Remediation processes may change over time as facts emerge and such changes could result in a change to the final exposure.

#### 25.2 Contingent Liabilities

There are outstanding legal and other claims and possible claims against the Company (other than claims under contracts of insurance), the aggregate amount of which cannot be readily quantified. Where considered appropriate, legal advice has been obtained. The Company does not consider the outcome of any such claims known to exist at the date of this report, either individually or in aggregate, is likely to have a material effect on its operations or financial position. The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

## Notes to the financial statements (continued)

### 25.2 Contingent Liabilities (continued)

Under the terms of its contracts with advisers, the Company has agreed that it would acquire the entitlement of individual advisers to future income streams from renewal commission, should the advisers themselves be unable to find an approved buyer within 6 months of the date that the agreement ends. The liability for future renewal commission is contained in the Company's policy liabilities, and therefore these potential transactions do not result in any change to the Company's net assets or profit and loss. In practice these transactions are not frequent and management do not consider that the consequent acceleration of the timing of underlying cash flows is material.

### 26. Statutory funds

The Company has established a statutory fund as required under IPSA. The effective date of establishing the statutory fund was 1 July 2012. The shareholder's access to the retained profits and shareholder's capital in the statutory fund is restricted by the IPSA. The shareholder's entitlement to monies held in the statutory fund is subject to the distribution and transfer restrictions of the IPSA.



## Notes to the financial statements (continued)

### 26. Statutory funds (continued)

	Participating business \$'000	Non Participating business \$'000	Total Statutory Fund \$'000	Shareholder Fund \$'000	Total \$'000
<b>As at 30 June 2020</b>					
<b>Shareholder retained profits</b>					
Shareholder opening retained profits	4,409	194,316	198,725	4,090	202,815
Impact on initial application of NZ IFRS 16 (net of tax)	-	(542)	(542)	-	(542)
<b>Restated balance as at 1 July 2019</b>	<b>4,409</b>	<b>193,774</b>	<b>198,183</b>	<b>4,090</b>	<b>202,273</b>
Operating profit	(909)	40,169	39,260	86	39,346
Transfer of retained profits between funds	-	(56,000)	(56,000)	56,000	-
Movement in employee defined benefit funds deficit (net of income tax)	-	-	-	(4,522)	(4,522)
Dividends paid	-	-	-	(36,200)	(36,200)
<b>Shareholder closing retained profits</b>	<b>3,500</b>	<b>177,943</b>	<b>181,443</b>	<b>19,454</b>	<b>200,897</b>
<b>Share capital and transfers</b>					
Share capital	-	255,104	255,104	-	255,104
<b>Total shareholder equity</b>	<b>-</b>	<b>255,104</b>	<b>255,104</b>	<b>-</b>	<b>255,104</b>
<b>Components of shareholder interest in statutory funds</b>					
Shareholder retained profits	3,500	177,943	181,443	19,454	200,897
Share capital	-	255,104	255,104	-	255,104
<b>Shareholder funds</b>	<b>3,500</b>	<b>433,047</b>	<b>436,547</b>	<b>19,454</b>	<b>456,001</b>
<b>As at 30 June 2019</b>					
<b>Shareholder retained profits</b>					
Shareholder opening retained profits	5,344	179,835	185,179	3,383	188,562
Operating profit	(935)	43,681	42,746	(54)	42,692
Transfer of retained profits between funds	-	(29,200)	(29,200)	29,200	-
Movement in employee defined benefit funds deficit (net of income tax)	-	-	-	(5,439)	(5,439)
Dividends paid	-	-	-	(23,000)	(23,000)
<b>Shareholder closing retained profits</b>	<b>4,409</b>	<b>194,316</b>	<b>198,725</b>	<b>4,090</b>	<b>202,815</b>
<b>Share capital and transfers</b>					
Share capital	-	235,104	235,104	-	235,104
<b>Total shareholder equity</b>	<b>-</b>	<b>235,104</b>	<b>235,104</b>	<b>-</b>	<b>235,104</b>
<b>Components of shareholder interest in statutory funds</b>					
Shareholder retained profits	4,409	194,316	198,725	4,090	202,815
Share capital	-	235,104	235,104	-	235,104
<b>Shareholder funds</b>	<b>4,409</b>	<b>429,420</b>	<b>433,829</b>	<b>4,090</b>	<b>437,919</b>

Refer to Note 4 for the allocation of profit to the policyholders.



