Vero Liability Insurance Limited

Financial report
for the financial year ended 30 June 2022

vero liability
insurance limited

Vero Liability Insurance Limited

Financial report

for the financial year ended 30 June 2022

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Directors' report

The Board of Directors presents the Directors' report together with the financial report of Vero Liability Insurance Limited (the **Company**) for the financial year ended 30 June 2022.

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 (resigned 11 May 2022)
J J Higgins
D F McTaggart

Executive
A R Tulloch
B N Waymouth

Registered office
Level 13
Vero Centre
48 Shortland Street
Auckland 1010
New Zealand

Auditor
KPMG
18 Viaduct Harbour Avenue
Auckland 1010
New Zealand

Dividends
During the financial year, the Company paid dividends totalling $23,000,000 (2021: $21,100,000). Further details of dividends paid are set out in Note 3 to the financial statements.

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

Review of operations
The net profit after income tax for the year ended 30 June 2022 was $28,295,000 for the Company compared with net profit after income tax of $24,518,000 for the previous year ended 30 June 2021.

Events subsequent to reporting date
There is, at the date of this Report, no matter or circumstance that has arisen since 30 June 2022 that has significantly affected, or may significantly affect:

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

Directors' report (continued)

Information on Directors in office at the date of this report

Non executives
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 Insurance New Zealand Limited (the immediate parent company of Vero Liability Insurance 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. He is chair of a number of company boards. Mr Flacks is also a director of Vero Insurance New Zealand Limited (the immediate parent company of Vero Liability Insurance Limited) and Asteron Life Limited, a related company.

James J Higgins

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

Director and Suncorp New Zealand Chief Executive Officer. 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 Insurance New Zealand Limited (the immediate parent company of Vero Liability Insurance Limited), and its fellow subsidiary, AA Insurance Limited. He is also a director of Asteron Life Limited, AA Finance Limited and other related companies comprising Suncorp New Zealand.

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 Insurance New Zealand Limited (the immediate parent company of Vero Liability Insurance Limited) and AA Insurance Limited (a fellow subsidiary 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. He has also been appointed to the Board of The Lottery Corporation.

Directors' report (continued)

Executives

Adrian R Tulloch

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

Benjamin N Waymouth

BA

Deputy Managing Director since 2001. Mr Waymouth has over 25 years' liability insurance underwriting and portfolio management experience in the New Zealand market including underwriting in the Lloyds companies market. Mr Waymouth has executive responsibility with the Managing Director to manage the operations and performance of Vero Liability Insurance Limited.

This financial report of the Company was approved for issue by the Board on 28 July 2022.

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 systems and processes are in place and maintained to achieve business objectives, ensure compliance with applicable laws, manage risks and protect the interests of stakeholders including its ultimate parent Suncorp Group Limited, the Company's customers, employees, suppliers and local communities in which it operates.

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, three being independent non-executive Directors (Kate Armstrong, David Flacks and Douglas McTaggart), one being non-independent non-executive (James Higgins) and two being executive Directors (Adrian Tulloch, Managing Director of Vero Liability and Ben Waymouth, Deputy Managing Director of Vero Liability). 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 Managing Director are members of the BARC.

Corporate governance statement (continued)

Management Committees

The Board has delegated the day-to-day operation and management of the Company to the Vero Liability Managing Director. To assist in these duties, management committees have been established by the Managing Director 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**), Customer Conduct Committee (**CCC**), and Vero Liability Governance Meeting.

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, the Whistleblower Policy, Product and Platform Management Policy, Investment Governance Policy, Securities Trading Policy, Diversity and Inclusion Policy, Safety and Wellbeing Policy and the Responsible Banking and Investment 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.

Corporate Responsibility

The Company believes its growth and success is only possible within a healthy and sustainable economy, society and environment. Suncorp seeks to deliver both financial and non-financial value to its customers, partners and communities. This means addressing the environmental, social, economic and governance risks and opportunities that the Company faces as a business. The Company's corporate sustainability framework is based on four key principles: trust and transparency; responsible financial services; resilient people and communities; and sustainable growth.

