

# **Vero Insurance New Zealand Limited and subsidiaries**

**Consolidated financial report  
for the financial year ended 30 June 2021**

**vero**

# Vero Insurance New Zealand Limited and subsidiaries

## Consolidated financial report

for the financial year ended 30 June 2021

Contents	Page
Directors' report.....	3
Corporate governance statement .....	6
Independent Auditor's report.....	9
Statements of comprehensive income.....	13
Statements of financial position.....	14
Statements of changes in equity.....	15
Statements of cash flows.....	16
Notes to the financial statements.....	17
1. Reporting entity .....	17
2. Basis of preparation.....	17
3. Dividends.....	21
4. Revenue.....	21
5. Net incurred claims.....	22
6. Profit before tax .....	22
7. Income tax.....	23
8. Cash and cash equivalents.....	25
9. Receivables and other assets .....	25
10. Investment securities.....	26
11. Reinsurance and other recoveries receivable .....	26
12. Deferred reinsurance premiums .....	26
13. Deferred acquisition costs .....	26
14. Investment in subsidiaries .....	27
15. Investment in joint venture.....	27
16. Intangible assets.....	27
17. Payables and other liabilities.....	29
18. Unearned premium liabilities.....	29
19. Outstanding claims liabilities.....	30
20. Defined benefit fund liabilities.....	34
21. Share capital and capital notes.....	39
22. Capital management.....	40
23. Credit rating .....	41
24. Notes to the statements of cash flows .....	41
25. Financial instruments.....	42
26. Risk management.....	44
27. Property, plant and equipment and leases.....	55
28. Related parties .....	55
29. Auditor's remuneration.....	58
30. Provisions and contingent liabilities.....	58
31. Significant accounting policies.....	60
32. Subsequent events.....	71

## Directors' report

The Board of Directors presents the Directors' report together with the financial report of Vero Insurance New Zealand Limited (the **Company**) and of the **Group**, being the Company and its subsidiaries, for the financial year ended 30 June 2021.

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  
D M Flacks (Chairman)  
A R Gerry  
Dr D F McTaggart

#### Executive

J J Higgins (appointed 1 December 2020)  
S B Johnston  
P W Smeaton (resigned 1 December 2020)

### Registered office

Level 13  
Vero Centre  
48 Shortland Street  
Auckland 1010  
New Zealand

### Auditor

KPMG  
18 Viaduct Harbour Avenue  
Auckland 1010  
New Zealand

### Dividends

During the financial year, the Company paid dividends totalling \$157,539,000 (2020: \$176,456,000) attributable to the owners of the Company. Further details of dividends paid are set out in Note 3 to the financial statements.

### Principal activities

The principal activities of the Group during the course of the financial year were the underwriting of general insurance and the investment and administration of insurance funds. There has been no significant change in the nature of these activities during the year.

### Review of operations

The net profit after income tax for the year ended 30 June 2021 was \$177,315,000 for the Group compared with net profit after income tax of \$219,812,000 for the previous year ended 30 June 2020. The net profit after income tax for the year ended 30 June 2021 was \$151,928,000 for the Company compared with net profit after income tax of \$192,295,000 for the previous year ended 30 June 2020.

### Events subsequent to reporting date

There is, at the date of this Report, no matter or circumstance that has arisen since 30 June 2021 that has significantly affected, or may significantly affect:

- (a) the Group and Company's operations in future financial periods;
- (b) the results of those operations in future financial periods; or
- (c) the Group and 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 also a director of Vero Liability Insurance Limited, a wholly-owned subsidiary of Vero Insurance New Zealand Limited, and Asteron Life Limited, a related company.

#### **David M Flacks**

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

Director since 2013 and appointed as Chairman in 2019. Mr Flacks is an experienced governance and regulatory professional having been a senior corporate lawyer for many years. Mr Flacks is chair of a number of company boards. He is also a director of Vero Liability Insurance Limited, a wholly-owned subsidiary of Vero Insurance New Zealand Limited, and Asteron Life Limited, a related company.

#### **Alison R Gerry**

*MAPPFin, BMS (Hons)*

Director since 2015, Ms Gerry is an experienced professional Director who has significant financial, commercial, governance and strategic experience in the financial services sector in New Zealand, Australia, London and Hong Kong. Ms Gerry is also a director of Vero Liability Insurance Limited, a wholly-owned subsidiary of Vero Insurance New Zealand Limited, and Asteron Life Limited, a related company. 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 Vero Liability Insurance Limited and AA Insurance Limited, subsidiaries of Vero Insurance New Zealand Limited. He is also a director of Suncorp Group Limited, Asteron Life 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 and 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 Asteron Life Limited, a related company.

## Directors' report (continued)

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

#### James J Higgins

*BA (Psychology), B Bus (Accountancy), GradDipCA*

Director and Suncorp New Zealand Chief Executive Officer since 2020. Mr Higgins has been with Suncorp since 2008, and was Suncorp New Zealand Chief Financial Officer immediately prior to his appointment as Chief Executive Officer. He has strong commercial, financial and operational experience, having worked in audit, assurance and forensic accounting prior to joining Suncorp, where he managed claims response to significant events, including Cyclone Yasi and the Canterbury Earthquake Sequence. Mr Higgins is also a director of Vero Liability Insurance Limited and AA Insurance Limited, subsidiaries of Vero Insurance New Zealand Limited, Asteron Life Limited, AA Finance Limited and other related companies comprising Suncorp New Zealand.

This financial report of the Company was approved for issue by the Board on 28 July 2021.

Signed in accordance with a resolution of the Directors.

Director



Director



## Corporate governance statement

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 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 James Higgins, Suncorp New Zealand Chief Executive Officer). The Directors' Report includes brief details of 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.

### Membership

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

## Corporate governance statement (continued)

### 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: Non-Financial Risk Committee (**NFRC**), Asset and Liability Committee (**ALCO**), General Insurance Risk Committee (**GIRC**), Customer Conduct Committee (**CCC**) and Reserving Committee (**RC**).

### 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 New Zealand 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 Whistleblower 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.

The Company's ambition is to be the number one choice for New Zealanders because of its digital capability and seamless partnership model.

The Company's strategy – aligned to the Suncorp Group strategy – is focused on connecting New Zealanders to products, services and experiences that enhance and protect their financial wellbeing. This will be done by building strong and trusted relationships, modern digital assets and technology infrastructure, and an engaged and high performing workforce. The Company's priorities for the next three years (FY22-24) are: customer growth, digital and data transformation, delivering best in class claims, and new ways of working.

Delivery of the strategy will be enabled by an engaged and future-fit workforce, and a culture focused on caring for others, being courageous and doing the right thing.

All employees have balanced performance scorecards that include customer, risk, financial, and people focused deliverables and the performance assessment process looks for demonstration of the Company's target cultural behaviours.

### Corporate Responsibility

The Company believes its growth and success should be sustainable, and should also benefit its customers, partners and communities. This means considering the environmental, social, governance and economic risks and opportunities that the Company faces as a business. The Company's corporate responsibility framework is based on four key principles: trust and transparency; responsible financial services; resilient people and communities; and sustainable growth.

## Corporate governance statement (continued)

### Action on Climate Change

Suncorp's Climate Change Action Plan has been adopted by the Board of the Company. It addresses the risks and opportunities of climate change to our operations, and 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 continued its community partnership with Shine – a charity whose mission is to make New Zealand domestic violence free. Shine will form the focus of the Company's fundraising efforts in the coming year.

The Suncorp Brighter Futures Dollar Matching programme matches 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 and Inclusion

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

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

- Developing and overseeing a diversity strategy for the SNZ businesses
- Recommending initiatives to support greater gender diversity, gender pay equality, mature age employees, cultural diversity and inclusivity
- Tracking progress via agreed targets and regular scorecards
- Promoting and championing diversity

The Company's Diversity Council is chaired by the SNZ CEO.





# Independent Auditor's Report

To the shareholder of Vero Insurance New Zealand Limited

## Report on the audit of the Company and Group financial statements

### Opinion

In our opinion, the accompanying financial statements of Vero Insurance New Zealand Limited (the 'Company') and its subsidiaries (the 'Group') on pages 13 to 71:

- i. present fairly in all material respects the Company's and the Group's financial position as at 30 June 2021 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 Company and the Group statements of financial position as at 30 June 2021;
- the Company and the Group 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 and Group 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 Company and Group financial statements section of our report.

Our firm has also provided other services to the Company and Group in relation to regulatory assurance services, compliance advisory services, and agreed upon procedures engagements over profit share calculations. Subject to certain restrictions, partners and employees of our firm may also deal with the Company and Group on normal terms within the ordinary course of trading activities of the business of the Company and Group. These matters have not impaired our independence as auditor of the Company and Group. The firm has no other relationship with, or interest in, the Company and Group.



### 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 of the Company and Group in the current period.



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

The key audit matter		How the matter was addressed in our audit
<b>Outstanding claims liabilities and associated reinsurance and other recoveries</b>		
<b>Outstanding claims liability</b>	<b>\$643 million (Group)</b>	<b>\$408 million (Company)</b>
<b>Reinsurance and other recoveries</b>	<b>\$232 million (Group)</b>	<b>\$166 million (Company)</b>
<p>Refer to Notes 11 and 19 to the financial statements. The valuation of outstanding claims liabilities and related reinsurance assets involved a high level of judgement in estimating future payments for claims incurred, including case estimates for reported claims and those incurred but not yet reported to the Company and Group.</p> <p>Outstanding claims liabilities related to the Canterbury and Kaikoura earthquakes have greater levels of uncertainty, as disclosed in Note 19 to the financial statements. This uncertainty can include:</p> <ul style="list-style-type: none"> <li>– Geotechnical uncertainty which can significantly impact the cost of a claim;</li> <li>– Litigation, where the range of possible ultimate claim costs is substantial;</li> <li>– The allocation of claim costs between earthquake events, as this impacts the amount recoverable from co-insurers and reinsurers; and</li> <li>– Less information on claims managed by co-insurers and the Earthquake Commission, with management judgement required to make an allowance for any as yet unreported claims.</li> </ul> <p>Valuation of reinsurance assets involves a high degree of uncertainty due to the dependence on the estimate of related claims costs. Valuation of reinsurance and other recoveries is affected by the same uncertainties.</p>		<p>We involved our actuarial specialists and performed audit procedures, which included:</p> <ul style="list-style-type: none"> <li>– Testing key controls over claim payments and case estimates, including IT general and application controls.</li> <li>– Select a sample of case estimates and claim payments to check the accuracy of the claims information, including through the use of data analytics.</li> <li>– Challenging the appropriateness of the Group's actuarial methods and key assumptions for the classes of business that were deemed to have higher claims estimations risks, including separate consideration of claims relating to the Canterbury and Kaikoura earthquakes, and the impact of COVID-19 on the methods and key assumptions.</li> </ul> <p>We performed independent reprojections of management's calculation of outstanding claims liability for a sample of classes of business. We assessed the selection of methods and key assumptions applied in the valuation of outstanding claims liabilities. We challenged the actuarial methods and key assumptions by:</p> <ul style="list-style-type: none"> <li>o Analysing the accuracy of previous estimates;</li> <li>o Comparing key assumptions to the broader insurance industry, previous periods and current period claims experience;</li> <li>o Sample testing of the key qualitative claims information that is used by the Group's actuarial team to form their valuation assumptions;</li> <li>o Analysing appropriateness of adjustments made due to COVID-19.</li> </ul> <ul style="list-style-type: none"> <li>– Assessing the Group's estimation of risk margins to identify possible management bias. We evaluated the Group's actuarial methodologies for consistency with those used in the industry and with prior periods.</li> <li>– Testing material reinsurance contracts to check that recoveries recognised in the financial statements align with the terms of those</li> </ul>



contracts and the amount of the respective outstanding claims liability

The key audit matter	How the matter was addressed in our audit
<b>Provision – customer remediation</b>	<b>\$27.7 million (Group)</b>
<p>Refer to Note 30 to the financial statements.</p> <p>The Group is required to quantify the costs expected to be incurred as a result of customer remediation.</p> <p>The provision for customer remediation as at 30 June 2021 represents management's best estimate of the amount required to discharge the Group's obligations.</p> <p>Due to the complexity of the customer remediation process, significant judgement is required to estimate the provision amount. As a result, the final outcome of this customer remediation may differ from management's estimate carried at the Balance Sheet date.</p>	<p>Our audit procedures at a Group level included the following:</p> <ul style="list-style-type: none"> <li>— Testing the design and implementation of governance controls relating to the remediation provision including review of the steering committee minutes;</li> <li>— Obtaining and reviewing management's accounting analysis summarising the provisions recorded at the Balance Sheet date and assessing against the recognition criteria of NZ IAS 37 Provisions, Contingent Liabilities and Contingent Assets ('NZ IAS 37');</li> <li>— Assessing the appropriateness of the components of the customer remediation provision;</li> <li>— Testing the completeness of the premiums to be refunded including the involvement of our IT specialists to assess the scripts used by management to extract the policy data for eligible policyholders;</li> <li>— For the premium component of the provision, selecting a sample of policies and recalculating the remediation payments;</li> <li>— For the interest component of the provision, selecting a sample of policies and recalculating the interest provision;</li> <li>— For the expense component of the provision, performing inquiries of management regarding the nature of other costs expected to be incurred and corroborating to supporting documentation;</li> <li>— Assessing completeness of remediation matters through inquiries of management, reviewing the customer complaints and risk registers; and</li> <li>— Reviewing the financial statements disclosures against the requirements of NZ IAS 37.</li> </ul>

## Other information

The Directors, on behalf of the Company and Group, are responsible for the other information included in the entity's Consolidated Financial Report. Other information includes the directors' report and corporate governance statement. Our opinion on the Company and Group 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 Company and Group financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Company and Group financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



## Use of this independent auditor's report

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



## Responsibilities of the directors for the Company and Group financial statements

The directors, on behalf of the Company and Group, are responsible for:

- the preparation and fair presentation of the Company and Group 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 Company and Group 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 Company and Group 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 Company and Group financial statements.