## Notes to the financial statements (continued)

### 27. Disaggregated information

	Statutory Fund	Shareholder Fund	Total
	\$'000	\$'000	\$'000
<b>As at 30 June 2020</b>			
Investment assets	620,007	32,211	652,218
Other assets	2,047	-	2,047
Life insurance contract liabilities	(201,242)	-	(201,242)
Life investment contract liabilities	182,861	-	182,861
Other liabilities	326,857	17,519	344,376
Retained profits directly attributable to shareholders	181,443	19,454	200,897
<b>For the financial year ended 30 June 2020</b>			
Premium revenue	253,781	-	253,781
Investment revenue	37,295	466	37,761
Claims expense	137,540	-	137,540
Other operating expenses	99,105	-	99,105
Investment revenues paid or allocated to policyholders	26,277	-	26,277
Profit before tax	49,303	119	49,422
Profit after tax	39,260	86	39,346
Distributions from funds	(56,000)	-	(56,000)
<b>As at 30 June 2019</b>			
Investment assets	603,719	11,971	615,690
Other assets	2,407	-	2,407
Life insurance contract liabilities	(212,234)	-	(212,234)
Life investment contract liabilities	185,755	-	185,755
Other liabilities	307,084	10,852	317,936
Retained profits directly attributable to shareholders	198,725	4,090	202,815
<b>For the financial year ended 30 June 2019</b>			
Premium revenue	245,189	-	245,189
Investment revenue	41,289	167	41,456
Claims expense	134,564	-	134,564
Other operating expenses	97,875	-	97,875
Investment revenues paid or allocated to policyholders	29,179	-	29,179
Profit before tax	52,551	(75)	52,476
Profit after tax	42,746	(54)	42,692
Distributions from funds	(29,200)	-	(29,200)



## Notes to the financial statements (continued)

### 28. Significant accounting policies

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

#### 28.1 Principles of life insurance business

Under IPSA and related regulations, the Company has established separate statutory and shareholder funds. The shareholder's entitlement to monies held in the statutory fund is subject to the distribution and transfer restrictions of IPSA.

The Company's significant activity is the selling and administration of life insurance and life investment contracts. The business is comprised of life and disability insurance and investments. In relation to the Company's life insurance business, which is conducted by the Company, assets, liabilities, revenues and expenses are recognised in the financial statements irrespective of whether they relate to policyholders or the shareholder. A policyholder is one who holds a policy of insurance with the Company.

##### a) *Life insurance contracts*

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness. The insured benefit is either not linked or only partly linked to the market value of the investments held by the entity, and the financial risks are substantially borne by the entity.

The insurance operations of the Company are conducted within separate funds and are reported in aggregate in the profit or loss in the statement of comprehensive income, statement of financial position and statement of cash flows of the Company.

##### b) *Life investment contracts*

Life investment contracts are all contracts that do not involve the acceptance of significant insurance risk. They include investment-linked contracts where the benefit amount is directly linked to the market value of the investment held in the particular investment-linked fund. While the underlying assets are registered in the name of the entity and the investment-linked policy owner has no direct access to the specific assets, the contractual arrangements are such that the investment-linked policyholder bears the risks and rewards of the fund's investment performance. The Company derives fee income from the administration of investment-linked policies and funds.

Policy contracts that include both investment and insurance elements are separated into these two elements when practicable and when components can be reliably measured and reported accordingly.

#### 28.2 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.

## Notes to the financial statements (continued)

### 28.3 Revenue and expense recognition

#### a) *Premium revenue*

Premium revenue relates to risk bearing life insurance contracts. The components of premium revenue that relate to life investment contracts are in the nature of deposits and are recognised as a movement in policy liabilities.

Life insurance premiums with no due date are recognised as revenue on a cash received basis. Premiums with a regular due date are recognised on an accruals basis.

#### b) *Claims expense*

Insurance claims are recognised when the liability to the policyholder under the policy contract has been established or upon notification of the insured event, depending on the type of claim.

The component of a life insurance contract claim that relates to the bearing of risks is treated as a claim expense. Other life insurance claim amounts and all life investment contract amounts paid to policyholders are in the nature of withdrawals and are recognised as a decrease in policy liabilities.

#### c) *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) *Life insurance reinsurance recoveries income*

Policy claims recoverable from reinsurers are recognised as revenue in line with the recognition of the claim expense.

#### e) *Investment revenue and expense*

Interest income and expense are recognised in profit or loss using the effective interest method.

Dividends and distribution income are recognised when the right to receive income is established net of any imputation credits.

#### f) *Fee income and other revenue*

Fees and other income are recognised over time (e.g. annual fees) or at a point in time, when a promised service is performed.