Action on Climate Change

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

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

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

Diversity & Inclusion

The Company's goal is to attract diverse talent, promote inclusivity and build leadership capability to enable employees to realise their full potential.
The Suncorp NZ Sustainability and Diversity Committee assists the Company in delivering these objectives by:

- Developing and overseeing a diversity strategy for the NZ 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 Sustainability and Diversity Committee is chaired by the Suncorp New Zealand Chief Executive Officer.

Independent Auditor's Report

To the Shareholder of Vero Liability Insurance Limited

Report on the audit of the financial statements

Opinion

In our opinion, the financial statements of Vero Liability Insurance Limited (the 'Company') on pages 12 to 52, present fairly in all material respects the Company's financial position as at 30 June 2022 and its financial performance and cash flows for the year ended on that date in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 30 June 2022;
- the statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies.

Basis for opinion

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

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

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholder may better understand the process by which we arrived at our audit opinion.

Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements.

The key audit matter	How the matter was addressed in our audit
Outstanding claims liabilities and associated reinsurance and other recoveries **Outstanding claims liability $165.4 million** **Reinsurance and other recoveries $56.4 million**	
Refer to Notes 10 and 16 to the financial statements. The valuation of outstanding claims liabilities and related reinsurance assets involved a high level of judgement in estimating the future payments for claims incurred, including case estimates for reported claims and those incurred but not yet reported to the Company. The 'long tail' nature of the Company's liability insurance business has a greater level of uncertainty compared to 'short tail' non-life insurance classes of business, in the estimation of outstanding claims liabilities and related reinsurance assets. Valuation of reinsurance assets involves a high degree of uncertainty due to the dependence on the estimate of related claims costs. Valuation of reinsurance and other recoveries is affected by the same uncertainties.	We involved our actuarial specialists and performed audit procedures, which included: – Testing key controls over claims payments and case estimates, including IT general and application controls. – Using high-risk criteria to select a sample of claim payments and case estimates to check the accuracy of the claims information. – Challenging the appropriateness of the Company's actuarial methods and key assumptions, including separate consideration of the impact of COVID-19 on the methods and key assumptions. – 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 challanged the actuarial methods and key assumptions by: o Analysing the accuracy of previous estimates; o Comparing key assumptions to the broader insurance industry, previous periods and current period claims experience; o Sample testing of the key qualitative claims information that is used by the Company's actuarial team to form their valuation assumptions; o Analysing appropriateness of adjustments made due to COVID-19; o Evaluating actuarial methodologies for consistency with those used in the industry and with prior periods. – Assessing the Company's estimation of risk margins to identify possible management bias. – Testing material reinsurance contracts to check that recoveries recognised in the financial statements align with the terms of those contracts and the amount of the respective outstanding claims liability.

Other information

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

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

Use of this independent auditor's report

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

Responsibilities of the Directors for the financial statements

The Directors, on behalf of the Company, are responsible for:

— the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;

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

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

Auditor's responsibilities for the audit of the financial statements

Our objective is:

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

— to issue an independent auditor's report that includes our opinion.

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

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

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:
http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/

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

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

For and on behalf of

KPMG

KPMG
Auckland

3 August 2022

Statement of comprehensive income
for the financial year ended 30 June 2022

	Note	2022 $'000	2021 $'000
Premium revenue	4	**137,806**	125,115
Outwards reinsurance premium expense	11	**(40,516)**	(35,218)
Net premium revenue		**97,290**	89,897
Claims expense	5	**(41,548)**	(45,564)
Reinsurance and other recoveries revenue	4, 5	**17,843**	17,999
Net incurred claims	5	**(23,705)**	(27,565)
Acquisition costs	12	**(31,926)**	(30,790)
Other underwriting expenses		**(3,875)**	(3,375)
Underwriting expenses		**(35,801)**	(34,165)
Reinsurance commission revenue	4	**8,287**	6,420
Underwriting result		**46,071**	34,587
Investment loss on insurance funds	4.1	**(5,107)**	(79)
Investment expense on insurance funds		**(306)**	(280)
Insurance trading result		**40,658**	34,228
Investment (loss)/gain on shareholder funds	4.1	**(1,135)**	86
Investment expense on shareholder funds		**(88)**	(104)
Finance costs	23	**(73)**	(95)
Profit before tax	6	**39,362**	34,115
Income tax expense	7.1	**(11,067)**	(9,597)
Profit for the financial year attributable to owner of the Company		**28,295**	24,518
Other comprehensive income		**-**	-
Total comprehensive income for the financial year		**28,295**	24,518