A further description of our responsibilities for the audit of these Company and Group 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-1/>

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

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

For and on behalf of

KPMG

KPMG

Auckland

30 July 2021

**Statements of comprehensive income  
for the financial year ended 30 June 2021**

	Note	Consolidated		Company	
		2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Premium revenue	4	1,805,553	1,673,132	1,174,371	1,123,825
Outwards reinsurance premium expense	12	(233,907)	(199,957)	(166,237)	(147,213)
<b>Net premium revenue</b>		<b>1,571,646</b>	<b>1,473,175</b>	<b>1,008,134</b>	<b>976,612</b>
Claims expense	5	(948,287)	(810,638)	(548,749)	(478,526)
Reinsurance and other recoveries revenue	4, 5	84,350	76,499	41,103	40,140
<b>Net incurred claims</b>	5	<b>(863,937)</b>	<b>(734,139)</b>	<b>(507,646)</b>	<b>(438,386)</b>
Acquisition costs	13	(343,379)	(345,296)	(291,039)	(294,667)
Other underwriting expenses		(137,498)	(130,802)	(70,780)	(67,963)
<b>Underwriting expenses</b>		<b>(480,877)</b>	<b>(476,098)</b>	<b>(361,819)</b>	<b>(362,630)</b>
Reinsurance commission revenue	4	11,907	10,672	5,487	5,521
<b>Underwriting result</b>		<b>238,739</b>	<b>273,610</b>	<b>144,156</b>	<b>181,117</b>
Investment income on insurance funds	4.1	4,023	19,898	2,422	9,794
Investment expense on insurance funds		(1,259)	(1,158)	(637)	(637)
<b>Insurance trading result</b>		<b>241,503</b>	<b>292,350</b>	<b>145,941</b>	<b>190,274</b>
Investment income on shareholder funds	4.1	11,080	20,559	48,635	62,435
Investment expense on shareholder funds		(1,274)	(1,126)	(684)	(604)
Loss on defined benefit funds		(1,615)	(1,574)	(1,579)	(1,553)
Share of joint venture gain		55	137	-	-
Finance costs	27	(1,071)	(1,161)	(58)	(68)
Other expenses	6	(6,015)	(6,456)	(845)	(5,056)
<b>Profit before tax</b>	6	<b>242,663</b>	<b>302,729</b>	<b>191,410</b>	<b>245,428</b>
Income tax expense	7.1	(65,348)	(82,917)	(39,482)	(53,133)
<b>Profit for the financial year</b>		<b>177,315</b>	<b>219,812</b>	<b>151,928</b>	<b>192,295</b>
<b>Other comprehensive loss</b>					
<b>Items that will not be reclassified subsequently to profit or loss</b>					
Actuarial gain/(loss) on defined benefit funds		21,589	(13,921)	21,637	(13,937)
Income tax (expense)/credit	7.1	(6,059)	3,902	(6,059)	3,902
<b>Total other comprehensive income/(loss)</b>		<b>15,530</b>	<b>(10,019)</b>	<b>15,578</b>	<b>(10,035)</b>
<b>Total comprehensive income for the financial year</b>		<b>192,845</b>	<b>209,793</b>	<b>167,506</b>	<b>182,260</b>
<b>Profit for the financial year attributable to:</b>					
Owner of the Company		161,534	200,039	151,928	192,295
Non-controlling interests		15,781	19,773	-	-
<b>Profit for the financial year</b>		<b>177,315</b>	<b>219,812</b>	<b>151,928</b>	<b>192,295</b>
<b>Total comprehensive income for the financial year attributable to:</b>					
Owner of the Company		177,080	190,015	167,506	182,260
Non-controlling interests		15,765	19,778	-	-
<b>Total comprehensive income for the financial year</b>		<b>192,845</b>	<b>209,793</b>	<b>167,506</b>	<b>182,260</b>

The statements of comprehensive income are to be read in conjunction with the accompanying notes.



**Statements of financial position  
as at 30 June 2021**

	Note	Consolidated		Company	
		2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
<b>Assets</b>					
Cash and cash equivalents	8	77,497	45,404	62,720	36,126
Receivables and other assets	9	734,976	727,526	453,796	489,534
Investment securities	10	1,145,773	1,088,754	626,581	605,481
Reinsurance and other recoveries receivable	11	231,644	281,574	165,921	202,466
Deferred reinsurance premiums	12	191,522	179,987	137,011	132,058
Deferred acquisition costs	13	148,641	142,367	126,744	121,116
Current tax asset	7.3	-	-	3,106	-
Property, plant and equipment and leases	27	34,902	38,615	3,065	4,101
Investment in subsidiaries	14	-	-	37,304	37,304
Investment in joint venture	15	250	194	-	-
Deferred tax assets	7.4	25,245	32,635	14,759	24,541
Intangible assets	16	27,555	23,300	22,441	22,526
<b>Total assets</b>		<b>2,618,005</b>	<b>2,560,356</b>	<b>1,653,448</b>	<b>1,675,253</b>
<b>Liabilities</b>					
Payables and other liabilities	17	432,048	394,208	284,006	261,630
Current tax liabilities	7.3	2,521	53,386	-	36,295
Unearned premium liabilities	18	925,293	860,370	551,415	539,355
Outstanding claims liabilities	19.1	643,245	621,119	407,730	407,466
Provisions	30	40,251	58,889	8,975	19,817
Defined benefit fund liabilities	20	23,002	43,740	23,528	44,318
Deferred tax liabilities	7.4	45,178	44,632	35,488	33,982
<b>Total liabilities</b>		<b>2,111,538</b>	<b>2,076,344</b>	<b>1,311,142</b>	<b>1,342,863</b>
<b>Net assets</b>		<b>506,467</b>	<b>484,012</b>	<b>342,306</b>	<b>332,390</b>
<b>Equity</b>					
Share capital	21	217,629	217,629	217,629	217,629
Capital notes	21	59,191	59,191	59,191	59,191
Retained profits		184,614	165,124	65,486	55,570
<b>Total equity attributable to owner of the Company</b>		<b>461,434</b>	<b>441,944</b>	<b>342,306</b>	<b>332,390</b>
Non-controlling interest		45,033	42,068	-	-
<b>Total equity</b>		<b>506,467</b>	<b>484,012</b>	<b>342,306</b>	<b>332,390</b>

The Board of Directors of Vero Insurance New Zealand Limited approved these financial statements for issue on 28 July 2021.

For, and on behalf of the Board

A. R. Gerry  
Director

Director

The statements of financial position are to be read in conjunction with the accompanying notes.

**Statements of changes in equity  
for the financial year ended 30 June 2021**

Consolidated	Note	Equity attributable to owners of the Company				
		Share capital and capital notes \$'000	Retained profits \$'000	Total \$'000	Non- controlling interest \$'000	Total Equity \$'000
Balance as at 1 July 2019		276,820	151,565	428,385	39,890	468,275
Profit for the financial year		-	200,039	200,039	19,773	219,812
Total other comprehensive (loss)/income		-	(10,024)	(10,024)	5	(10,019)
Total comprehensive income for the financial year		-	190,015	190,015	19,778	209,793
Transactions with owners						
Dividends paid	3	-	(176,456)	(176,456)	(17,600)	(194,056)
Balance as at 30 June 2020		276,820	165,124	441,944	42,068	484,012
Balance as at 1 July 2020		276,820	165,124	441,944	42,068	484,012
Profit for the financial year		-	161,534	161,534	15,781	177,315
Total other comprehensive income/(loss)		-	15,546	15,546	(16)	15,530
Total comprehensive income for the financial year		-	177,080	177,080	15,765	192,845
Transactions with owners						
Dividends paid	3	-	(157,539)	(157,539)	(12,800)	(170,339)
Other		-	(51)	(51)	-	(51)
Balance as at 30 June 2021		276,820	184,614	461,434	45,033	506,467

Company	Note	Share capital and capital notes \$'000	Retained profits \$'000	Total \$'000
Balance as at 1 July 2019		276,820	49,766	326,586
Profit for the financial year		-	192,295	192,295
Total other comprehensive loss		-	(10,035)	(10,035)
<b>Total comprehensive income for the financial year</b>		-	182,260	182,260
<b>Transactions with owner</b>				
Dividends paid	3	-	(176,456)	(176,456)
<b>Balance as at 30 June 2020</b>		<b>276,820</b>	<b>55,570</b>	<b>332,390</b>
Balance as at 1 July 2020		276,820	55,570	332,390
Profit for the financial year		-	151,928	151,928
Total other comprehensive income		-	15,578	15,578
<b>Total comprehensive income for the financial year</b>		-	167,506	167,506
<b>Transactions with owner</b>				
Dividends paid	3	-	(157,539)	(157,539)
Other		-	(51)	(51)
<b>Balance as at 30 June 2021</b>		<b>276,820</b>	<b>65,486</b>	<b>342,306</b>

The statements of changes in equity are to be read in conjunction with the accompanying notes.

**Statements of cash flows**  
for the financial year ended 30 June 2021

	Note	Consolidated		Company	
		2021	2020	2021	2020
		\$'000	\$'000	\$'000	\$'000
<b>Cash flows from operating activities</b>					
Premiums received		1,830,616	1,717,961	1,176,144	1,140,066
Claims paid		(926,201)	(993,822)	(550,220)	(689,035)
Interest received		24,231	28,278	15,515	18,927
Dividends received		1,492	1,853	48,300	52,406
Reinsurance and other recoveries received		176,546	263,059	124,447	230,195
Outward reinsurance premiums paid		(226,513)	(205,061)	(161,652)	(149,103)
Net movement in shared property reinstatement advances		(58)	(629)	(17)	(755)
Acquisition costs paid		(346,165)	(348,026)	(299,907)	(303,897)
Income tax paid*	7.3	(114,336)	(95,332)	(73,654)	(64,128)
Finance costs paid	27	(1,071)	(1,161)	(58)	(68)
Net movement in goods and services tax and levies		14,402	6,161	9,020	516
Underwriting and other operating expenses paid		(168,762)	(118,138)	(83,049)	(59,736)
Cash paid on behalf of related parties		-	(14,409)	-	(14,409)
<b>Net cash from operating activities</b>	24	<b>264,181</b>	<b>240,734</b>	<b>204,869</b>	<b>160,979</b>
<b>Cash flows from investing activities</b>					
Proceeds from sale of investment securities		1,321,110	1,246,678	902,413	809,000
Payments for purchase of investment securities		(1,371,550)	(1,310,069)	(922,866)	(812,412)
Proceeds from sale of plant and equipment and computer software		407	5,612	253	5,464
Payments for purchases of plant and equipment and capitalised software costs		(6,830)	(4,436)	-	(1,768)
<b>Net cash (used in)/from investing activities</b>		<b>(56,863)</b>	<b>(62,215)</b>	<b>(20,200)</b>	<b>285</b>
<b>Cash flows from financing activities</b>					
Dividends paid to owners of the Company		(157,539)	(176,456)	(157,539)	(176,456)
Dividends paid to non-controlling interests		(12,800)	(17,600)	-	-
Repayment of lease liabilities		(4,886)	(4,816)	(536)	(539)
<b>Net cash used in financing activities</b>		<b>(175,225)</b>	<b>(198,872)</b>	<b>(158,075)</b>	<b>(176,995)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>32,093</b>	<b>(20,353)</b>	<b>26,594</b>	<b>(15,732)</b>
Cash and cash equivalents at the beginning of the financial year		45,404	65,757	36,126	51,858
<b>Cash and cash equivalents at the end of the financial year</b>	8	<b>77,497</b>	<b>45,404</b>	<b>62,720</b>	<b>36,126</b>

\* Income tax paid includes cash flows from tax offsets/transfers with related parties.

The statements of cash flows are to be read in conjunction with the accompanying notes.



## Notes to the financial statements

### 1. Reporting entity

Vero Insurance New Zealand Limited (the **Company**) is a company incorporated and domiciled in New Zealand. Its registered office is Level 13 Vero Centre, 48 Shortland Street, Auckland.

The consolidated financial statements of the Company as at and for the financial year ended 30 June 2021 comprise the Company and its subsidiaries (the **Group**) and were issued by the Board of Directors on 28 July 2021.

The Group is a profit oriented entity in the business of underwriting general insurance and the investment and administration of insurance funds. It has a mix of intermediated (through brokers) and direct business within the general insurance industry. It operates predominantly throughout New Zealand.

The Company's parent entity is Suncorp Group Holdings (NZ) 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 and the Group are for-profit entities and the consolidated financial statements have been prepared on the historical cost basis unless the application of fair value measurements are required by the relevant accounting standards such as the measurement of financial instruments at fair value through profit or loss and the measurement of outstanding claims liabilities, reinsurance recoveries and defined benefit superannuation funds.

The Group and Company have applied the Revised Conceptual Framework for Financial Reporting from 1 July 2020. The impact on the Group and Company's financial statements is not considered to be material.

Significant accounting policies applied in the preparation of these financial statements are set out in Note 31. There have been no significant changes in accounting policies.

The reporting period is from 1 July 2020 to 30 June 2021.

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

The accompanying statements of financial position have been prepared using the liquidity format of presentation.

#### 2.1 Statement of compliance

The consolidated 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 (**FMC Act**). The financial statements have been prepared in accordance with the requirements of the FMC Act, Companies Act 1993, Financial Reporting Act 2013 and the Insurance (Prudential Supervision) Act 2010. They also comply with International Financial Reporting Standards (**IFRS**).

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

There were no new or amended standards which became mandatory and were adopted during the financial year.

#### 2.3 Comparative information

Certain amounts previously classified as 'Provisions' within the deferred tax note have been reclassified to 'Employee benefits'. The Liability adequacy test comparatives have been restated to conform to changes in the current financial year.

## Notes to the financial statements (continued)

### 2.4 Use of estimates and judgements

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

Significant estimates, judgments and assumptions are discussed in the following notes:

- Outstanding claims liabilities and assets arising from reinsurance contracts (refer to Notes 11, 19.1, 19.4)
- Impairment of goodwill (refer to Note 16.2)
- Valuation of financial instruments (refer to Note 25.2)
- Provisions and contingent liabilities (refer to Note 30)

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

The Group has considered the impact of COVID-19 when preparing the consolidated financial statements and related note disclosures. The effects of COVID-19 caused increased estimation uncertainty and required the application of further judgement within those identified areas and has resulted in some changes to estimates and assumptions.

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

Given the increased economic uncertainties from COVID-19, the Group has continued to monitor its financial reporting procedures and governance practices consistent with those applied in the preparation of the financial statements for the year ended 30 June 2020. In addition to standard financial year end reporting practices, the Group has:

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

## Notes to the financial statements (continued)

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

#### Outstanding claims liabilities and assets arising from reinsurance contracts

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

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

The estimation of claims incurred but not reported (**IBNR**) and claims incurred but not enough reported (**IBNER**) are generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where more information about the claim event is generally available. IBNR and IBNER claims may often not be adequately reported until many years after the events giving rise to the claims occurred. Long-tail classes of business will typically display greater variations between initial estimates and final outcomes because there is a greater degree of difficulty in estimating IBNR and IBNER reserves. Short-tail claims are typically reported soon after the claim event, and hence, estimates are more certain.

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

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

Details regarding actuarial estimates and judgements are detailed in Notes 5, 11 and 19. In particular details of the uncertainties that exist in measuring gross incurred claims arising from the Canterbury and Kaikoura earthquakes are explained in Note 19.1.

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. Details of the uncertainties that exist in measuring reinsurance recoveries arising from the Canterbury and Kaikoura earthquakes are explained in Note 19.1.

The Group has considered the impact from COVID-19 in its assumptions for measuring net outstanding claims liabilities. In determining the adequacy of outstanding claims liabilities at the reporting date, the Group has reviewed the discount rates and assumptions in calculating the outstanding claims liability including policyholder behaviours during and post COVID-19 lockdown, the severity of claims post COVID-19 lockdown, 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, assumptions used in determining the outstanding claims liabilities and reinsurance and other recoveries at reporting date have been adjusted to reflect the increased uncertainty (refer to Note 19.1).

## **Notes to the financial statements (continued)**

### **2.4 Use of estimates and judgements (continued)**

#### **Impairment of goodwill**

The Group assesses whether goodwill is impaired at least annually. The assessment involves estimations of the recoverable amount of the cash-generating units (**CGUs**) to which the goodwill is allocated.

The ongoing economic uncertainty from the COVID-19 pandemic has impacted the cash flow forecasts and estimate and assumptions inherent in the goodwill impairment test. The results of the annual impairment test determined the goodwill allocated to the CGUs is recoverable and no impairment loss was required (refer to Note 16.2).

#### **Valuation of financial instruments**

The Group's investment securities are invested in high-quality liquid assets which are valued using inputs from observable market data as shown in the Group fair value hierarchy disclosure in Note 25.2. The Group has ensured that the valuation of its investment securities reflects a market participants' assumptions based on information available at the measurement date.

#### **Provisions and contingent liabilities**

The Group has assessed the carrying value of its employee benefits liability at reporting date for changes in assumptions including potential changes to employee behaviours and trends in taking annual and long service leave as result of COVID-19. The results concluded there were no significant changes to the Group's employee benefits liability from COVID-19. Per review of the Group's exposures at reporting date, details of the Group's provisions, employee benefit liabilities and contingent liabilities are set out in Note 30.