#### g) *Basis of expense apportionment for the Company's life insurance business*

The Company's life insurance business expenses comprise direct expenses (where they are directly attributable to life insurance and life investment products) and indirect expenses (all other expenses relating to the acquisition, maintenance and investment management activities associated with life insurance and life investment contracts which are recorded in cost centres and have been incurred in relation to more than one business activity).

Life business expenses are classified as follows:

##### *Acquisition expenses*

The fixed and variable costs of acquiring new business, including commissions and similar distribution costs and costs of accepting, issuing and initially recording policies.

##### *Investment management expenses*

The costs involved with buying and selling investments and the ongoing management costs of an investment portfolio.

##### *Maintenance expenses*

All other costs are considered to be maintenance costs incurred to administer existing life insurance and life investment contracts.



## Notes to the financial statements (continued)

### 28.4 Income tax

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

From 1 July 2010, life insurers have been subject to a new tax regime. Two tax bases are maintained; the shareholder base where tax is payable on premiums plus investment income from shareholder funds, less claims, expenses and change in reserves; and the policyholder base where tax is payable on net investment income from policyholder funds. The life insurer pays tax on both bases at the prevailing company rate of 28% (2019: 28%). As the life insurer is taxed as proxy for the policyholder, returns to policyholders are tax exempt.

Income and deductions are recognised using ordinary tax principles, with the addition of special rules to deal with the unique timing and allocation issues inherent with life insurance products.

Transitional provisions are included in the new regime for life risk business in force at 30 June 2010 which allow these policies to continue to be taxed similar to that incurred under the previous rules. The transitional provisions apply to stepped premium term policies in force at 1 July 2010 for a period of 5 years, and for level premium term policies in force at 1 July 2010 for the remainder of the duration of the policy. For stepped premium term policies, the transitional provisions expired on 30 June 2015.

The new rules also extend the benefits of the Portfolio Investment Entity rules to people who save through life products.

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. The principal temporary differences arise from revaluation of certain financial assets and liabilities, including derivative contracts, 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 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.

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.

### 28.5 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.

### 28.6 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.

## Notes to the financial statements (continued)

### 28.7 Non-derivative 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.

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

Financial assets where contractual cash flows are not SPPI are classified at fair value through profit or loss (FVTPL). Assets that are SPPI but managed on a fair value basis are also 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 designated 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. The Company has classified financial assets held in portfolios that match the average duration of a corresponding insurance or life investment policy liability, as assets backing life insurance and life investment policy liabilities.

#### b) *Financial assets at amortised cost*

Financial assets at amortised cost, which include policyholder and other loan receivables, are financial assets with fixed and determinable payments that are not quoted in an active market. They are initially recognised on the date they are originated. They are initially measured at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method less any accumulated impairment losses.

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 28.11.

#### 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 the Company has transferred substantially all risk and rewards of ownership.

### 28.8 Derivative financial instruments

The Company holds derivative financial instruments to hedge the Company's assets and liabilities or as part of the Company's investment activities. Derivatives include exchange rate and interest rate related contracts and fixed interest options.

All derivatives are initially recognised at fair value on trade date. Transaction costs are recognised in profit or loss as incurred. Fair values are determined from quoted market prices where available; where quoted market prices are not available, discounted cash flow models, broker and dealer price quotations or option pricing models are used as appropriate. The fair value of derivative financial instruments also includes credit valuation adjustments to reflect credit risk for both the derivative counterparty and the Company. Derivatives are classified and accounted for as held for trading financial assets at fair value



## Notes to the financial statements (continued)

### 28.8 Derivative financial instruments (continued)

through profit or loss unless they qualify as a hedging instrument in an effective hedge relationship under hedge accounting. The Company has not adopted hedge accounting.

### 28.9 Assets backing life insurance and investment liabilities

Certain assets of the life business are assessed under *NZ IFRS4 Insurance Contracts* (those assets that are held to back life insurance and life investment contracts), and under NZ IFRS 9 (those assets not backing life insurance and life investment liabilities).

#### *Financial assets backing life insurance and life investment contract liabilities*

The Company has designated investment securities within the total statutory fund (participating and non-participating business), which are mandatorily measured at FVTPL, as backing policy liabilities.

#### *Financial assets not backing life insurance and life investment contract liabilities*

Financial assets held within shareholder funds do not back life insurance contract liabilities or life investment contract liabilities. These comprise investment securities which are mandatorily measured at FVTPL as the contractual cashflows of these financial assets are not SPPI.

### 28.10 Financial liabilities

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

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

#### a) **Financial liabilities at fair value through profit or loss**

A financial liability at fair value through profit or loss is a financial liability within the following categories:

- held-for-trading;
- derivative hedging instruments; or
- designated as at fair value through profit or loss.