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

KPMG

Statement of financial position
as at 30 June 2022

	Note	2022 $'000	2021 $'000
Assets			
Cash and cash equivalents		**8,246**	6,877
Receivables and other assets	8	**46,703**	40,568
Investment securities	9	**180,453**	180,538
Reinsurance and other recoveries receivable	10	**56,364**	54,290
Deferred reinsurance premiums	11	**29,396**	26,015
Deferred acquisition costs	12	**8,562**	9,418
Property, plant and equipment and leases	23	**2,411**	3,370
Intangible assets	13	**2,405**	913
Deferred tax assets	7.4	**859**	850
Total assets		**335,399**	322,839
Liabilities			
Payables and other liabilities	14	**23,494**	22,072
Current tax liabilities	7.3	**3,998**	3,692
Unearned premium liabilities	15	**80,142**	73,676
Outstanding claims liabilities	16	**165,367**	166,111
Provisions	26	**2,487**	2,432
Deferred tax liabilities	7.4	**2,397**	2,637
Total liabilities		**277,885**	270,620
Net assets		**57,514**	52,219
Equity			
Share capital	17	**15,047**	15,047
Retained profits		**42,467**	37,172
Total equity attributable to owner of the Company		**57,514**	52,219
Total equity		**57,514**	52,219

The Board of Directors of Vero Liability Insurance Limited approved these financial statements for issue on 28 July 2022.

For, and on behalf of the Board

Director

Director

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

KPMG

Statement of changes in equity
for the financial year ended 30 June 2022

	Note	Share capital $'000	Retained profits $'000	Total $'000
Balance as at 1 July 2020		15,047	33,754	48,801
Profit for the financial year		-	24,518	24,518
Total comprehensive income for the financial year		-	24,518	24,518
Transactions with the owner, recorded directly in equity				
Dividends paid	3	-	(21,100)	(21,100)
Balance as at 30 June 2021		**15,047**	**37,172**	**52,219**
Balance as at 1 July 2021		**15,047**	**37,172**	**52,219**
Profit for the financial year		**-**	**28,295**	**28,295**
Total comprehensive income for the financial year		**-**	**28,295**	**28,295**
Transactions with the owner, recorded directly in equity				
Dividends paid	3	**-**	**(23,000)**	**(23,000)**
Balance as at 30 June 2022		**15,047**	**42,467**	**57,514**

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

Statement of cash flows
for the financial year ended 30 June 2022

	Note	2022 $'000	2021 $'000
Cash flows from operating activities			
Premiums received		**139,539**	129,557
Claims paid		**(42,292)**	(23,124)
Interest received		**4,812**	4,798
Reinsurance and other recoveries received		**14,301**	3,294
Outward reinsurance premiums paid		**(42,284)**	(36,331)
Acquisition costs paid		**(22,783)**	(23,703)
Income tax paid*	7.3	**(11,010)**	(8,499)
Finance costs paid	23	**(73)**	(95)
Underwriting and other operating expenses paid		**(2,433)**	(2,043)
Net movement in goods and services tax		**(95)**	(64)
Net cash from operating activities	20	**37,682**	43,790
Cash flows from investing activities			
Proceeds from sale of investment securities		**193,239**	131,984
Payments for purchase of investment securities		**(204,142)**	(151,233)
Payments for purchases of plant and equipment and intangible assets		**(1,501)**	(1,179)
Net cash (used in) investing activities		**(12,404)**	(20,428)
Cash flows from financing activities			
Dividends paid to owner of the Company		**(23,000)**	(21,100)
Repayment of lease liabilities		**(909)**	(887)
Net cash (used in) financing activities		**(23,909)**	(21,987)
Net increase in cash and cash equivalents		**1,369**	1,375
Cash and cash equivalents at the beginning of the financial year		**6,877**	5,502
Cash and cash equivalents at the end of the financial year		**8,246**	6,877

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

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

KPMG

Notes to the financial statements

1. Reporting entity

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

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

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

2. Basis of preparation

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

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

The reporting period is from 1 July 2021 to 30 June 2022.