#### **Financial risk management**

The Group 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 Group 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

	2021		2020	
	¢ per share/note	\$'000	¢ per share/note	\$'000
<b>Ordinary shares</b>				
Dividends	97.24	155,000	108.79	173,400
<b>Capital notes</b>				
Coupon payments	428.95	2,539	516.29	3,056
<b>Total dividends recognised in equity attributable to owners of the Company</b>		<b>157,539</b>		<b>176,456</b>

### 4. Revenue

	Consolidated		Company	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
<b>Insurance income</b>				
Gross written premium	1,870,476	1,712,830	1,186,431	1,140,566
Movement in unearned premium	(64,923)	(39,698)	(12,060)	(16,741)
<b>Premium revenue</b>	<b>1,805,553</b>	<b>1,673,132</b>	<b>1,174,371</b>	<b>1,123,825</b>
Reinsurance and other recoveries revenue	84,350	76,499	41,103	40,140
Reinsurance commission revenue	11,907	10,672	5,487	5,521
<b>Total insurance income</b>	<b>1,901,810</b>	<b>1,760,303</b>	<b>1,220,961</b>	<b>1,169,486</b>
<b>Investment income</b>				
Interest income	24,048	27,181	15,455	17,802
Dividend income				
Other entities	1,492	1,853	-	6
Related parties (Note 28.2)	-	-	48,300	52,400
Net (loss)/gain on financial assets at fair value through profit or loss	(10,437)	11,423	(12,698)	2,021
<b>Total investment income</b>	<b>15,103</b>	<b>40,457</b>	<b>51,057</b>	<b>72,229</b>
<b>Total revenue</b>	<b>1,916,913</b>	<b>1,800,760</b>	<b>1,272,018</b>	<b>1,241,715</b>

The Group gross written premium figures presented above are net of premium reversals for customer remediation of \$12,398,000 (2020: \$17,960,000) and premium add-back for customer hardship and rebates release of \$3,864,000 (2020: premium reversal \$22,473,000). The Company gross written premium figures presented above are net of premium reversals for customer remediation of \$502,000 (2020: \$11,193,000) and premium add-back for customer hardship and rebates release of \$1,834,000 (2020: premium reversal \$3,473,000). These amounts are included as part of the customer remediation and customer hardship and rebates provisions included within Note 30.

#### 4.1 Investment Income

	Consolidated		Company	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Investment income on insurance funds	4,023	19,898	2,422	9,794
Investment income on shareholder funds	11,080	20,559	48,635	62,435
<b>Total investment income</b>	<b>15,103</b>	<b>40,457</b>	<b>51,057</b>	<b>72,229</b>

## Notes to the financial statements (continued)

### 5. Net incurred claims

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

	Consolidated			Company		
	Current Year \$'000	Prior Year \$'000	Total \$'000	Current Year \$'000	Prior Year \$'000	Total \$'000
<b>Year ended 30 June 2021</b>						
Gross incurred claims and related expenses						
Undiscounted	972,196	(21,210)	950,986	569,177	(19,308)	549,869
Discount and discount movement	(2,987)	288	(2,699)	(1,015)	(105)	(1,120)
Gross incurred claims discounted	969,209	(20,922)	948,287	568,162	(19,413)	548,749
Reinsurance and other recoveries						
Undiscounted	(74,728)	(10,923)	(85,651)	(41,427)	(345)	(41,772)
Discount and discount movement	436	865	1,301	67	602	669
Reinsurance and other recoveries discounted	(74,292)	(10,058)	(84,350)	(41,360)	257	(41,103)
<b>Net incurred claims</b>	<b>894,917</b>	<b>(30,980)</b>	<b>863,937</b>	<b>526,802</b>	<b>(19,156)</b>	<b>507,646</b>
<b>Year ended 30 June 2020</b>						
Gross incurred claims and related expenses						
Undiscounted	843,502	(42,857)	800,645	512,986	(40,879)	472,107
Discount and discount movement	(1,206)	11,199	9,993	(74)	6,493	6,419
Gross incurred claims discounted	842,296	(31,658)	810,638	512,912	(34,386)	478,526
Reinsurance and other recoveries						
Undiscounted	(91,613)	21,547	(70,066)	(59,474)	24,419	(35,055)
Discount and discount movement	197	(6,630)	(6,433)	68	(5,153)	(5,085)
Reinsurance and other recoveries discounted	(91,416)	14,917	(76,499)	(59,406)	19,266	(40,140)
<b>Net incurred claims</b>	<b>750,880</b>	<b>(16,741)</b>	<b>734,139</b>	<b>453,506</b>	<b>(15,120)</b>	<b>438,386</b>

Details of the uncertainties that exist in measuring gross incurred claims and reinsurance recoveries arising from the Canterbury and Kaikoura earthquakes are explained in Note 19.1.

### 6. Profit before tax

	Consolidated		Company	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
<b>Profit before tax is arrived at after charging the following specific items:</b>				
Expected credit losses expense	82	152	-	30
Contributions to defined contribution superannuation schemes	1,822	1,441	-	-
Depreciation on property, plant and equipment	6,472	7,256	998	1,683
Employee benefits	77,266	68,345	-	-
Gain on disposal of property, plant and equipment	(121)	(14)	(96)	(29)
Software amortisation cost (Note 16.3)	836	3,819	85	3,782
Other expenses	6,015	6,456	845	5,056

Other expenses comprise the compensation portion of the customer remediation provision as detailed in Note 30 and restructuring expenses.

## Notes to the financial statements (continued)

### 7. Income tax

#### 7.1 Income tax expense

	Consolidated		Company	
	2021	2020	2021	2020
	\$'000	\$'000	\$'000	\$'000
<b>Profit before tax</b>	<b>242,663</b>	302,729	<b>191,410</b>	245,428
Prima facie income tax @ 28% (2020: 28%)	<b>67,946</b>	84,764	<b>53,595</b>	68,720
<b>Movement in income tax expense due to:</b>				
Non-deductible expenditure	<b>96</b>	125	-	1
Non-taxable related party dividends	-	-	<b>(5,908)</b>	(4,200)
Capital notes distribution	<b>(684)</b>	(856)	<b>(684)</b>	(856)
Imputation credits	<b>(134)</b>	(107)	<b>(7,616)</b>	(10,472)
Tax exempt revenue	<b>(1,963)</b>	(975)	-	-
Other	-	(63)	-	(68)
Adjustment for prior financial years	<b>88</b>	29	<b>95</b>	8
<b>Income tax expense</b>	<b>65,348</b>	82,917	<b>39,482</b>	53,133
<b>Income tax expense recognised in profit consists of:</b>				
<b>Current tax expense</b>				
Current year	<b>63,161</b>	89,189	<b>33,874</b>	55,754
Adjustment for prior financial years	<b>310</b>	(1,623)	<b>379</b>	(1,692)
	<b>63,471</b>	87,566	<b>34,253</b>	54,062
<b>Deferred tax expense/(credit)</b>				
Current year	<b>2,099</b>	(6,301)	<b>5,513</b>	(2,629)
Adjustment for prior financial years	<b>(222)</b>	1,652	<b>(284)</b>	1,700
	<b>1,877</b>	(4,649)	<b>5,229</b>	(929)
<b>Income tax expense</b>	<b>65,348</b>	82,917	<b>39,482</b>	53,133
<b>Income tax expense/(credit) recognised in other comprehensive loss</b>				
Income tax expense/(credit) on actuarial losses on defined benefit funds	<b>6,059</b>	(3,902)	<b>6,059</b>	(3,902)

#### 7.2 Imputation credits

	Consolidated		Company	
	2021	2020	2021	2020
	\$'000	\$'000	\$'000	\$'000
SGHNZL ICA Group	<b>459,197</b>	404,163	<b>459,197</b>	404,163
Subsidiaries outside the SGHNZL ICA Group	<b>12,396</b>	10,082	-	-
<b>Imputation credits available for use in subsequent reporting periods</b>	<b>471,593</b>	414,245	<b>459,197</b>	404,163

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

	Consolidated		Company	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Balance at the beginning of the financial year	(53,386)	(61,152)	(36,295)	(46,361)
Income tax paid net of refunds	112,354	90,079	72,450	58,825
Current year tax on operating profit (Note 7.1)	(63,161)	(89,189)	(33,874)	(55,754)
Adjustment for prior financial years (Note 7.1)	(310)	1,623	(379)	1,692
Transfers between related parties	1,982	5,253	1,204	5,303
<b>Balance at the end of the financial year</b>	<b>(2,521)</b>	<b>(53,386)</b>	<b>3,106</b>	<b>(36,295)</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.

	Consolidated		Company	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
<b>Deferred tax assets are attributable to:</b>				
Depreciable assets	1,804	2,810	1,006	1,738
Defined benefit scheme	6,588	12,409	6,588	12,409
Employee Benefits	3,371	3,058	-	-
Leases	925	729	27	22
Provisions	7,749	8,593	2,513	5,549
Payables and other liabilities	4,808	5,036	4,625	4,823
<b>Total deferred tax assets</b>	<b>25,245</b>	<b>32,635</b>	<b>14,759</b>	<b>24,541</b>
<b>Deferred tax liabilities are attributable to:</b>				
Investments	(230)	(1,384)	-	(69)
Deferred acquisition costs	(41,619)	(39,863)	(35,488)	(33,913)
Risk margins	(3,329)	(3,385)	-	-
<b>Total deferred tax liabilities</b>	<b>(45,178)</b>	<b>(44,632)</b>	<b>(35,488)</b>	<b>(33,982)</b>
<b>Net deferred tax liabilities</b>	<b>(19,933)</b>	<b>(11,997)</b>	<b>(20,729)</b>	<b>(9,441)</b>
<b>Movements</b>				
<b>Deferred tax assets</b>				
Balance at the beginning of the financial year	32,635	21,505	24,541	17,945
Movement recognised in profit or loss	(1,331)	6,585	(3,723)	2,541
Reclassification	-	138	-	138
Impact on initial application of NZ IFRS16	-	505	-	17
Recognised in other comprehensive loss	(6,059)	3,902	(6,059)	3,900
<b>Balance at the end of the financial year</b>	<b>25,245</b>	<b>32,635</b>	<b>14,759</b>	<b>24,541</b>
<b>Deferred tax liabilities</b>				
Balance at the beginning of the financial year	(44,632)	(42,558)	(33,982)	(32,232)
Movement recognised in profit or loss	(546)	(1,936)	(1,506)	(1,612)
Reclassification	-	(138)	-	(138)
<b>Balance at the end of the financial year</b>	<b>(45,178)</b>	<b>(44,632)</b>	<b>(35,488)</b>	<b>(33,982)</b>



## Notes to the financial statements (continued)

### 8. Cash and cash equivalents

	Consolidated		Company	
	2021	2020	2021	2020
	\$'000	\$'000	\$'000	\$'000
Cash at bank and on hand	16,419	14,313	10,674	10,199
Shared property reinstatement deposits (Note 17)	138	196	-	17
Cash held within investment portfolios	60,940	30,895	52,046	25,910
<b>Total cash and cash equivalents</b>	<b>77,497</b>	<b>45,404</b>	<b>62,720</b>	<b>36,126</b>

Shared property reinstatement deposits relate to advances received from other insurers and property owners for multi-unit property reinstatements arising from the Canterbury earthquake where the Group acts as the lead insurer to facilitate the property reinstatement on behalf of all property owners. These amounts are held in a separate bank account for the sole purpose of undertaking these property reinstatements.

### 9. Receivables and other assets

	Consolidated		Company	
	2021	2020	2021	2020
	\$'000	\$'000	\$'000	\$'000
<b>Trade and other receivables</b>				
Premiums due	680,955	632,560	407,997	399,041
Amounts due from related parties (Note 28.2)	1,581	255	3,716	1,557
Prepaid expenses	1,265	825	-	-
Amounts due from reinsurers	44,200	84,787	36,879	81,897
Provision for expected credit losses	(37)	(37)	(30)	(30)
<b>Total trade and other receivables</b>	<b>727,964</b>	<b>718,390</b>	<b>448,562</b>	<b>482,465</b>
<b>Other assets</b>				
Accrued income	4,995	5,178	3,291	3,351
Investment receivables	-	262	43	37
Other assets	2,017	3,696	1,900	3,681
<b>Total other assets</b>	<b>7,012</b>	<b>9,136</b>	<b>5,234</b>	<b>7,069</b>
<b>Total receivables and other assets</b>	<b>734,976</b>	<b>727,526</b>	<b>453,796</b>	<b>489,534</b>
Current	734,976	727,526	453,796	489,534
<b>Total receivables and other assets</b>	<b>734,976</b>	<b>727,526</b>	<b>453,796</b>	<b>489,534</b>
<b>Movements in provision for expected credit losses</b>				
Balance at the beginning of the financial year	(37)	(7)	(30)	-
Provision raised during the financial year	-	(30)	-	(30)
<b>Balance at the end of the financial year</b>	<b>(37)</b>	<b>(37)</b>	<b>(30)</b>	<b>(30)</b>

As hardship provisions have been released late in the financial year, the Company currently does not have any historic data on customer defaults (since these were being buffered by the provision). Going forward this provision will be reassessed as the Company identifies the trends in customer defaults.

## Notes to the financial statements (continued)

### 10. Investment securities

	Consolidated		Company	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
<b>Financial assets at fair value through profit or loss</b>				
Interest bearing securities	1,006,815	959,663	626,581	605,153
Unit trusts	138,958	128,763	-	-
Equities	-	328	-	328
<b>Total investment securities</b>	<b>1,145,773</b>	<b>1,088,754</b>	<b>626,581</b>	<b>605,481</b>

### 11. Reinsurance and other recoveries receivable

	Consolidated		Company	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Expected future reinsurance and other recoveries undiscounted	233,549	282,312	166,752	202,627
Discount to present value	(1,905)	(738)	(831)	(161)
<b>Total reinsurance and other recoveries receivable</b>	<b>231,644</b>	<b>281,574</b>	<b>165,921</b>	<b>202,466</b>
Current	155,375	165,852	129,216	127,455
Non-current	76,269	115,722	36,705	75,011
<b>Total reinsurance and other recoveries receivable</b>	<b>231,644</b>	<b>281,574</b>	<b>165,921</b>	<b>202,466</b>

Details of the uncertainties that exist in measuring reinsurance recoveries arising from the Canterbury and Kaikoura earthquakes are explained in Note 19.1.

### 12. Deferred reinsurance premiums

	Consolidated		Company	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Balance at the beginning of the financial year	179,987	161,932	132,058	123,139
Reinsurance premium liability incurred	245,442	218,012	171,190	156,132
Reinsurance premium charged to profit or loss	(233,907)	(199,957)	(166,237)	(147,213)
<b>Balance at the end of the financial year</b>	<b>191,522</b>	<b>179,987</b>	<b>137,011</b>	<b>132,058</b>

### 13. Deferred acquisition costs

	Consolidated		Company	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Balance at the beginning of the financial year	142,367	137,239	121,116	114,856
Acquisition costs deferred	337,746	339,752	291,180	295,406
Amortisation charged to profit or loss	(343,379)	(345,296)	(291,039)	(294,667)
Reinsurance commission recognised in profit or loss	11,907	10,672	5,487	5,521
<b>Balance at the end of the financial year</b>	<b>148,641</b>	<b>142,367</b>	<b>126,744</b>	<b>121,116</b>

## Notes to the financial statements (continued)

### 14. Investment in subsidiaries

	Company	
	2021	2020
	\$'000	\$'000
<b>Shares in subsidiaries</b>	<b>37,304</b>	37,304

The Company's investments in subsidiaries comprise shares held at cost. All entities are incorporated in New Zealand and have a balance date of 30 June.