Financial liabilities arising from life investment contracts are measured at fair value based on future settlement amounts under the contract. Changes to the fair value are recognised in the profit or loss in the period in which they occur.

#### b) **Financial liabilities at amortised cost**

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

## Notes to the financial statements (continued)

### 28.11 Impairment

The Company recognises an allowance for expected credit losses (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 and other receivables, related party receivables, reinsurance recoveries receivable, and loans and other receivables (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.

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

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

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable operational cash flows (cash generating units).

#### a) Calculation of recoverable amount for other assets

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

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

#### b) Reversal of impairment

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



## Notes to the financial statements (continued)

### 28.12 Leases

#### a) Lease liabilities

Lease liabilities are measured at amortised cost using the effective interest method. Interest expense is recognised in the statement of comprehensive income in the 'Finance costs' line item. The lease liabilities are presented in the statement of financial position in the 'Payables and other liabilities' line item.

The lease liabilities are remeasured when there is a change in the contractual cash flow (i.e. due to a change in an index, rate or term). Any remeasurements result in a corresponding adjustment to the right of use asset or where the right of use asset has a value of nil, then it has to be recognised in the statement of comprehensive income.

#### b) Right-of-use asset

The right of use asset is measured at cost and represents the amount equal to the lease liabilities on initial recognition, along with any lease payments made at or before the commencement date less any lease incentives received. The right of use asset is presented in the statement of financial position in the 'Property, plant and equipment' line item.

The right of use asset is depreciated in accordance with the methods prescribed under NZ IAS 16 *Property, Plant and Equipment*. The depreciation is presented in the statement of comprehensive income in the 'Policy maintenance expenses' line item.

### 28.13 Employee benefit obligations

The Company contributes to defined benefit superannuation funds as required. 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.

The defined benefit superannuation funds provide defined pension annuities and lump sum benefits based on years of service and final average salary.

The Company's net obligation in respect of defined benefit superannuation funds is calculated separately for each fund by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any fund assets.

The calculation of defined benefit obligations is performed annually by independent actuaries using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognised asset is limited to the present value of the economic benefits available in the form of any future refunds from the fund or reductions in the future contributions to the fund. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on fund assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Company determines the net interest expense to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability/(asset), taking into account any changes in the net defined benefit liability/(asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit superannuation funds are recognised in profit or loss.

When the benefits of a fund are changed or when a fund is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss in the period in which they arise.

## Notes to the financial statements (continued)

### 28.14 Provisions

A provision is a liability of uncertain timing or amount which is recognised in the statement of financial position when:

- the Company has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of economic benefits will be required to settle the obligation; and
- the amount can be reliably estimated.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the Company enters into financial arrangements to provide financial support, the Company considers these to be insurance arrangements or financial guarantees, as applicable. The Company treats the insurance arrangements as contingent liabilities until such time as it becomes probable that the Company will incur losses under the insurance arrangements. Financial guarantees are recognised at fair values, determined using cash flow forecasts to determine whether losses related to the financial guarantees have been incurred.

### 28.15 Deferred acquisition expenses

Deferred acquisition costs for life insurance contracts represent the fixed and variable costs of acquiring new business and include commissions, certain advertising and underwriting costs. These costs are implicitly deferred through Margin on Service (MoS) accounting and recognised in the statement of financial position as a reduction in life insurance contract liabilities. The amount deferred is subject to an overall limit such that the value of future profits at inception cannot be negative.

All other acquisition costs are expensed as incurred.

### 28.16 Policy liabilities

#### a) Determination of policy liabilities

Liabilities to policyholders in the statement of financial position are measured on the MoS basis in accordance with PS20. The movement in policy liabilities in the profit or loss is also calculated on a MoS basis.

#### b) Life insurance policy liabilities

Policy liabilities, arising from life insurance contracts, are measured at the net present value of estimated future cash flows in accordance with PS20. Policy liabilities are re-measured periodically and changes are recognised in profit or loss in a manner that allows for the systematic release of planned margins over a period that reflects the services provided, and premiums received from, the policyholders.

Expected future cash flows are reviewed to establish the present value of estimated future expenses for the Company of related products against the present value of estimated future revenues to test the adequacy of the policy liabilities.

Profit allocated to participating policyholders is recognised as an increase in policy liabilities. Both the element of this profit that has not yet been allocated to specific policyholders (i.e. unvested) and that which has been allocated to specific policyholders by way of bonus distributions (i.e. vested) are included within life insurance contract liabilities.

The significant assumptions applied in calculating these estimates and the process and methodology used for determining these assumptions are included in Note 15.3.