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

The accompanying statement of financial position has been prepared using the liquidity format of presentation. Where it is not specified, disclosures relate to the Company.

2.1 Statement of compliance

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

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

In April 2021, the International Financial Reporting Standards Interpretations Committee (**IFRIC**) released guidance on Configuration or Customisation costs in Cloud Computing Arrangement. The decision concluded that where a customer does not control a Software-as-a-Service (**SaaS**) product, configuration or customisation costs are required to be expensed rather than capitalised. Following on from the IFRIC agenda decision, management have performed an assessment of the impact on current and historical projects that include SaaS components, and concluded that the impact of the guidance is not material to the Company.

No other new accounting standards were adopted in the current year.

Notes to the financial statements (continued)

2.3 Use of estimates and judgements

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

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

- Outstanding claims liabilities and assets arising from reinsurance contracts (refer to Notes 10, 16.1 and 16.4).

COVID-19 impact on the use of estimates and assumptions

The Company has considered the impact of COVID-19 when preparing the 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 financial statements

Given the increased economic uncertainties from COVID-19, the Company 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 2021. In addition to standard financial year end reporting practices, the Company has:

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

Outstanding claims liabilities and assets arising from reinsurance contracts

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

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

The estimation of claims incurred but not reported (**IBNR**) and claims incurred but not enough reported (**IBNER**) are subject to uncertainty as claims may not be reported or settled until many years after the events giving rise to the claims have happened.

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

Notes to the financial statements (continued)

Outstanding claims liabilities and assets arising from reinsurance contracts (continued)

Changes or uncertainties in the experience 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 includes a risk margin to allow for the uncertainty within the estimation process.

Details regarding actuarial estimates and judgements are detailed in Notes 5, 10 and 16.

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.

The Company has considered the impact from COVID-19 in its assumptions for measuring outstanding claims liabilities and assets arising from reinsurance contracts. In determining the adequacy of outstanding claims liabilities at the reporting date, consideration has been made for influences across each of the key claims trends and valuation assumptions, such as claims frequencies, average claim sizes, ultimate loss ratio picks, claims payment patterns, discount rates and risk margins. As a result of this assessment, it was determined that there were no significant impacts from COVID-19 on the assumptions used in determining the outstanding claims liabilities at reporting date (refer to Note 16.4).

The current economic conditions include a higher inflationary outlook driven by COVID-19, supply chain issues and the Russia / Ukraine conflict. The impact of higher inflation has been considered within actuarial calculations

Financial risk management

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

Notes to the financial statements (continued)

3. Dividends

	2022		2021	
	¢ per	$'000	¢ per	$'000
Ordinary shares				
Final dividend	**61**	**9,200**	59	8,800
Interim dividend	**92**	**13,800**	82	12,300
Total dividends recognised in equity attributable to owner of the Company	**153**	**23,000**	141	21,100

4. Revenue

	2022 $'000	2021 $'000
Insurance income		
Gross written premium	**144,272**	133,022
Movement in unearned premium	**(6,466)**	(7,907)
Premium revenue	**137,806**	125,115
Reinsurance and other recoveries revenue	**17,843**	17,999
Reinsurance commission revenue	**8,287**	6,420
Total insurance income	**163,936**	149,534
Investment (loss)/gain		
Interest income	**4,767**	4,688
Net loss on financial assets at fair value through profit or loss	**(11,009)**	(4,681)
Total investment (loss)/gain	**(6,242)**	7
Total revenue	**157,694**	149,541

4.1 Investment (loss)/gain

	2022 $'000	2021 $'000
Investment loss on insurance funds	**(5,107)**	(79)
Investment (loss)/gain on shareholder funds	**(1,135)**	86
Total investment (loss)/gain	**(6,242)**	7

Notes to the financial statements (continued)