	Principal activity	Company	
		2021	2020
		%	%
<b>Trading subsidiaries</b>			
AA Insurance Limited	General Insurance	68	68
Vero Liability Insurance Limited	General Insurance	100	100

### 15. Investment in joint venture

			Consolidated	
	2021	2020	2021	2020
	%	%	\$'000	\$'000
<b>Share of interest in joint venture</b>				
AA Home Limited	50	50	250	194

The Group has a joint venture interest in AA Home Limited. AA Home Limited is incorporated in New Zealand and its principal activity is the provision of home repair services to customers. The balance date for AA Home Limited is 30 June.

### 16. Intangible assets

Intangible assets consist of two main components, goodwill and computer software. The value of the goodwill has been reviewed for impairment in accordance with NZ IAS 36 *Impairment of Assets*. Goodwill is deemed to have an indefinite useful life and has therefore not been amortised. Computer software is deemed to have a finite life and is amortised at a rate of 20%-33% per annum on a straight line basis.

	Consolidated		Company	
	2021	2020	2021	2020
	\$'000	\$'000	\$'000	\$'000
Goodwill	21,902	21,902	22,441	22,441
Computer software	5,653	1,398	-	85
<b>Total intangible assets</b>	<b>27,555</b>	23,300	<b>22,441</b>	22,526

#### 16.1 Goodwill

	Consolidated		Company	
	2021	2020	2021	2020
	\$'000	\$'000	\$'000	\$'000
<b>At 1 July</b>				
Cost	27,067	27,067	27,543	27,543
Accumulated impairment	(5,165)	(5,165)	(5,102)	(5,102)
<b>Balance at the beginning of the financial year</b>	<b>21,902</b>	21,902	<b>22,441</b>	22,441
<b>At 30 June</b>				
Cost	27,067	27,067	27,543	27,543
Accumulated impairment	(5,165)	(5,165)	(5,102)	(5,102)
<b>Balance at the end of the financial year</b>	<b>21,902</b>	21,902	<b>22,441</b>	22,441

## Notes to the financial statements (continued)

### 16.2 Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to significant cash generating units (CGU) as outlined in the table below.

	Consolidated		Company	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
AA Insurance	13,235	13,235	13,410	13,410
AMP General	8,667	8,667	9,031	9,031
<b>Carrying amount of goodwill</b>	<b>21,902</b>	<b>21,902</b>	<b>22,441</b>	<b>22,441</b>

The carrying amount of each CGU, including the allocated goodwill, is compared to its recoverable amount determined based on a value-in-use basis. If the recoverable amount is lower, the goodwill is written down. If the recoverable amount is lower than the carrying amount of the CGU after the write down of the goodwill, the assets within the CGU are to be impaired on a proportional basis.

Value in use was determined by discounting the future cash flows generated from the continuing use of these units and was based on the following key assumptions, for which the values have been obtained on the basis of past experience:

- Cash flows are projected from the financial forecasts prepared by the business units covering a three-year period, extended to five years based on specific assumptions for the fourth and fifth year;
- A terminal growth rate of 2.5% (2020: 2.5%) is used to extrapolate cash flows beyond the five-year projections, which does not exceed the long-term average growth rate for the industry;
- The weighted average cost of capital of 7.2% (2020: 7.4%) is used as the post-tax discount rate.

At 30 June 2021, the recoverable amount exceeds carrying amount of each CGU including the goodwill, therefore no impairment loss has been recognised in profit or loss (2020: \$nil). Based on information available and market conditions at 30 June 2021, a reasonably possible change to any of the key assumptions made in this assessment would not cause the CGU's recoverable amount to be less than its carrying amount.

### 16.3 Software

	Consolidated		Company	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
At 1 July				
Cost	61,904	64,185	58,896	62,527
Accumulated amortisation and impairment	(60,506)	(56,687)	(58,811)	(55,029)
<b>Balance at the beginning of the financial year</b>	<b>1,398</b>	<b>7,498</b>	<b>85</b>	<b>7,498</b>
Additions	5,091	3,068	-	1,718
Disposals	-	(5,349)	-	(5,349)
Amortisation charge	(836)	(3,819)	(85)	(3,782)
<b>Balance at the end of the financial year</b>	<b>5,653</b>	<b>1,398</b>	<b>-</b>	<b>85</b>
At 30 June				
Cost	66,995	61,904	58,896	58,896
Accumulated amortisation and impairment	(61,342)	(60,506)	(58,896)	(58,811)
<b>Balance at the end of the financial year</b>	<b>5,653</b>	<b>1,398</b>	<b>-</b>	<b>85</b>

## Notes to the financial statements (continued)

### 17. Payables and other liabilities

	Consolidated		Company	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Trade creditors and accruals	109,793	106,677	85,517	85,252
GST payable	56,622	49,279	25,441	22,257
Investment payables	16,805	-	13,402	-
Amounts due to reinsurers	195,843	176,914	148,805	139,267
Shared property reinstatement advances (Note 8)	138	196	-	17
Amounts due to related parties (Note 28.2)	11,488	16,203	8,826	12,405
Lease liability (Note 27)	41,359	44,939	2,015	2,432
<b>Total payables and other liabilities</b>	<b>432,048</b>	<b>394,208</b>	<b>284,006</b>	<b>261,630</b>
Current	395,640	354,132	282,466	259,695
Non-current	36,408	40,076	1,540	1,935
<b>Total payables and other liabilities</b>	<b>432,048</b>	<b>394,208</b>	<b>284,006</b>	<b>261,630</b>

### 18. Unearned premium liabilities

	Consolidated		Company	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Balance at the beginning of the financial year	860,370	820,672	539,355	522,614
Premiums written during the financial year (Note 4)	1,870,476	1,712,830	1,186,431	1,140,566
Premiums earned during the financial year (Note 4)	(1,805,553)	(1,673,132)	(1,174,371)	(1,123,825)
<b>Balance at the end of the financial year</b>	<b>925,293</b>	<b>860,370</b>	<b>551,415</b>	<b>539,355</b>

#### 18.1 Liability adequacy test

The liability adequacy test has been conducted using the central estimate of the premium liabilities, together with an appropriate margin for uncertainty. The test is based on prospective information and so is dependent on assumptions and judgements.

The liability adequacy test which was performed as at 30 June 2021 identified a surplus for the Group and Company (30 June 2020: surplus).

	Consolidated		Company	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Net central estimate of present value of expected future cash flows from future claims	602,514	532,144	331,483	311,563
Risk margin of the present value of expected future cash flows	19,325	20,221	11,111	13,440
	<b>621,839</b>	<b>552,365</b>	<b>342,594</b>	<b>325,003</b>
Risk margin percentage	3.2	3.8	3.4	4.3
Probability of sufficiency	60.0	60.0	60.0	60.0

## Notes to the financial statements (continued)

### 18.1 Liability adequacy test (continued)

The probability of sufficiency applied for the purpose of the liability adequacy test at 60% differs from the probability of sufficiency determined for the outstanding claims liability at 90%. The reason for this difference is that the former is in effect an impairment test used only to test the sufficiency of net premium liabilities whereas the latter is a measurement accounting policy used in determining the carrying value of the outstanding claims liability carried on the balance sheet.

## 19. Outstanding claims liabilities

### 19.1 Gross outstanding claims liabilities

	Consolidated		Company	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Gross central estimate - undiscounted	561,467	541,625	359,090	356,518
Discount to present value	(4,241)	(2,424)	(1,524)	(991)
Claim handling expenses	30,150	30,513	16,792	19,525
Risk margin	55,869	51,405	33,372	32,414
<b>Gross outstanding claims liabilities</b>	<b>643,245</b>	<b>621,119</b>	<b>407,730</b>	<b>407,466</b>
Current	474,076	420,470	347,313	308,310
Non-current	169,169	200,649	60,417	99,156
<b>Gross outstanding claims liabilities</b>	<b>643,245</b>	<b>621,119</b>	<b>407,730</b>	<b>407,466</b>

There is still uncertainty with regards to the estimation of gross outstanding claims liabilities and related reinsurance recoveries for the November 2016 Kaikoura earthquakes and the 2010 and 2011 Canterbury earthquake claims, despite continued progress in the settlement of these claims. This uncertainty can include: geotechnical uncertainty, litigation and the allocation of claim costs between earthquake events. The uncertainty on these events is large in dollar terms due to the volume, value and complexity of the outstanding earthquake claims relative to other outstanding claims on the statements of financial position.

At 30 June 2021, the central estimate of gross outstanding claims liabilities, plus the net risk margin, attributed to the Kaikoura earthquakes totals \$80 million and \$80 million for the Group and Company, respectively (2020: \$93 million and \$93 million respectively). The equivalent figures for the Canterbury earthquakes totals \$77 million and \$68 million for the Group and Company, respectively (2020: \$100 million and \$85 million respectively).

The central estimate represents actuarial estimates, as at 30 June 2021, of what the Group and Company ultimately has left to pay, prior to receiving any reinsurance recoveries in relation to these claims. Given the nature of the uncertainties associated with the remaining earthquake claims the actual claims experience may deviate, perhaps substantially, from the central estimate as at 30 June 2021.

The net risk margin represents additional provisions required to meet expected claim payments, net of all reinsurance, with a 90% probability of sufficiency. In the event of actual claims experience deviating from expectations, the net risk margin is designed to act as a buffer to minimise the impact on the Group's financial performance.

Due to the ongoing uncertainty around COVID-19 impacts on the New Zealand economy and the impact this might have on insurance claims costs across the Group's portfolios, an additional \$0.9 million of outstanding claims liabilities is being held (2020: \$2.3 million).

Future movements in the AUD:NZD exchange rate can affect the net incurred claims position. This arises because claims are paid in New Zealand dollars, but the applicable catastrophe reinsurance programme is denominated in Australian dollars. An allowance is made for foreign exchange risk in the central estimate as well as the net risk margin.

## Notes to the financial statements (continued)

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

	Note	Consolidated		Company	
		2021	2020	2021	2020
		\$'000	\$'000	\$'000	\$'000
Net outstanding claims liabilities at the beginning of the financial year		339,545	315,338	205,000	196,785
<i>Prior periods</i>					
Payments net of reinsurance and other recoveries		(190,692)	(187,437)	(138,554)	(134,624)
Movement in discounting		1,586	748	532	340
Margin release on prior periods		(29,034)	(19,585)	(16,477)	(16,646)
Incurred claims due to changes in assumptions and experience		745	2,500	(1,457)	5,407
Change in discount rate		(1,410)	4,617	(196)	1,480
Change in claims handling expense rate		(23)	-	(23)	-
Change in inflation assumption		(1,736)	923	(518)	187
Movement in risk margins		(1,108)	(5,944)	(1,017)	(5,888)
<i>Current period</i>					
Net ultimate incurred costs		894,917	750,880	526,802	453,506
Payments net of reinsurance recoveries		(601,189)	(522,495)	(332,283)	(295,547)
Net outstanding claims liabilities at end of the financial year		411,601	339,545	241,809	205,000
Reinsurance and other recoveries receivable	11	231,644	281,574	165,921	202,466
<b>Gross outstanding claims liabilities</b>		<b>643,245</b>	<b>621,119</b>	<b>407,730</b>	<b>407,466</b>

### 19.3 Claims development tables

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

Consolidated	Accident year											2021
Accident year	Prior	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Estimate of ultimate claims cost:												
At end of accident year		44,976	27,357	28,346	29,590	32,328	31,563	31,232	37,205	35,991	38,995	38,995
One year later		48,363	27,371	29,103	32,625	31,316	30,973	33,874	37,758	31,446		31,446
Two years later		43,717	29,349	29,340	31,779	29,830	28,628	32,917	38,623			38,623
Three years later		40,554	28,041	27,489	31,996	28,408	28,908	33,363				33,363
Four years later		42,005	27,269	27,092	32,049	27,641	29,399					29,399
Five years later		44,083	28,656	27,776	30,841	27,210						27,210
Six years later		44,116	28,162	27,689	30,344							30,344
Seven years later		41,134	27,698	28,974								28,974
Eight years later		41,182	27,841									27,841
Nine years later		42,601										42,601
Current estimate of cumulative claims cost		530,871	42,601	27,841	28,974	30,344	27,210	29,399	33,363	38,623	31,446	857,667
Payments		518,346	41,807	26,878	26,776	28,511	24,479	23,005	22,529	22,062	13,466	754,324
Outstanding claims - undiscounted		12,525	794	963	198	1,833	2,731	6,394	10,834	16,561	17,980	103,343
Discount to present value		(306)	4	(6)	(2)	(24)	(37)	(95)	(179)	(275)	(376)	(1,958)
Outstanding claims - long tail		12,219	798	957	196	1,809	2,694	6,299	10,655	16,286	17,604	101,385
Outstanding claims - short tail												224,197
Claims handling expenses												30,150
Risk margin												55,869
Total net outstanding claims liabilities												411,601
Reinsurance and other recoveries receivable												231,644
<b>Total gross outstanding claims liabilities</b>												<b>643,245</b>

## Notes to the financial statements (continued)

### 19.3 Claims development tables (continued)

Company	Accident year											2021
Accident year	Prior	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Estimate of ultimate claims cost:												
At end of accident year		23,465	7,997	9,407	8,561	8,887	6,934	6,818	9,285	7,079	8,492	8,492
One year later		24,074	6,793	9,105	7,150	7,136	6,443	7,000	9,916	6,597		6,597
Two years later		19,714	6,659	8,641	7,880	6,670	6,248	6,729	11,807			11,807
Three years later		15,488	6,631	7,847	7,944	6,642	6,201	7,113				7,113
Four years later		17,523	6,426	7,624	7,856	6,663	6,362					6,362
Five years later		17,546	7,200	8,455	8,038	7,034						7,034
Six years later		18,532	7,202	8,454	8,001							8,001
Seven years later		17,779	7,195	8,487								8,487
Eight years later		17,894	7,341									7,341
Nine years later		19,146										19,146
Current estimate of cumulative claims cost	386,373	19,146	7,341	8,487	8,001	7,034	6,362	7,113	11,807	6,597	8,492	476,753
Payments	375,798	18,844	7,333	8,486	7,918	6,877	6,155	6,723	8,894	4,961	2,941	454,950
Outstanding claims - undiscounted	10,575	302	8	1	83	157	207	390	2,913	1,616	5,551	21,803
Discount to present value	(265)	4	-	-	-	(1)	(1)	(2)	(16)	(9)	(34)	(324)
Outstanding claims - long tail	10,310	306	8	1	83	156	206	388	2,897	1,607	5,517	21,479
Outstanding claims - short tail												170,166
Claims handling expenses												16,792
Risk margin												33,372
Total net outstanding claims liabilities												241,809
Reinsurance and other recoveries receivable												165,921
<b>Total gross outstanding claims liabilities</b>												<b>407,730</b>

The claims development tables disclose amounts net of reinsurance and third party recoveries to give the most meaningful insight into the impact on profit or loss. Short-tail claims are disclosed separately as they are generally subject to less uncertainty since they are normally reported soon after the incident.

### 19.4 Actuarial Assumptions and Methods

#### a) Assumptions

The following key assumptions have been applied in determining the net outstanding claims liabilities of the Group and Company including claims arising from the Canterbury and Kaikoura earthquakes:

	Consolidated		Company	
	2021	2020	2021	2020
Weighted average term to settlement (years)	0.92	0.99	0.50	0.51
Economic inflation rate	1.8%	2.1%	1.4%	1.7%
Superimposed inflation rate	1.5%	1.8%	0.1%	0.3%
Discount rate	0.8%	0.4%	0.5%	0.3%
Claim handling expense ratio	8.0%	9.1%	6.8%	8.4%
Risk margin	15.7%	17.8%	15.9%	18.8%

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



## Notes to the financial statements (continued)

### a) Assumptions (continued)

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

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

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

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

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

The assumptions regarding uncertainty for each class are applied to the net central estimates, and the results aggregated, allowing for diversification in order to arrive at an overall provision, which is intended to have a 90% (2020: 90%) probability of sufficiency (**POS**).