#### c) Life investment policy liabilities

Policy liabilities, arising from life investment contracts, are recognised at fair value through profit or, which is based on the valuation of the linked assets, subject to a minimum of current surrender value.



## Notes to the financial statements (continued)

### 28.17 Contributed capital

#### a) Ordinary shares

Ordinary shares are recognised as equity.

#### b) Preference shares

The preference shares do not exhibit the characteristics of debt in their terms of issue, repayment, or dividend payment and are therefore classified as equity.

#### c) Dividends

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

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

### 28.18 Contingent liabilities and 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.

### 28.19 Changes in accounting estimates and errors

#### a) 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.

#### b) Errors

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, liability and equity for the earliest prior period presented.

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

## Notes to the financial statements (continued)

### 28.20 New accounting standards and interpretations not yet adopted

As at the date of this financial report, there are several new or revised accounting standards published by the XRB that will be mandatory in future financial years. The new or revised accounting standards that are expected to have a material impact on the Company's financial statements are set out below. The Company has not early adopted these accounting standards.

#### **NZ IFRS 17 Insurance Contracts (NZ IFRS 17)**

NZ IFRS 17 Insurance Contracts (**NZ IFRS 17**) is a new accounting standard for all types of insurance contracts and replaces NZ IFRS 4 Insurance Contracts. NZ IFRS 17 was issued in August 2017 by the New Zealand External Reporting Board and incorporates International Financial Reporting Standard 17 Insurance Contracts (**IFRS 17**) issued by the International Accounting Standards Board (**IASB**).

Amendments to IFRS 17 were approved by the IASB in June 2020 to address implementation issues identified and the effective date of IFRS 17 was revised to be applicable for reporting periods beginning on or after 1 January 2023. These amendments are expected to be adopted in NZ IFRS 17 in due course, which means this new standard is expected to be mandatory for the Company's financial statements for periods starting from 1 July 2023.

NZ IFRS 17 introduces new measurement models and significant changes to the presentation and disclosure of insurance contracts. Under the general model, 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 contractual service margin (the unearned profit that will be recognised over the coverage period). NZ IFRS 17 also permits the use of a simplified model in certain circumstances.

The Suncorp Group has established a project team to assess and implement the requirements of NZ IFRS 17 and is currently performing a detailed impact assessment of the standard. Due to the complexity of the standard's requirements, the recent changes to the standard and evolving global interpretation of the requirements, the impact of NZ IFRS 17 on the Company's financial statements is still being determined.

### 29. Subsequent events

There were no material events post 30 June 2020 which would require adjustment to the amounts reflected in the 30 June 2020 financial statements or disclosures thereto.



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

To the Board of Directors of Asteron Life Limited

### **Background**

This report has been prepared by Kate Dron FIA FNZSA, Appointed Actuary of Asteron Life Limited (ALL) under section 78 of the Insurance (Prudential Supervision) Act 2010 (the Act).

The purpose of this report is to provide information to the Board and management regarding the review I have undertaken in relation to the actuarial information (as described in section 77 of the Act) in, or used in the preparation of, ALL's financial statements.

This report has not been prepared with any additional purposes in mind and the results and opinions contained within may not be applicable or appropriate for other purposes.

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

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

### **Appointed Actuary's responsibility**

My responsibility is to review the actuarial information in, or used in the preparation of, ALL's financial statements. The financial statements comprise the statements of financial position as at 30 June 2020, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

My review involves:

- Ascertaining the completeness of the actuarial information;
- Evaluating the accuracy and appropriateness of the actuarial information; and
- Providing an opinion of whether the solvency margins for ALL and its life funds (including statutory fund(s)) are maintained at the balance date.

I am an employee of Suncorp NZ Employees Limited, a related entity of ALL. Part of my remuneration is dependent on the results of the Suncorp Group, of which ALL contributes towards.

## Opinion

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

- I have obtained all information that is relevant to the preparation of the financial statements;  
and
- In my opinion and from an actuarial perspective:
  - the actuarial information contained in ALL's financial statements has been appropriately included;
  - the actuarial information contained in ALL's financial statements has been used appropriately;
  - ALL maintains a solvency margin in accordance with the Solvency Standard for Life Insurance Business 2014 for the purposes of section 21(2)(b) of the Act as at 30 June 2020;  
and
  - ALL maintains, in respect of its Asteron Life Statutory Fund 1 and Life Fund a solvency margin in accordance with the Solvency Standard for Life Insurance Business 2014 for the purposes of section 21(2)(c) of the Act as at 30 June 2020.

A handwritten signature in black ink, appearing to read "Kate Dron", written over a horizontal line.

Kate Dron

**Appointed Actuary**

**27 July 2020**