5. Net incurred claims

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

	Current Year $'000	Prior Year $'000	Total $'000
Year ended 30 June 2022			
Gross incurred claims and related expenses			
Undiscounted	**63,502**	**(7,210)**	**56,292**
Discount and discount movement	**(5,981)**	**(8,763)**	**(14,744)**
Gross incurred claims discounted	**57,521**	**(15,973)**	**41,548**
Reinsurance and other recoveries			
Undiscounted	**(17,827)**	**(4,908)**	**(22,735)**
Discount and discount movement	**1,748**	**3,144**	**4,892**
Reinsurance and other recoveries discounted	**(16,079)**	**(1,764)**	**(17,843)**
Net incurred claims	**41,442**	**(17,737)**	**23,705**
Year ended 30 June 2021			
Gross incurred claims and related expenses			
Undiscounted	53,934	(6,170)	47,764
Discount and discount movement	(1,307)	(893)	(2,200)
Gross incurred claims discounted	52,627	(7,063)	45,564
Reinsurance and other recoveries			
Undiscounted	(12,280)	(6,473)	(18,753)
Discount and discount movement	343	411	754
Reinsurance and other recoveries discounted	(11,937)	(6,062)	(17,999)
Net incurred claims	40,690	(13,125)	27,565

6. Profit before tax

	2022 $'000	2021 $'000
Profit before tax is arrived at after charging the following specific items:		
Contributions to defined contribution superannuation schemes	**443**	462
Depreciation on property, plant and equipment	**967**	995
Employee benefits	**8,548**	8,289

Notes to the financial statements (continued)

7. Income tax

7.1 Income tax expense

	2022 $'000	2021 $'000
Profit before tax	**39,362**	34,115
Prima facie income tax at 28% (2021: 28%)	**11,021**	9,552
Movement in income tax expense due to:		
Non-deductible expenditure	**39**	61
Adjustment for prior financial years	**7**	(16)
Income tax expense	**11,067**	9,597
Income tax expense recognised in profit consists of:		
Current tax expense		
Current year	**11,307**	9,756
Adjustments for prior financial years	**9**	(4)
	11,316	9,752
Deferred tax expense		
Current year	**(247)**	(143)
Adjustments for prior financial years	**(2)**	(12)
	(249)	(155)
Income tax expense	**11,067**	9,597

7.2 Imputation credits

	2022 $'000	2021 $'000
SGHNZL ICA Group	**523,929**	459,197
Imputation credits available for use in subsequent reporting periods	**523,929**	459,197

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

7.3 Current tax

	2022 $'000	2021 $'000
Balance at the beginning of the financial year	**(3,692)**	(2,439)
Income tax paid	**11,071**	8,553
Current year tax on operating profit (Note 7.1)	**(11,307)**	(9,756)
Adjustment for prior financial years (Note 7.1)	**(9)**	4
Transfers between related parties	**(61)**	(54)
Balance at the end of the financial year	**(3,998)**	(3,692)

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.

	2022 $'000	2021 $'000
Deferred tax assets are attributable to		
Depreciable assets	**62**	61
Employee benefits	**682**	665
Payables and other liabilities	**50**	45
Leases	**65**	79
Total deferred tax assets	**859**	850
Deferred tax liabilities are attributable to		
Deferred acquisition costs	**(2,397)**	(2,637)
Total deferred tax liabilities	**(2,397)**	(2,637)
Net deferred tax liabilities	**(1,538)**	(1,787)
Movements		
Deferred tax assets		
Balance at the beginning of the financial year	**850**	882
Movement recognised in profit or loss	**9**	(32)
Balance at the end of the financial year	**859**	850
Deferred tax liabilities		
Balance at the beginning of the financial year	**(2,637)**	(2,824)
Movement recognised in profit or loss	**240**	187
Balance at the end of the financial year	**(2,397)**	(2,637)