A net risk margin at an approximate 90% POS (2020: 90%) has been included in the net outstanding claims provision in respect of the 2010 and 2011 Canterbury earthquakes. The net risk margin takes into account the retention and limits of the 2010 and 2011 Suncorp Group catastrophe programmes; the timing of cash flows and the currency exchange rates that are likely over the future payment period.

### b) Impact of changes in assumptions

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

	Movement in variables	Consolidated		Company	
		2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Weighted average term to settlement - years	+0.5	(5,124)	(5,850)	(1,224)	(1,728)
	-0.5	5,061	5,751	1,218	1,713
Inflation rate	+1%	(3,542)	(3,195)	(1,176)	(1,030)
	-1%	3,546	3,196	1,182	1,034
Discount rate	+1%	3,599	3,274	1,182	1,042
	-1%	(2,828)	(1,345)	(577)	(342)
Claim handling expense ratio	+1%	(3,810)	(3,113)	(2,264)	(1,892)
	-1%	3,810	3,113	2,264	1,892
Risk margin	+1%	(3,565)	(2,881)	(2,094)	(1,726)
	-1%	3,565	2,881	2,094	1,726

## Notes to the financial statements (continued)

### c) Actuarial information

Kate Dron is the Appointed Actuary for Vero Insurance New Zealand Limited (**VINZL**). She is a Fellow of the New Zealand Society of Actuaries and a Fellow of the Institute and Faculty of Actuaries (UK). The Appointed Actuary for VINZL receives a proportion of remuneration based on the financial results of the Suncorp Group. Adam Follington, of The Quantum Group Pty Limited is the Appointed Actuary for Vero Liability Insurance Limited (**VLIL**). Mr Follington is a Fellow of the New Zealand Society of Actuaries. Mr Follington has no financial interest in the Group. John Smeed, of Finity Consulting Pty Limited, is the Appointed Actuary for AA Insurance Limited (**AAIL**). Mr Smeed is a Fellow of the New Zealand Society of Actuaries. Mr Smeed has no financial interest in the Group.

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

The outstanding claims reserves disclosed for the Group have been calculated in accordance with the New Zealand Society of Actuaries Professional Standard No. 30 "Valuations of General Insurance Claims". The effective date of the respective Appointed Actuaries' advice is 30 June 2021.

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

In particular, the Appointed Actuaries are satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liabilities. There were no qualifications contained in their respective actuarial advice. The key assumptions used in the compilations of the reserves as at 30 June 2021 have been outlined above.

In addition, the Company's Board Audit and Risk Committee (**BARC**) receives a Financial Condition Report (**FCR**) annually from the Appointed Actuary of the Company in accordance with IPSA. The purpose of the FCR is to provide the Appointed Actuary's objective assessment of the Company's overall financial condition. It considers, among other things, the material risks facing the Company that, in the Appointed Actuary's opinion, pose a threat to its ability to remain financially solvent now and in the future. The Appointed Actuaries for the Company's licensed insurance subsidiaries, VLIL and AAIL, also provide an FCR to their respective BARCs.

## 20. Defined benefit fund liabilities

### 20.1 Defined benefit superannuation funds

The Group participates in three 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.

## Notes to the financial statements (continued)

### 20.1 Defined benefit superannuation funds (continued)

The following tables summarise the deficit position for each defined superannuation benefit fund.

Consolidated	2021			2020		
	Surplus \$'000	Deficit \$'000	Net \$'000	Surplus \$'000	Deficit \$'000	Net \$'000
Vero & Asteron New Zealand Staff Pension Scheme	-	(19,694)	(19,694)	-	(36,912)	(36,912)
RIG Superannuation Fund	-	(1,536)	(1,536)	-	(3,246)	(3,246)
Commercial Union General Insurance Staff Pension Scheme	-	(1,772)	(1,772)	-	(3,582)	(3,582)
<b>Total net defined benefit liability</b>	-	<b>(23,002)</b>	<b>(23,002)</b>	-	<b>(43,740)</b>	<b>(43,740)</b>
Non-current	-	(23,002)	(23,002)	-	(43,740)	(43,740)
<b>Total net defined benefit liability</b>	-	<b>(23,002)</b>	<b>(23,002)</b>	-	<b>(43,740)</b>	<b>(43,740)</b>

Company	2021			2020		
	Surplus \$'000	Deficit \$'000	Net \$'000	Surplus \$'000	Deficit \$'000	Net \$'000
Vero & Asteron New Zealand Staff Pension Scheme	-	(20,220)	(20,220)	-	(37,490)	(37,490)
RIG Superannuation Fund	-	(1,536)	(1,536)	-	(3,246)	(3,246)
Commercial Union General Insurance Staff Pension Scheme	-	(1,772)	(1,772)	-	(3,582)	(3,582)
<b>Total net defined benefit liability</b>	-	<b>(23,528)</b>	<b>(23,528)</b>	-	<b>(44,318)</b>	<b>(44,318)</b>
Non-current	-	(23,528)	(23,528)	-	(44,318)	(44,318)
<b>Total net defined benefit liability</b>	-	<b>(23,528)</b>	<b>(23,528)</b>	-	<b>(44,318)</b>	<b>(44,318)</b>

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. The 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 Group. 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 Group 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 Group contributions.
  - Legislative risk – The risk that legislative changes could be made which increase the cost of providing the defined benefits.

## Notes to the financial statements (continued)

### 20.1 Defined benefit superannuation funds (continued)

- Other Suncorp Group entities participate in the funds and the amounts included in these financial statements relate to the Group's share in relation to the members that are attributable to the Group. The Group 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

	Consolidated		Company	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Fair value of fund assets at the end of the financial year	53,107	49,898	51,356	47,770
Defined benefit obligations at the end of the financial year	(67,140)	(79,205)	(65,710)	(77,464)
Adjustment for contributions tax	(8,969)	(14,433)	(9,174)	(14,624)
<b>Net liability recognised in the statements of financial position</b>	<b>(23,002)</b>	<b>(43,740)</b>	<b>(23,528)</b>	<b>(44,318)</b>

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

#### b) Reconciliation of movements

	Consolidated		Company	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
<b>Changes in the fair value of plan assets</b>				
Balance at the beginning of the financial year	49,898	53,141	47,770	51,208
Interest income	455	962	434	925
Actual return on plan assets less interest income	6,354	(487)	6,724	(709)
Contributions by Group companies	466	602	445	579
Contributions by plan participants	5	5	5	5
Benefits paid	(3,768)	(4,047)	(3,733)	(3,971)
Premiums and expenses paid	(303)	(278)	(289)	(267)
<b>Balance at the end of the financial year</b>	<b>53,107</b>	<b>49,898</b>	<b>51,356</b>	<b>47,770</b>

	Consolidated		Company	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
<b>Changes in the present value of defined benefit fund obligations</b>				
Balance at the beginning of the financial year	(79,205)	(72,668)	(77,464)	(71,103)
Current service cost	(703)	(683)	(677)	(662)
Interest expense	(738)	(1,334)	(721)	(1,304)
Contributions by plan participants	(5)	(5)	(5)	(5)
Actuarial gains arising from changes in demographic assumptions	1,296	-	1,221	-
Actuarial gains/(losses) arising from changes in financial assumptions	9,133	(8,762)	8,843	(8,492)
Actuarial losses arising from liability experience	(989)	(78)	(929)	(136)
Benefits paid	3,768	4,047	3,733	3,971
Premiums and expenses paid	303	278	289	267
<b>Balance at the end of the financial year</b>	<b>(67,140)</b>	<b>(79,205)</b>	<b>(65,710)</b>	<b>(77,464)</b>

## Notes to the financial statements (continued)

### c) Categories of fund assets

	Consolidated		Company	
	2021	2020	2021	2020
Major categories of fund assets as a percentage of total fund assets	%	%	%	%
Equity	48.1	34.1	48.1	34.2
Fixed Income	27.2	38.0	27.3	38.0
Investments in managed funds	13.7	15.2	13.6	15.1
Cash	11.0	12.7	11.0	12.7
	100.0	100.0	100.0	100.0

The table above reflects the aggregate assets of the three defined benefit superannuation funds the Group participates in.

A review of the strategic asset allocation was completed in December 2020. The assets for the Vero and Asteron scheme were adjusted in accordance with the recommendation. This took effect in March 2021. Action on the CU and RIG scheme asset allocations is pending consideration by the Company of a possible merger to the two schemes.

### d) Principal actuarial assumptions

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

	Consolidated		Company	
	2021	2020	2021	2020
	%	%	%	%
<b>Vero &amp; Asteron New Zealand Staff Pension Scheme</b>				
Discount rate	2.13	1.00	2.13	1.00
Future salary increases	2.0 pa	0.0 for 1 yr, 1.75 for 2 yrs then 2.0 thereafter	2.0 pa	0.0 for 1 yr, 1.75 for 2 yrs then 2.0 thereafter
<b>RIG Superannuation Fund</b>				
Discount rate	1.65	0.65	1.65	0.65
Future salary increases	n/a	n/a	n/a	n/a
<b>Commercial Union General Insurance Staff Pension Scheme</b>				
Discount rate	1.90	0.89	1.90	0.89
Future salary increases	2.0 pa	0.0 for 1 yr, 1.75 for 2 yrs then 2.0 thereafter	2.0 pa	0.0 for 1 yr, 1.75 for 2 yrs then 2.0 thereafter

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.

## Notes to the financial statements (continued)

### d) Principal actuarial assumptions (continued)

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

	Consolidated		Company	
	2021	2020	2021	2020
Vero & Asteron New Zealand Staff Pension Scheme	12	14	12	14
RIG Superannuation Fund	8	8	8	8
Commercial Union General Insurance Staff Pension Scheme	10	12	10	12

### 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:

Consolidated	2021		2020	
	Increase \$'000	Decrease \$'000	Increase \$'000	Decrease \$'000
Discount rate movement (100 basis points)	(6,861)	8,363	(9,532)	11,509
Future salary increases (100 basis points)	728	(664)	1,099	(989)
One year movement in life expectancy	2,378	(2,364)	3,114	(3,078)

Company	2021		2020	
	Increase \$'000	Decrease \$'000	Increase \$'000	Decrease \$'000
Discount rate movement (100 basis points)	(6,659)	8,100	(9,239)	11,117
Future salary increases (100 basis points)	664	(609)	1,014	(917)
One year movement in life expectancy	2,338	(2,325)	3,055	(3,020)

### f) 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 section (d) 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 2020. The employers are currently contributing at a rate of 20% of active members' salaries (inclusive of contribution tax). The actuarial recommendation is 26% of active members' salaries, a contribution to scheme expenses and additional lump sum contributions to eliminate the deficit. The employers contributed \$292,000 (inclusive of contribution tax) to reimburse the scheme for its administration expenses during the year ended 30 June 2021. No additional employer contributions were made during the year ended 30 June 2021.

For the RIG Superannuation Fund, the most recent statutory review was carried out as at 31 March 2019 and based on the review no employer contributions were required. Following the events of early 2020 the FMA recommended that all scheme trustees review their funding positions. An interim review dated December 2020 identified that the fund was in deficit and recommended the Company recommence contributions to restore the Fund's financial position. No employer contributions were made during the year ended 30 June 2021.

## Notes to the financial statements (continued)

### f) Funding (continued)

For the Commercial Union General Insurance Staff Pension Scheme the most recent statutory review was carried out as at 31 March 2020 and, on the basis of that review, the actuary recommended Company contributions of 35% of active members salaries and making additional lump sum contributions to eliminate the deficit. No employer contributions were made during the year ended 30 June 2021.

The Group, via AA Insurance Limited and a related entity Suncorp NZ Employees Limited, intends to contribute \$485,000 to the defined superannuation benefit funds in the financial year ending 30 June 2022, being 20% of active members' salaries in the Vero & Asteron New Zealand Staff Pension Scheme.

### 21. Share capital and capital notes

	Company		Company	
	2021	2021	2020	2020
	Shares/ Notes No. (000)	Shares/ Notes \$'000	Shares/ Notes No. (000)	Shares/ Notes \$'000
Issued and fully paid ordinary shares	159,393	211,318	159,393	211,318
Shareholder contribution under equity settled employee share plans	-	6,311	-	6,311
<b>Total share capital</b>	<b>159,393</b>	<b>217,629</b>	<b>159,393</b>	<b>217,629</b>
Capital notes	592	59,191	592	59,191
<b>Total capital notes</b>	<b>592</b>	<b>59,191</b>	<b>592</b>	<b>59,191</b>
<b>Total share and capital notes</b>		<b>276,820</b>		<b>276,820</b>

#### 21.1 Share capital

The Company does not have authorised capital or par value in respect of its issued shares. All shares are fully paid. All shares rank equally with one vote attached to each fully paid ordinary share.

As at 30 June 2021, the Company had 159,392,655 ordinary shares with no par value issued to Suncorp Group Holdings (NZ) Limited (2020: 159,392,655).

#### 21.2 Capital notes

At 30 June 2021 the Company had 591,910 capital notes (2020: 591,910) with a face value of \$59,191,000 issued to its parent Suncorp Group Holdings (NZ) Limited.

The capital notes are qualifying perpetual instruments and qualify as capital under the Solvency Standard for Non-life Business issued by the Reserve Bank of New Zealand. They are fully paid, perpetual, subordinated, unsecured securities.

The capital notes pay a distribution. Payments are floating rate, discretionary, non-cumulative, and scheduled to be paid quarterly, at the Company's discretion. They are calculated based on the sum of the three-month bank bill rate plus a 4% margin.

The Company has the option to redeem the instruments following a regulatory or tax event or if certain other requirements are met.

In the event of the winding-up of the Company, the rights of the holders will rank equally, and in priority to the rights of the ordinary shareholders only.

## Notes to the financial statements (continued)

### 22. Capital management

#### 22.1 Capital management policies and objectives

The Group 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 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 and its two general insurance subsidiaries, Vero Liability Insurance Limited and AA Insurance Limited, are licensed insurance companies in accordance with the IPSA. All three companies manage their capital in accordance with the requirements of IPSA and the Solvency Standard for Non-life Insurance Business (the **Solvency Standard**) issued by the Reserve Bank of New Zealand.

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

The Group and Company satisfied all externally imposed capital requirements which they were subject to during the year ended 30 June 2021.

The Company and its licensed insurance subsidiaries have embedded in their capital management framework the necessary tests to ensure continuous and full compliance with the Solvency Standard.

The Company and its subsidiaries' Board Audit and Risk Committees oversee capital computations and maintain optimal capital structure by advising their respective Boards on dividend payments and share issues. In addition, the Group manages its required level of capital through analysis and optimisation of the product and asset mix, reinsurance program, catastrophe exposure and investment strategy.

#### 22.2 Capital composition

The Group and Company manage their 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.

##### 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 Group, being the Company and its two general insurance subsidiaries Vero Liability Insurance Limited and AA Insurance Limited (**Licensed Insurer Group**), and the Company is detailed below:

	Licensed Insurer Group		Company	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Actual solvency	452,689	427,030	267,802	248,019
Minimum solvency capital	241,483	221,197	142,331	133,532
Solvency margin	211,206	205,833	125,471	114,487
Solvency ratio	1.87	1.93	1.88	1.86



## Notes to the financial statements (continued)

### 23. Credit rating

The Company and its general insurance subsidiaries have the following Standard & Poor's ratings which provides an indication of their ability to pay current and future claims.