8. Receivables and other assets

	2022 $'000	2021 $'000
Trade and other receivables		
Premiums due	**42,560**	37,827
Prepaid expenses	**9**	9
Amounts due from reinsurers	**3,138**	1,670
Total trade and other receivables	**45,707**	39,506
Other assets		
Accrued income	**996**	1,041
Investment receivables	**-**	21
Total other assets	**996**	1,062
Total receivables and other assets	**46,703**	40,568
Current	**46,703**	40,568
Total receivables and other assets	**46,703**	40,568

Notes to the financial statements (continued)

9. Investment securities

	2022 $'000	2021 $'000
Financial assets at fair value through profit or loss		
Interest bearing securities	**180,453**	180,538
Total investment securities	**180,453**	180,538

10. Reinsurance and other recoveries receivable

	2022 $'000	2021 $'000
Expected future reinsurance and other recoveries undiscounted	**62,400**	55,300
Discount to present value	**(6,036)**	(1,010)
Total reinsurance and other recoveries receivable	**56,364**	54,290
Current	**17,031**	17,975
Non-current	**39,333**	36,315
Total reinsurance and other recoveries receivable	**56,364**	54,290

11. Deferred reinsurance premiums

	2022 $'000	2021 $'000
Balance at the beginning of the financial year	**26,015**	21,722
Reinsurance premium liability incurred	**43,897**	39,511
Reinsurance premium charged to profit or loss	**(40,516)**	(35,218)
Balance at the end of the financial year	**29,396**	26,015

12. Deferred acquisition costs

	2022 $'000	2021 $'000
Balance at the beginning of the financial year	**9,418**	10,085
Acquisition costs deferred	**22,783**	23,703
Amortisation charged to profit or loss	**(31,926)**	(30,790)
Reinsurance commission recognised in profit or loss	**8,287**	6,420
Balance at the end of the financial year	**8,562**	9,418

Notes to the financial statements (continued)

13. Intangible assets

Intangible assets consist of computer software. 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.

	Company	
	2022 $'000	2021 $'000
At 1 July		
Cost	**2,571**	1,658
Accumulated amortisation	**(1,658)**	(1,658)
Additions – internally developed	**1,492**	913
Balance at the end of the financial year	**2,405**	913
At 30 June		
Cost	**4,063**	2,571
Accumulated amortisation	**(1,658)**	(1,658)
Balance at the end of the financial year	**2,405**	913

14. Payables and other liabilities

	2022 $'000	2021 $'000
Trade creditors and accruals	**2,757**	2,036
Lease liability (Note 23)	**2,456**	3,366
GST payable	**1,234**	1,329
Amounts due to reinsurers	**13,358**	11,745
Amounts due to related parties (Note 24)	**3,689**	3,596
Total payables and other liabilities	**23,494**	22,072
Current	**21,970**	19,616
Non-current	**1,524**	2,456
Total payables and other liabilities	**23,494**	22,072

15. Unearned premium liabilities

	2022 $'000	2021 $'000
Balance at the beginning of the financial year	**73,676**	65,769
Premiums written during the financial year (Note 4)	**144,272**	133,022
Premiums earned during the financial year (Note 4)	**(137,806)**	(125,115)
Balance at the end of the financial year	**80,142**	73,676

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Notes to the financial statements (continued)

15.1 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 2022 identified a surplus for the Company (30 June 2021: surplus).

	2022 $'000	2021 $'000
Net central estimate of present value of expected future cash flows from future claims	**18,217**	18,218
Risk margin of the present value of expected future cash flows	**1,495**	1,495
	19,711	19,713
	2022 **%**	**2021** **%**
Risk margin percentage	**8.2**	8.2
Probability of sufficiency	**60.0**	60.0

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.

16. Outstanding claims liabilities

16.1 Gross outstanding claims liabilities

	2022 $'000	2021 $'000
Gross central estimate - undiscounted	**147,699**	135,454
Discount to present value	**(14,755)**	(2,604)
Claim handling expenses	**7,657**	7,855
Risk margin	**24,766**	25,406
Gross outstanding claims liabilities	**165,367**	166,111
Current	**49,807**	53,532
Non-current	**115,560**	112,579
Gross outstanding claims liabilities	**165,367**	166,111

Notes to the financial statements (continued)