	Credit Rating	
	2021	2020
Vero Insurance New Zealand Limited	A+	A+
Vero Liability Insurance Limited	A+	A+
AA Insurance Limited	A+	A+

### 24. Notes to the statements of cash flows

	Consolidated		Company	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
<b>Profit for the financial year</b>	<b>177,315</b>	219,812	<b>151,928</b>	192,295
<b>Non-cash items</b>				
Movement in financial assets at fair value through profit or loss	10,437	(11,423)	12,698	(2,021)
Depreciation and amortisation expense	7,308	11,075	1,083	5,465
Gains on disposal of plant and equipment	(121)	(14)	(96)	(29)
Share of joint venture gain	(55)	(137)	-	-
Reversal of lease incentive	-	9,588	-	-
Tax on opening retained profits adjustment for IFRS 16	-	505	-	17
Movement in defined benefit fund	15,530	(10,019)	15,578	(10,035)
<b>Change in assets and liabilities</b>				
(Increase)/decrease in receivables and other assets	(7,713)	(53,694)	35,744	(37,174)
Decrease in reinsurance and other recoveries receivable	49,930	207,929	36,545	218,017
Increase in deferred reinsurance premiums	(11,535)	(18,055)	(4,953)	(8,919)
Increase in deferred acquisition costs	(6,274)	(5,128)	(5,628)	(6,260)
Increase in current tax assets	-	-	(3,106)	-
Decrease/(increase) in deferred tax assets	7,390	(11,130)	9,782	(6,596)
Increase/(decrease) in payables and other liabilities	24,615	(11,746)	9,391	(15,138)
Increase in unearned premium liabilities	64,923	39,698	12,060	16,741
Decrease in current tax liabilities	(50,865)	(7,766)	(36,295)	(10,066)
Increase/(decrease) in outstanding claims liabilities	22,126	(183,722)	264	(209,802)
(Decrease)/increase in defined benefit fund liabilities	(20,738)	14,596	(20,790)	14,625
Increase in deferred tax liabilities	546	2,074	1,506	1,750
(Decrease)/increase in provisions	(18,638)	48,291	(10,842)	18,108
<b>Net cash from operating activities</b>	<b>264,181</b>	240,734	<b>204,869</b>	160,979

## Notes to the financial statements (continued)

### 25. Financial instruments

#### 25.1 Comparison of fair value to carrying amounts

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

Investments traded in an active market are valued at the closing quoted market price.

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

Financial assets and liabilities that are not recognised and measured at fair value include cash and cash equivalents, receivables and other assets and payables. The basis of recognition and measurement of these financial assets and liabilities is described in Note 31.

#### 25.2 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 Group represent investment securities valued using a market comparison technique. For investment securities the fair value is calculated using observable inputs from a non-active market for an identical security with the valuation reflecting the exit price for the security. 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>Consolidated</b>				
<b>As at 30 June 2021</b>				
<b>Financial assets</b>				
Investment securities	57,203	1,088,570	-	1,145,773
<b>As at 30 June 2020</b>				
<b>Financial assets</b>				
Investment securities	51,678	1,037,076	-	1,088,754
<b>Company</b>				
<b>As at 30 June 2021</b>				
<b>Financial assets</b>				
Investment securities	38,638	587,943	-	626,581
<b>As at 30 June 2020</b>				
<b>Financial assets</b>				
Investment securities	44,529	560,952	-	605,481

There have been no material transfers between Level 1 and Level 2 during the year ended 30 June 2021 for the Group or Company.

## Notes to the financial statements (continued)

### 25.3 Accounting classification

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

<b>Consolidated</b>				
	<b>Financial Assets at Fair Value</b>	<b>Financial Assets at Amortised Cost</b>	<b>Financial Liabilities at Amortised Cost</b>	<b>Carrying amount</b>
<b>2021</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Cash and cash equivalents	-	77,497	-	77,497
Receivables and other assets	-	734,976	-	734,976
Investment securities	1,145,773	-	-	1,145,773
	1,145,773	812,473	-	1,958,246
Payables and other liabilities*	-	-	(375,426)	(375,426)
<b>2020</b>				
Cash and cash equivalents	-	45,404	-	45,404
Receivables and other assets	-	727,526	-	727,526
Investment securities	1,088,754	-	-	1,088,754
	1,088,754	772,930	-	1,861,684
Payables and other liabilities*	-	-	(344,929)	(344,929)

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

<b>Company</b>				
	<b>Financial Assets at Fair Value</b>	<b>Financial Assets at Amortised Cost</b>	<b>Financial Liabilities at Amortised Cost</b>	<b>Carrying amount</b>
<b>2021</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Cash and cash equivalents	-	62,720	-	62,720
Receivables and other assets	-	453,796	-	453,796
Investment securities	626,581	-	-	626,581
	626,581	516,516	-	1,143,097
Payables and other liabilities*	-	-	(258,565)	(258,565)
<b>2020</b>				
Cash and cash equivalents	-	36,126	-	36,126
Receivables and other assets	-	489,534	-	489,534
Investment securities	605,481	-	-	605,481
	605,481	525,660	-	1,131,141
Payables and other liabilities*	-	-	(239,373)	(239,373)

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

## Notes to the financial statements (continued)

### 26. Risk management

#### 26.1 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 subsidiaries which are licensed insurers, Vero Liability Insurance Limited and AA Insurance Limited, have their own respective BARCs which also perform this role. The Company's management apply the three lines of defence model for risk management as follows:

Line of Defence	Responsibility of	Accountable for
<b>First</b>	All employees (other than the CRO and CRO team and Internal Audit)	Identifying, assessing and managing risk within risk appetite and policy and framework requirements.
<b>Second</b>	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.
<b>Third</b>	Internal audit function	Independent assurance over internal controls and risk management practices.

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, inflation, commodity prices, and market volatilities.
Financial - Asset and liability risk	The risk of adverse movements in the relative value of assets and liabilities due to changes in market factors (e.g. interest rates, inflation, FX), the variation in repricing profiles or from the different characteristics of the assets and liabilities.
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 and systems, errors by our people or from external events. This includes legal risk, but excludes strategic and reputational risks.
Compliance risk	The risk of legal or regulatory sanctions, financial loss, or loss to reputation which the 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.

## Notes to the financial statements (continued)

### 26.1 Risk management overview (continued)

An integral part of managing operational risk is managing conduct risk. The Company recognises that a strong organisational culture which aligns the three core dimensions of culture (risk culture, customer culture and performance culture) are key enablers to managing conduct risks and maximising the outcomes for our customers, shareholders and our people. Conversely, a poor culture can heighten conduct risks and result in adverse outcomes for customers and all stakeholders. 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 in place to execute specified responsibilities in the risk framework.

These committees include an Asset and Liability Committee (**ALCO**), a Non-Financial Risk Committee (**NFRC**), and a Customer Conduct Committee (**CCC**).

The primary role of the ALCO is to oversee the adequacy of balance sheets and regulatory capital of specified New Zealand registered Suncorp entities (including the Company) and oversee key financial risks to ensure that exposure is managed within the Board approved risk appetite or parameters.

The NFRC provides governance over the management of non-financial risks to ensure that exposure is managed within the Board approved risk parameters. Non-financial risks include Insurance Risk, Compliance Risk, Conduct Risk, Operational Risk (includes Project, Cyber and Technology risks) and Strategic Risk.

AAIL has a Management Risk Committee whose primary role is to oversee the management of financial and non-financial risks.

The CCC 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 26.2 Insurance risk management
- Note 26.3 to 26.5 Risk management for financial instruments: credit, liquidity and market risks. Financial instrument risk is not assessed on a look through basis.

## Notes to the financial statements (continued)

### 26.2 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. In relation to the use of reinsurer coverage catastrophe and facultative reinsurance, contracts are purchased to ensure that any accumulation of losses from a single event or series of events is mitigated.

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

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

## Notes to the financial statements (continued)

### 26.3 Credit risk

The Group is exposed to and manages the following key sources of credit risk:

Key sources of credit risk	How are these managed
Premiums receivable	For instalment business, outstanding premiums on policies arise on those which are generally paid on a monthly instalment basis. Payment default will result in the termination of the insurance contract with the policyholders, eliminating both the credit risk and insurance risk for the unpaid balance. Where business is written through intermediaries, limited credit is provided under the terms and conditions of the agreement with the respective intermediary, with debtor control ensuring constant attention is paid to minimise overdue debts.
Investments in financial instruments	Investments in financial instruments in the investment portfolios are held in accordance with the investment mandates. Credit limits have been established within these mandates to ensure counterparties have appropriate credit ratings. A framework is in place that sets and monitors investment strategies and arrangements.
Reinsurance recoveries	Credit risk with respect to reinsurance programs is minimised by placement of cover with a number of reinsurers with strong credit ratings and in line with the applicable risk appetite statement. Eligible recoveries under reinsurance arrangements are monitored and managed internally and by specialised reinsurance brokers operating in the international reinsurance market.

Concentration of credit risk arises when a number of financial instruments or contracts are entered into with the same counterparty or where a number of counterparties are engaged in similar business activities that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Concentration of credit risk is managed by individual counterparty and by credit rating. The Group and Company do not expect any counterparties to fail to meet their obligations given their credit ratings and therefore does not require collateral or other security to support credit risk exposures. Over-concentration of credit risk is avoided by placement of cover with a number of reinsurers as well as setting participation limits and minimum security requirements on the reinsurance programme. Reinsurance is placed only with companies with Standard & Poor's credit ratings (or equivalent if a Standard & Poor's rating is unavailable) of "A minus" or better in accordance with policy.

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

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

There has been no material change in the credit risk faced by the Group or Company or processes for managing the risk during the period. The Aggregate Risk Exposures Policy prescribes processes and requirements to comply with APRA Prudential Standard 3PS 221 'Aggregate Risk Exposures'. The Group has reporting obligations to the Suncorp Group for breaches of limits prescribed in the Policy. Currently the limits apply to aggregate exposures to each of the Australian major banks.

## Notes to the financial statements (continued)

### 26.3 Credit risk (continued)

Consolidated							
	Credit Rating				Non-investment grade	Not Rated	Total
	AAA \$'000	AA \$'000	A \$'000	BBB \$'000	\$'000	\$'000	\$'000
<b>2021</b>							
Cash and cash equivalents	-	77,497	-	-	-	-	77,497
Investment securities	180,439	495,426	294,551	36,399	-	-	1,006,815
Reinsurance and other recoveries	-	121,802	75,963	2,512	-	31,367	231,644
Accrued income	-	-	-	-	-	4,995	4,995
Premiums due	-	-	-	-	-	680,955	680,955
Amounts due from related parties	-	-	1,581	-	-	-	1,581
Amounts due from reinsurers	-	10,100	34,012	84	-	4	44,200
	180,439	704,825	406,107	38,995	-	717,321	2,047,687
<b>2020</b>							
Cash and cash equivalents	-	44,838	566	-	-	-	45,404
Investment securities	54,162	614,681	261,020	29,800	-	-	959,663
Reinsurance and other recoveries	-	78,320	90,747	169	-	112,338	281,574
Accrued income	-	-	-	-	-	5,178	5,178
Investment receivables	-	-	-	-	-	262	262
Premiums due	-	-	-	-	-	632,560	632,560
Amounts due from related parties	-	-	255	-	-	-	255
Amounts due from reinsurers	-	49,516	35,271	-	-	-	84,787
	54,162	787,355	387,859	29,969	-	750,338	2,009,683



## Notes to the financial statements (continued)

### 26.3 Credit risk (continued)

Company	Credit Rating					Non-investment grade	Not Rated	Total
	AAA	AA	A	BBB				
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2021</b>								
Cash and cash equivalents	-	62,720	-	-	-	-	-	62,720
Investment securities	102,569	314,459	188,035	21,518	-	-	-	626,581
Reinsurance and other recoveries	-	88,620	58,299	2,507	-	-	16,495	165,921
Accrued income	-	-	-	-	-	-	3,291	3,291
Investment receivables	-	-	-	-	-	-	43	43
Premiums due	-	-	-	-	-	-	407,997	407,997
Amounts due from related parties	-	-	3,716	-	-	-	-	3,716
Amounts due from reinsurers	-	6,553	30,263	59	-	-	4	36,879
	102,569	472,352	280,313	24,084	-	-	427,830	1,307,148
<b>2020</b>								
Cash and cash equivalents	-	35,718	408	-	-	-	-	36,126
Investment securities	31,465	392,670	157,945	23,073	-	-	-	605,153
Reinsurance and other recoveries	-	59,150	69,861	116	-	-	73,339	202,466
Accrued income	-	-	-	-	-	-	3,351	3,351
Premiums due	-	-	-	-	-	-	399,041	399,041
Amounts due from related parties	-	-	1,557	-	-	-	-	1,557
Amounts due from reinsurers	-	47,083	34,814	-	-	-	-	81,897
	31,465	534,621	264,585	23,189	-	-	475,768	1,329,628

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.

Consolidated	Past due but not impaired						Total
	Neither past due nor impaired	0-3 mths	3-6 mths	6-12 mths	>12 mths	Impaired	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2021</b>							
Premiums due	650,874	25,688	3,740	616	-	37	680,955
<b>2020</b>							
Premiums due	601,337	29,722	754	710	-	37	632,560

Company	Past due but not impaired						Total
	Neither past due nor impaired	0-3 mths	3-6 mths	6-12 mths	>12 mths	Impaired	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2021</b>							
Premiums due	379,203	24,521	3,646	597	-	30	407,997
<b>2020</b>							
Premiums due	369,188	28,458	728	637	-	30	399,041

## Notes to the financial statements (continued)

### 26.4 Liquidity risk

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

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

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

There is no liquidity risk in respect of the capital notes issued by the Company as the notes are perpetual and do not include any provisions entitling the Holders to require the notes to be redeemed, although the terms of the notes do provide the Company the option to redeem if certain conditions are met.

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

Consolidated					
	Carrying amount	1 year or less	1 to 5 years	Over 5 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2021</b>					
Amounts due to reinsurers	195,843	195,843	-	-	195,843
Trade creditors and accruals	109,793	109,793	-	-	109,793
Lease liability	41,359	5,900	22,293	17,437	45,630
Outstanding claims liabilities	643,245	474,076	156,047	13,122	643,245
Amounts due to related parties	11,488	11,488	-	-	11,488
	<b>1,001,728</b>	<b>797,100</b>	<b>178,340</b>	<b>30,559</b>	<b>1,005,999</b>
<b>2020</b>					
Amounts due to reinsurers	176,914	176,914	-	-	176,914
Trade creditors and accruals	106,677	106,677	-	-	106,677
Lease liability	44,939	5,906	22,998	21,303	50,207
Outstanding claims liabilities	621,119	420,470	181,767	18,882	621,119
Amounts due to related parties	16,203	16,203	-	-	16,203
	<b>965,852</b>	<b>726,170</b>	<b>204,765</b>	<b>40,185</b>	<b>971,120</b>

## Notes to the financial statements (continued)

### 26.4 Liquidity risk (continued)

Company	Carrying amount	1 year or less	1 to 5 years	Over 5 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2021</b>					
Amounts due to reinsurers	148,805	148,805	-	-	148,805
Trade creditors and accruals	85,517	85,517	-	-	85,517
Lease liability	2,015	519	1,613	-	2,132
Outstanding claims liabilities	407,730	347,313	57,074	3,343	407,730
Amounts due to related parties	8,826	8,826	-	-	8,826
	<b>652,893</b>	<b>590,980</b>	<b>58,687</b>	<b>3,343</b>	<b>653,010</b>
<b>2020</b>					
Amounts due to reinsurers	139,267	139,267	-	-	139,267
Trade creditors and accruals	85,252	85,252	-	-	85,252
Lease liability	2,432	537	1,757	307	2,601
Outstanding claims liabilities	407,466	308,310	93,085	6,071	407,466
Amounts due to related parties	12,405	12,405	-	-	12,405
	<b>646,822</b>	<b>545,771</b>	<b>94,842</b>	<b>6,378</b>	<b>646,991</b>

### 26.5 Market risk

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

The Group and Company's investment portfolio is split into insurance funds and shareholder funds.

The insurance funds investment portfolios support the outstanding claims liabilities of the business. The portfolios are managed over benchmarks set in a manner consistent with the expected duration of claims payments, ensuring any variations from a matched position are constrained. Investments held are fixed interest securities.

The shareholder funds are held for the investment of funds in support of share capital and retained profits. To provide better expected returns on capital, the investment mandate for these portfolios have a more diverse investment strategy, predominantly including fixed interest securities and cash. The investment mandates balance expected investment returns, volatility of expected investment returns and the impact of volatility on both the capital adequacy and profitability of the business.

Investment securities are measured at fair value and changes in fair value are recognised in the profit or loss.

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)

### a) Interest rate risk

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

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

The valuation of the outstanding claims liabilities includes the discounting to present value at balance date of expected future claim payments. Any assessment of the impact of changes in interest rates on investment income must include the offsetting adjustment to claims expense for changes in discount rates adopted in outstanding claims valuations. A movement of 100 basis points (2020: 100 basis points) is considered reasonably possible and has been applied to the sensitivity analysis. This is disclosed in Note 19.4(b), represented by the impact of change in discount rate.

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

Although potential dividend payments on the capital notes issued by the Company reference an underlying floating interest rate to determine their quantum, as the payments are discretionary and non-cumulative there is no interest rate risk in respect of the capital notes.

The sensitivity of profit or loss after tax to movements in interest rates in relation to interest-bearing financial assets held at the balance date is shown in the table below. There is no impact on equity reserves. It is assumed that all residual exposures for the shareholder after tax are included in the sensitivity analysis, that the percentage point change occurs at the balance date and there are concurrent movements in interest rates and parallel shifts in the yield curves. A movement of 100 basis points (2020: 100 basis points) is considered reasonably possible and has been applied to the sensitivity analysis.

Consolidated	2021			2020		
	Exposure	Change in variable	Profit (loss) after tax & equity	Exposure	Change in variable	Profit (loss) after tax & equity
	\$'000	%	\$'000	\$'000	%	\$'000
Fixed interest bearing investment securities	654,417	+1	(12,169)	505,971	+1	(9,756)
		-1	8,880		-1	8,886
	654,417			505,971		

Company	2021			2020		
	Exposure	Change in	Profit (loss)	Exposure	Change in	Profit (loss)
		variable	after tax &		variable	after tax &
	\$'000	%	equity	\$'000	%	equity
			\$'000			\$'000
Fixed interest bearing investment securities	430,080	+1	(7,942)	313,924	+1	(5,928)
		-1	5,210		-1	5,384
	430,080			313,924		

## Notes to the financial statements (continued)

### a) Interest rate risk (continued)

At the reporting date, measurement of the cash and cash equivalents is not sensitive to movements in the interest rates and so a change in interest rates as at reporting date would have no impact on either profit or equity from the measurement of cash and cash equivalents for the current financial year.

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

### b) Foreign exchange risk

The Group and Company are exposed to foreign exchange risk arising from the minimum deposit premiums associated with the Suncorp Group's catastrophe reinsurance treaty. The Group and Company hedges the minimum deposit premiums for the upcoming year to address the foreign exchange risk.

All claim payments in relation to the Canterbury Earthquake claims are made in New Zealand dollars. However, the catastrophe reinsurance programme applicable to these events is denominated in Australian dollars.

The difference in currency used for paying claims and determining reinsurance recoveries means that movements in the AUD:NZD exchange rate can affect the net incurred claims position. Allowance is made for this foreign exchange risk through actuarial estimates of the net outstanding claims liability.

With effect from the 30 June 2013 financial year, the Suncorp Group catastrophe reinsurance treaty includes a fixed AUD:NZD exchange rate to eliminate this foreign exchange risk on subsequent events.

With the exception of the above, the Group and Company is not exposed to material foreign exchange risk.

### c) Credit spread risk

The Group and 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 Group and Company's credit exposure to a +/- 100 basis point (2020: 100 basis points) change in yield is as follows:

Consolidated	2021			2020		
	Exposure	Change in	Profit (loss) after tax & equity	Exposure	Change in	Profit after tax & equity
	\$'000	%	\$'000	\$'000	%	\$'000
Interest bearing securities	1,006,815	+1	(11,538)	959,663	+1	(10,249)
		-1	11,537		-1	10,248
	1,006,815			959,663		

Company	2021			2020		
	Exposure	Change in variable	Profit (loss) after tax & equity	Exposure	Change in variable	Profit after tax & equity
	\$'000	%	\$'000	\$'000	%	\$'000
Interest bearing securities	626,581	+1	(7,121)	605,153	+1	(6,115)
		-1	7,120		-1	6,114
	626,581			605,153		

## Notes to the financial statements (continued)

### d) Equity price risks

The Group and Company hold investments that expose the Group to equity price risk. The profit or loss impact on equity price movement is determined by multiplying market value by the variable of +/- 500 basis points (2020: 500 basis points):

Consolidated	2021			2020		
	Exposure	Change in variable	Profit (loss) after tax & equity	Exposure	Change in variable	Profit (loss) after tax & equity
	\$'000	%	\$'000	\$'000	%	\$'000
Domestic equities in unit trusts	17,416	+5	627	16,499	+5	594
		-5	(627)		-5	(594)
Domestic fixed interest in unit trusts	63,548	+5	2,288	58,237	+5	2,097
		-5	(2,288)		-5	(2,097)
International equities in unit trusts	24,722	+5	890	23,502	+5	846
		-5	(890)		-5	(846)
International fixed interest in unit trusts	33,272	+5	1,198	30,525	+5	1,099
		-5	(1,198)		-5	(1,099)
Domestic equities	-	+5	-	328	+5	12
		-5	-		-5	(12)
	138,958			129,091		

Company	2021			2020		
	Exposure	Change in variable	Profit (loss) after tax & equity	Exposure	Change in variable	Profit (loss) after tax & equity
	\$'000	%	\$'000	\$'000	%	\$'000
Domestic equities	-	+5	-	328	+5	12
		-5	-		-5	(12)
	-			328		

### 26.6 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 22.

## Notes to the financial statements (continued)

### 27. Property, plant and equipment and leases

	Consolidated		Company	
	2021	2020	2021	2020
	\$'000	\$'000	\$'000	\$'000
Right of use asset	30,303	33,627	1,917	2,352
Other plant and equipment	4,599	4,988	1,148	1,749
<b>Property, plant and equipment and leases</b>	<b>34,902</b>	<b>38,615</b>	<b>3,065</b>	<b>4,101</b>

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

	Consolidated		Company	
	2021	2020	2021	2020
	Real Estate	Real Estate	Real Estate	Real Estate
	\$'000	\$'000	\$'000	\$'000
Right of use asset at the beginning of the financial year	33,627	37,358	2,352	2,926
Depreciation charge	(4,630)	(4,737)	(554)	(559)
Additions to right of use assets	1,315	1,021	119	-
Derecognition of right of use assets	(9)	(15)	-	(15)
<b>Right of use asset at the end of the financial year</b>	<b>30,303</b>	<b>33,627</b>	<b>1,917</b>	<b>2,352</b>
<b>Lease liability at the end of the financial year</b>	<b>41,359</b>	<b>44,939</b>	<b>2,015</b>	<b>2,432</b>
Current	4,951	4,864	475	497
Non-current	36,408	40,075	1,540	1,935
<b>Lease liability at the end of the financial year</b>	<b>41,359</b>	<b>44,939</b>	<b>2,015</b>	<b>2,432</b>

Interest expense on the lease liabilities for the Group and Company of \$1,071,000 (2020: \$1,161,000) and \$58,000 (2020: \$68,000) respectively was recognised as Finance costs in the consolidated statements of comprehensive income.

Total cash outflow for lease liabilities presented in the consolidated statements of cash flows for the Group and Company respectively was \$4,886,000 (2020: \$4,816,000) and \$536,000 (2020: \$539,000).

### 28. Related parties

#### 28.1 Controlling entities

Vero Insurance New Zealand Limited is a wholly owned subsidiary of Suncorp Group Holdings (NZ) Limited. The ultimate parent entity of the Company is Suncorp Group Limited, a company incorporated in Australia. All members of the Suncorp Group are considered to be related parties of the Group and Company. This includes the subsidiaries of Vero Insurance New Zealand Limited identified in Note 14 and the joint venture of the Group in Note 15.

Some of the Directors of the Company's subsidiary Vero Liability Insurance Limited (VLIL) are also Directors of Rasal Management Limited (Rasal). Rasal has a management agreement with VLIL to provide management services.

## Notes to the financial statements (continued)

### 28.2 Transactions and balances

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

	Consolidated		Company	
	2021	2020	2021	2020
	\$'000	\$'000	\$'000	\$'000
<b>Premiums received</b>				
Fellow subsidiaries of the ultimate parent	114	120	98	83
<b>Premiums paid</b>				
Fellow subsidiaries of the ultimate parent	170	150	-	-
<b>Claims repair services</b>				
Fellow subsidiaries of the ultimate parent	-	7,894	-	1,395
<b>Reinsurance recoveries paid</b>				
Subsidiaries	-	-	9,505	16,884
<b>Service and administration fees received</b>				
Parent	-	4	-	4
Subsidiaries	-	-	1,306	1,799
Fellow subsidiaries of the ultimate parent	357	4,037	353	4,001
Other related parties	186	297	-	-
Joint venture	1,455	-	-	-
<b>Service and administration fees paid</b>				
Subsidiaries	-	-	352	851
Fellow subsidiaries of the ultimate parent	175,227	166,397	158,356	148,297
<b>Management services and profit shares paid</b>				
Other related parties (Rasal)	3,229	2,582	-	-
<b>Reinsurance premiums paid</b>				
Fellow subsidiaries of the ultimate parent	12,385	14,715	9,807	12,325
<b>Forward foreign exchange contract settlement payment</b>				
Fellow subsidiaries of the ultimate parent	80,732	29,774	80,732	29,774
<b>Group tax loss offsets/tax transfers paid</b>				
Parent	-	30	-	30
Subsidiaries	-	-	54	50
Fellow subsidiaries of the ultimate parent	1,301	5,223	1,301	5,223
Other related parties	1,091	-	259	-
<b>Group tax loss offsets/tax transfers received</b>				
Fellow subsidiaries of the ultimate parent	410	-	410	-
Other related parties	-	25	-	25
<b>GST transfers received</b>				
Fellow subsidiaries of the ultimate parent	-	446	-	446
<b>Share based paid</b>				
Fellow subsidiaries of the ultimate parent	-	30	-	-
<b>Dividends received</b>				
Subsidiaries	-	-	48,300	52,400
<b>Dividend paid</b>				
Parent	157,539	176,456	157,539	176,456



## Notes to the financial statements (continued)

### 28.2 Transactions and balances (continued)

Aggregate amounts receivable from or payable to related parties as at 30 June 2021 and 30 June 2020 are as follows:

	Consolidated		Company	
	2021	2020	2021	2020
	\$'000	\$'000	\$'000	\$'000
<b>Amounts receivable from:</b>				
Parent	-	4	-	4
Subsidiaries	-	-	917	1,292
Fellow subsidiaries of the ultimate parent	1,581	251	2,799	261
<b>Total amounts receivable from related parties</b>	<b>1,581</b>	<b>255</b>	<b>3,716</b>	<b>1,557</b>
<b>Amounts payable to:</b>				
Subsidiaries	-	-	79	647
Fellow subsidiaries of the ultimate parent	9,309	14,528	8,747	11,758
Joint venture	-	123	-	-
Other related parties	2,179	1,552	-	-
<b>Total amounts payable to related parties</b>	<b>11,488</b>	<b>16,203</b>	<b>8,826</b>	<b>12,405</b>

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

### 28.3 Key management personnel

The Key Management Personnel (**KMP**) compensation is provided by Suncorp Group Limited 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 F McTaggart for the years ended 30 June 2021 and 30 June 2020. They were remunerated by a related party of the ultimate parent outside of New Zealand and did not receive any compensation specifically related to their activities as a KMP of the Company. The KMP compensation is as follows:

	Consolidated		Company	
	2021	2020	2021	2020
	\$'000	\$'000	\$'000	\$'000
Short-term employee benefits	11,497	11,145	5,213	5,692
Post employment benefits	192	182	192	182
Long-term benefits	220	601	220	601
Termination benefits	579	-	579	-
Share based payment	673	1,369	673	1,369
<b>Total Compensation</b>	<b>13,161</b>	<b>13,297</b>	<b>6,877</b>	<b>7,844</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 Group or related companies which are operated in the normal course of business and any claims are paid out as made on usual commercial terms.

## Notes to the financial statements (continued)

### 29. Auditor's remuneration

	Consolidated		Company	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
During the year the auditor of the Company was paid for the following services:				
<b>Audit fees</b>				
Audit of annual accounts of the Company	626	560	626	560
Audit of annual accounts of the Company's subsidiaries	268	240	-	-
<b>Other Assurance fees</b>				
Assurance engagements on RBNZ solvency returns of the Company	155	161	155	161
Assurance engagements on RBNZ solvency returns of the Company's subsidiaries	140	146	-	-
<b>Non audit fees</b>				
Agreed upon procedure engagements over profit share calculations	8	15	8	15
Forensic audit procedures over sensitive expenditure	-	45	-	45
Responsible Banking and Insurance Policy Review	47	-	41	-
<b>Total auditor's remuneration</b>	<b>1,244</b>	<b>1,167</b>	<b>830</b>	<b>781</b>

### 30. Provisions and contingent liabilities

#### a) Provisions

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

Consolidated					
	Jun-20 \$'000	Additions \$'000	Unused Amounts amounts		Jun-21 \$'000
			used \$'000	reversed \$'000	
Annual Leave and other employee benefits	11,197	13,488	(12,053)	(55)	12,577
Customer remediation	25,051	19,117	(13,201)	(3,293)	27,674
Customer hardship and rebates	22,641	-	(18,777)	(3,864)	-
<b>Total</b>	<b>58,889</b>	<b>32,605</b>	<b>(44,031)</b>	<b>(7,212)</b>	<b>40,251</b>
Current	58,889	32,605	(44,031)	(7,212)	40,251
<b>Total</b>	<b>58,889</b>	<b>32,605</b>	<b>(44,031)</b>	<b>(7,212)</b>	<b>40,251</b>

  

	Jun-19 \$'000	Additions \$'000	Unused Amounts amounts		Jun-20 \$'000
			used \$'000	reversed \$'000	
Annual Leave and other employee benefits	8,889	12,017	(9,709)	-	11,197
Customer remediation	1,709	26,058	(2,716)	-	25,051
Customer hardship and rebates	-	23,481	(840)	-	22,641
<b>Total</b>	<b>10,598</b>	<b>61,556</b>	<b>(13,265)</b>	<b>-</b>	<b>58,889</b>
Current	10,598	61,556	(13,265)	-	58,889
<b>Total</b>	<b>10,598</b>	<b>61,556</b>	<b>(13,265)</b>	<b>-</b>	<b>58,889</b>

## Notes to the financial statements (continued)

### a) Provisions (continued)

Company	Unused				
	Jun-20	Additions	Amounts used	amounts reversed	Jun-21
	\$'000	\$'000	\$'000	\$'000	\$'000
Customer remediation	16,049	1,652	(5,433)	(3,293)	8,975
Customer hardship and rebates	3,768	-	(1,934)	(1,834)	-
<b>Total</b>	<b>19,817</b>	<b>1,652</b>	<b>(7,367)</b>	<b>(5,127)</b>	<b>8,975</b>
Current	19,817	1,652	(7,367)	(5,127)	8,975
<b>Total</b>	<b>19,817</b>	<b>1,652</b>	<b>(7,367)</b>	<b>(5,127)</b>	<b>8,975</b>

  

	Unused				
	Jun-19	Additions	Amounts used	amounts reversed	Jun-20
	\$'000	\$'000	\$'000	\$'000	\$'000
Customer remediation	1,709	17,056	(2,716)	-	16,049
Customer hardship and rebates	-	4,481	(713)	-	3,768
<b>Total</b>	<b>1,709</b>	<b>21,537</b>	<b>(3,429)</b>	<b>-</b>	<b>19,817</b>
Current	1,709	21,537	(3,429)	-	19,817
<b>Total</b>	<b>1,709</b>	<b>21,537</b>	<b>(3,429)</b>	<b>-</b>	<b>19,817</b>

### Annual leave and other employee benefits

The provision is determined based on expected payments.