16.2 Reconciliation of movement in discounted outstanding claims liabilities

	Note	2022 $'000	2021 $'000
Net outstanding claims liabilities at the beginning of the financial year		**111,821**	103,064
Prior periods			
Payments net of reinsurance recoveries		**(20,319)**	(14,384)
Movement in discounting		**3,763**	815
Margin release on prior periods		**(17,882)**	(14,129)
Changes in assumptions and experience		**4,652**	1,581
Change in discount rate		**(8,270)**	(1,375)
Movement in risk margins		**-**	(17)
Current period			
Net ultimate incurred costs		**41,442**	40,690
Payments net of reinsurance recoveries		**(6,204)**	(4,424)
Net outstanding claims liabilities at end of the financial year		**109,003**	111,821
Reinsurance and other recoveries receivable	10	**56,364**	54,290
Gross outstanding claims liabilities		**165,367**	166,111

16.3 Claims development table

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

	Accident year											2022
Accident year	**Prior $'000**	**2013 $'000**	**2014 $'000**	**2015 $'000**	**2016 $'000**	**2017 $'000**	**2018 $'000**	**2019 $'000**	**2020 $'000**	**2021 $'000**	**2022 $'000**	**Total $'000**
Estimate of ultimate claims cost:												
At end of accident year		19,361	18,938	21,029	23,441	24,628	24,414	27,920	28,913	30,504	33,713	33,713
One year later		20,578	19,999	25,475	24,180	24,531	26,874	27,842	24,850	28,552		28,552
Two years later		22,691	20,700	23,899	23,160	22,380	26,189	26,816	24,080			24,080
Three years later		21,410	19,623	24,052	21,765	22,707	26,250	26,004				26,004
Four years later		20,843	19,467	24,193	20,978	23,037	24,414					24,414
Five years later		21,456	19,321	22,803	20,176	22,893						22,893
Six years later		20,959	19,235	22,343	19,513							19,513
Seven years later		20,504	18,487	22,351								22,351
Eight years later		20,500	18,373									18,373
Nine years later		20,386										20,386
Current estimate of cumulative claims cost	144,005	20,386	18,373	22,351	19,513	22,893	24,414	26,004	24,080	28,552	33,713	384,284
Cumulative payments	142,389	19,523	18,266	20,719	18,253	19,481	17,537	15,684	11,724	10,211	5,199	298,986
Outstanding claims - undiscounted	1,616	863	108	1,632	1,260	3,412	6,877	10,320	12,356	18,341	28,514	85,299
Discount to present value	(5)	(22)	(5)	(124)	(114)	(320)	(679)	(1,086)	(1,352)	(1,953)	(3,058)	(8,719)
Outstanding claims	1,611	841	103	1,508	1,146	3,092	6,198	9,234	11,004	16,388	25,456	76,580
Claims handling expenses												7,657
Risk margin												24,766
Total net outstanding claims liabilities												109,003
Reinsurance and other recoveries receivable												56,364
Total gross outstanding claims liabilities												165,367

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

Notes to the financial statements (continued)

16.4 Actuarial Assumptions and Methods

a) Assumptions

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

	2022	2021
Weighted average term to settlement (years)	**3.09**	2.39
Discount rate	**3.7%**	0.9%
Claim handling expense ratio	**10.0%**	10.0%
Risk margin	**29.4%**	29.4%

Weighted average term to settlement - The average weighted term to settlement is calculated based on historic settlement patterns.

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

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% (2021: 90%) probability of sufficiency (**POS**).

b) Impact of changes in assumptions

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

Notes to the financial statements (continued)

b) Impact of changes in assumptions (continued)

	Movement in	2022 $'000	2021 $'000
Weighted average term to settlement - years	0.5	**(2,752)**	(4,430)
	-0.5	**2,684**	4,261
Inflation rate	1%	**(2,863)**	(2,407)
	-1%	**2,815**	2,378
Discount rate	1%	**2,930**	2,543
	-1%	**(3,040)**	(2,230)
Claim handling expense ratio	1%	**(991)**	(1,017)
	-1%	**991**	1,017
Risk margin	1%	**(842)**	(864)
	-1%	**842**	864

c) Actuarial information

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

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

The outstanding claims reserves disclosed for the Company have been calculated in accordance with the New Zealand Society of Actuaries Professional Standard No. 30 "Valuation of General Insurance Claims". The effective date of Mr Follington's advice is 30 June 2022.