#### Customer remediation

The requirement for anticipated customer remediation has been assessed across the Group. 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 represent management's best estimate of the amount required to discharge the Group's obligations at reporting date. 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.

#### Customer hardship and rebates

The Group provided various measures of support to customers as a result of the COVID-19 pandemic which has resulted in a change in the incidence of claims risk during the Level 4 and Level 3 lockdown periods.

The provision for customer hardship and rebates represented management's best estimate of the amount required to discharge the Group's obligations in respect of premium rebates, premium waivers, claims excess waivers and other relief measures that the Group expects to provide to customers.

As at 30 June 2021 the customer hardship provision has been released.

### b) Contingent liabilities

There are outstanding legal and other claims and possible claims against the Group (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 Group 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 except where recognised in Note 30(a). 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)

### 31. Significant accounting policies

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

#### 31.1 Basis of consolidation

The Group's consolidated financial statements are financial statements of the Company and all its subsidiaries presented as those of a single economic entity. Intra-group transactions and balances are eliminated on consolidation.

##### a) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date when control commences until the date when control ceases.

Investments in subsidiaries held by the Company are accounted for at cost in the separate financial statements of the Company less any impairment charges.

##### b) Non-controlling interests

Non-controlling interests occur when the Group does not hold 100% of the shares or units in a subsidiary. They represent the external equity or liability interests in non-wholly owned subsidiaries. Non-controlling interests are recognised as equity. Related items of income and expense are recognised in the profit or loss at their gross amounts, with the offsetting amount attributable to non-controlling interests disclosed separately in the profit or loss.

#### 31.2 Business combinations

The acquisition method of accounting is used to account for business combinations by the Group. The cost of an acquisition is measured as the fair value of the assets transferred, liabilities incurred, and equity instruments issued by the Group at the acquisition date. Acquisition-related costs are expensed in the period in which they are incurred.

The acquiree's identifiable assets acquired, liabilities assumed, contingent liabilities, and any non-controlling interests are measured at their fair values at the acquisition date. If the consideration transferred and any non-controlling interest in the acquiree is greater than the fair value of the net amounts of the identifiable assets acquired and liabilities assumed, the excess is recorded as goodwill; otherwise, the difference is recognised immediately in the profit or loss after a reassessment of the identification and measurement of the net assets acquired.

#### 31.3 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity associated investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

#### 31.4 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)

### 31.5 Revenue and expense recognition

#### a) Premium revenue

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

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

#### b) Claims expense

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

#### c) Reinsurance

##### *Reinsurance commission revenue*

Commission received from reinsurers is recognised as revenue systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which it relates. This pattern of amortisation corresponds to the pattern of recognising the corresponding premium revenue.

##### *Reinsurance and other recoveries revenue*

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

##### *Outwards reinsurance expense*

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

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

#### d) Investment revenue

Interest income on financial assets or liabilities at amortised cost is recognised in profit or loss using the effective interest method. Interest income and expense on financial assets or liabilities at fair value are recognised in profit or loss when earned or incurred.

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

Investment revenue is classified as either investment income on insurance funds or shareholder funds. Investment income on insurance funds represents revenue derived from financial assets backing general insurance liabilities as detailed in Note 31.10(d) while investment income from shareholder funds represents revenue from financial assets that do not back general insurance liabilities.

### 31.6 Income tax

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

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

## Notes to the financial statements (continued)

### 31.6 Income tax (continued)

The principal temporary differences arise from depreciation of plant and equipment, revaluation of certain financial assets and liabilities, including derivative contracts, provision for employee entitlements, deferred acquisition costs, tax losses carried forward and in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base. The rates enacted or substantially enacted at the reporting date are used to determine deferred income tax.

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

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

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

#### a) Goods and 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 statements of financial position.

### 31.7 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 statements 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 statements of financial position unless a right of offset exists.

### 31.8 Receivables and other assets

Amounts due from policyholders, intermediaries and other receivables are initially recognised at fair value, being the amounts receivable. They are subsequently measured at amortised cost, using the effective interest method, less any impairment losses. Any impairment charge is recognised in the profit or loss. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts receivable according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. Non-current receivables are discounted using interest rates on government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash inflows.

### 31.9 Payables and other liabilities

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

### 31.10 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.

## Notes to the financial statements (continued)

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

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

- It is classified as held for trading; or
- Upon initial recognition it is classified by the Group as 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.

### 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.

An allowance for expected credit losses (ECL) is recognised for all debt instruments not held at fair value through profit or loss. Further information on ECL and impairment provisioning is provided in Note 31.12.

### c) Derecognition of financial assets

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

### d) General insurance activities

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

#### *Financial assets backing general insurance liabilities*

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

## Notes to the financial statements (continued)

### d) General insurance activities (continued)

The Group has designated financial assets held in portfolios intended to match the average duration of a corresponding insurance liability as assets backing general insurance liabilities. These financial assets include investment securities and are mandatorily measured at FVTPL.

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

#### *Financial assets not backing general insurance liabilities*

Financial assets that do not back general insurance liabilities include investments and receivables. These investments are mandatorily measured at FVTPL. Receivables are measured at amortised cost.

### 31.11 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; or
- at fair value through profit or loss.

#### b) Financial liabilities at amortised cost

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

### 31.12 Impairment

An allowance is recognised 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, receivables and other assets, and reinsurance and other recoveries (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 Group 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.

Goodwill acquired in a business combination, assets that have an indefinite useful life and intangible assets not yet available for use have their recoverable amount estimated annually.



## Notes to the financial statements (continued)

### 31.12 Impairment (continued)

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 purpose of assessing impairment of goodwill, goodwill is allocated to cash-generating units representing the Group's investment in each of its business lines, which are its primary reporting segments. Impairment losses, if any, recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then, to reduce the carrying amount of the other assets in the unit on a pro rata basis.

#### a) Calculation of recoverable amount

The recoverable amount of the Group'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 other than goodwill is reversed in following periods if there are indications that the impairment loss previously recognised no longer exists or has decreased. The impairment loss is reversed in the profit or loss only to the extent that it increases the asset back to its original carrying amount before any impairment was recorded. An impairment loss recognised for goodwill is not reversed.

### 31.13 Leases

#### a) Lease liabilities

Lease liabilities are measured at amortised cost using the effective interest method. Interest expense is recognised in the statements of comprehensive income in the 'Finance costs' line item. The lease liabilities are presented in the statements 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 ROU asset or where the ROU asset has a value of nil, then it has to be recognised in the statements of comprehensive income.

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

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

The ROU asset is depreciated in accordance with the methods prescribed under NZ IAS 16 *Property, Plant and Equipment* over the period of the lease on a straight line basis. The depreciation is presented in the statements of comprehensive income in the 'Other underwriting expense' line item.

## Notes to the financial statements (continued)

### 31.14 Property, plant and equipment

#### a) Recognition and initial measurement

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

Property, plant and equipment is initially measured at cost, which comprises:

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

#### b) Subsequent measurement

Subsequent additional costs are only capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the Group in future years. Where these costs represent separate components, they are accounted for as separate assets and are separately depreciated over their useful lives. Costs that do not meet the criteria for subsequent capitalisation are expensed as incurred.

The Group has elected to use the cost model (as opposed to the revaluation model) to measure plant and equipment after recognition. The carrying amount is the initial cost less accumulated depreciation and any accumulated impaired losses.

#### c) Depreciation

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

The following depreciation rates have been used:

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

#### d) Retirement

The carrying amount of plant and equipment is derecognised upon disposal or where no future economic benefits are expected from its use. The gain or loss arising from the derecognition is recognised in the profit or loss when the item is derecognised and calculated as the difference between the carrying amount of the asset at the time of derecognition and the net proceeds of derecognition.

### 31.15 Intangibles

#### a) Initial recognition and measurement

Intangible assets, other than goodwill, are stated at cost less any accumulated amortisation and any accumulated impairment losses. Cost comprises all directly attributable costs necessary to purchase, create, produce, and prepare the asset to be capable of operating in the manner intended by management. Where an intangible asset is acquired in a business combination, the cost of that asset is its fair value at the acquisition date.

Expenditure on internally generated goodwill and brands is recognised in the profit or loss as an expense as incurred. Intangibles comprise computer software and goodwill.

## Notes to the financial statements (continued)

### b) Subsequent expenditure

Subsequent expenditure on intangible assets (not acquired in a business combination) is capitalised only when it increases the originally assessed future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

### c) Amortisation

Amortisation is charged to the profit or loss in a manner that reflects the pattern in which the asset's future economic benefits are expected to be consumed over the estimated useful lives of intangible assets, unless such lives are indefinite. An intangible asset is regarded as having an indefinite useful life when, based on all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group. Where the asset is deemed to have an indefinite life, it is not amortised but tested for impairment at least on an annual basis.

Where applicable, intangible assets are amortised from the date they are available for use and the amortisation period and method are reviewed on an annual basis.

The useful life of software has been assessed as three to five years and it is amortised on a straight line basis over this period.

### d) Goodwill

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investment in associates. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

## 31.16 Employee benefit obligations

### a) Short term employee benefits

#### *Annual leave*

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

#### *Sick leave*

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

#### *Short term bonus plans*

A liability is recognised for short term bonus plans when a constructive obligation exists.

#### *Other leave and non-monetary benefits*

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

## Notes to the financial statements (continued)

### b) Post-employment benefits (superannuation)

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

For defined contribution funds, the Group pays contributions to publicly or privately administered pension insurance funds on a mandatory, contractual or voluntary basis. The Group's legal or constructive obligation is limited to these contributions. The defined benefit superannuation funds provide defined pension annuities and lump sum benefits based on years of service and final average salary.

The Group'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 Group, 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/(asset), 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 Group 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 the 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.

### c) Other long term employee benefits

#### *Long service leave*

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

#### *Annual Leave*

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

### d) Termination benefits

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

## Notes to the financial statements (continued)

### 31.17 Deferred insurance activities

#### a) Deferred acquisition costs (DAC)

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

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

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

#### b) Deferred reinsurance premiums

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

### 31.18 Outstanding claims liabilities

The outstanding claims liability is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date and includes an additional risk margin to allow for the inherent uncertainty in the central estimate.

Standard actuarial methods are applied to all classes of business to assess the net central estimate of outstanding claims liabilities. The outstanding claims liability is heavily dependent on assumptions and judgements. The details of actuarial assumptions and the process for determining the risk margins are set out in Note 19.4.

### 31.19 Unearned premium liabilities

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

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

### 31.20 Contributed capital

#### a) Ordinary shares

Ordinary shares are recognised as equity.

#### b) Capital notes

Capital notes are recognised as equity where there is no contractual obligation to deliver cash or another financial asset in settlement of the notes. Capital notes are measured based on the consideration received net of issue costs. Interest paid in respect of capital notes recognised in equity is recognised as distributions from equity.

## Notes to the financial statements (continued)

### c) Transaction costs

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

### d) Capital contributions to subsidiaries

Contributions of capital to subsidiaries in the form of equity settled share based payments, are recognised as an increase in equity of the fair value of instruments provided at grant date.

### e) 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.

### 31.21 Interest in joint venture

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

The interest in the joint venture is accounted for using the equity method. It is initially recognised at cost, which includes transaction cost. Subsequent to initial recognition, the financial statements include the Group's share of the profit or loss of the joint venture, until the date on which joint control ceases.

### 31.22 Contingent liabilities and contingent assets

Contingent liabilities are not recognised in the statements 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 statements 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.

### 31.23 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)

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

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 and following stakeholder feedback, amendments were approved in August 2020 to address implementation issues identified.

NZ IFRS 17 is effective for the Group's financial statements for reporting periods beginning on or after 1 January 2023. The new standard requires the application of new measurement models and introduces significant changes to the presentation and disclosure of insurance contracts.

NZ IFRS 17 introduces a general model that measures insurance contracts 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). A modified version of the general model (variable fee approach) is applied to insurance contracts with direct participation features, and a simplified measurement model (premium allocation approach) is permitted in certain circumstances. The premium allocation approach is similar to the current measurement model used for general insurance. Based on the current insurance business, the Group expects to be eligible to use the premium allocation approach for all its general insurance contracts.

The Suncorp Group has established a project team to assess and implement the requirements of NZ IFRS 17. A detailed business impact assessment of the standard has been completed, and Suncorp continues the technical interpretation of the requirements to determine new accounting policies and the design of new and revised systems and processes.

The NZ IFRS 17 requirements are complex and global interpretation of these requirements is evolving. Regulators are considering their response to the new standard which is likely to result in changes to the capital and reporting prudential standards. The Suncorp Group continues to closely monitor all these developments and to assess the impacts of the standard on the Group. The financial impact of adopting NZ IFRS 17 is not reasonably estimable at the date of this report.

### 32. Subsequent events

There were no material events post 30 June 2021 which would require adjustment to the amounts reflected in the 30 June 2021 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 Vero Insurance New Zealand Limited

### **Background**

This report has been prepared by Kate Dron, FIA, Appointed Actuary of Vero Insurance New Zealand Limited ("VINZL") under section 78 of the Insurance (Prudential Supervision) Act 2010 (the Act).

The purpose of this report is to provide information to VINZL's 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 VINZL's financial statements.

This report has not been prepared with any other purpose in mind. Therefore the results and opinions it contains may not be applicable or appropriate for any other purpose.

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

VINZL's Directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate. The Directors are also responsible for such internal controls as they determine necessary to ensure the financial statements 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, VINZL's financial statements. The financial statements comprise the statements of financial position as at 30 June 2021, the statements of comprehensive income, changes in equity and cash flows for the year ended 30 June 2021, 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 on whether the solvency margins for VINZL are maintained at the balance date.

I am an employee of Suncorp NZ Employees Limited, a related entity of VINZL. Part of my remuneration is dependent on the results of the Suncorp Group, of which VINZL 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 the company's financial statements has been appropriately included;
  - The actuarial information contained in the company's financial statements has been used appropriately: and
  - VINZL maintains a solvency margin in accordance with the Solvency Standard for Non-life Insurance Business 2014 for the purposes of section 21(2)(b) of the Act as at 30 June 2021.



Kate Dron

**Appointed Actuary**

20 July 2021