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

In particular, the Appointed Actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liabilities. There were no qualifications contained in his actuarial advice. The key assumptions used in the compilation of the reserves as at 30 June 2022 have been outlined above.

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

17. Share capital

	2022 Shares No. (000)	2022 Shares $'000	2021 Shares No. (000)	2021 Shares $'000
Issued and fully paid ordinary shares	**15,000**	**15,000**	15,000	15,000
Shareholder contribution under equity settled employee share plans	**-**	**47**	-	47
Total share capital	**15,000**	**15,047**	15,000	15,047

17. Share capital (continued)

The Company does not have authorised capital or par value in respect of its issued shares. All shares are fully paid.

Notes to the financial statements (continued)

As at 30 June 2022, the Company had 15,000,100 ordinary shares with no par value issued to Vero Insurance New Zealand Limited (2021:15,000,100). All shares rank equally with one vote attached to each fully paid ordinary share.

18. Capital management

18.1 Capital management policies and objectives

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

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

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

The Company satisfied all externally imposed capital requirements which they were subject to during the year ended 30 June 2022.

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

The Company's Board Audit and Risk Committee oversees capital computations and maintains optimal capital structure by advising the Board on dividend payments and share issues. In addition, the Company manages its required level of capital through analysis and optimisation of the product and asset mix, reinsurance program investment strategy.

18.2 Capital composition

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

18.3 Regulatory capital

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

	2022 $'000	**2021 $'000**
Actual solvency	**54,249**	50,455
Minimum solvency capital	**21,948**	23,157
Solvency Margin	**32,301**	27,298
Solvency Ratio	**2.47**	2.18

19. Credit rating

The Company has received an AA- credit rating from Standard & Poor's (2021: A+) which provides an indication of the Company's ability to pay current and future claims.

Notes to the financial statements (continued)

20. Notes to the statement of cash flows

	2022 $'000	2021 $'000
Profit for the financial year	**28,295**	24,518
Non-cash items		
Movement in financial assets at fair value through profit or loss	**11,009**	4,681
Depreciation expense	**967**	995
Change in assets and liabilities		
Increase in receivables and other assets net of investment receivables	**(6,156)**	(4,379)
Increase in reinsurance and other recoveries receivable	**(2,074)**	(13,683)
Increase in deferred reinsurance premiums	**(3,381)**	(4,293)
Decrease in deferred acquisition costs	**856**	667
(Increase)/decrease in deferred tax asset	**(9)**	32
Increase in payables and other liabilities net of investment payables	**2,332**	3,851
Increase in current tax liabilities	**306**	1,253
Increase in unearned premium liabilities	**6,466**	7,907
(Decrease)/increase in outstanding claims liabilities	**(744)**	22,440
Increase/(decrease) in provisions	**55**	(12)
Decrease in deferred tax liabilities	**(240)**	(187)
Net cash from operating activities	**37,682**	43,790

21. Financial instruments

21.1 Comparison of fair value to carrying amounts

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

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

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

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

Notes to the financial statements (continued)

21.2 Fair value hierarchy

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

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

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

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
As at 30 June 2022				
Financial assets				
Investment securities	**3,444**	**177,009**	**-**	**180,453**
As at 30 June 2021				
Financial assets				
Investment securities	12,485	168,053	-	180,538

There have been no material transfers between Level 1 and Level 2 during the year ended 30 June 2022.

21.3 Accounting classification

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

	Financial Assets at Fair Value	Financial Assets at Amortised	Financial Liabilities at Amortised	Carrying Amount
2022	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	**-**	**8,246**	**-**	**8,246**
Receivables and other assets	**-**	**46,703**	**-**	**46,703**
Investment securities	**180,453**	**-**	**-**	**180,453**
	180,453	**54,949**	**-**	**235,402**
Payables and other liabilities*	**-**	**-**	**(22,260)**	**(22,260)**
2021				
Cash and cash equivalents	-	6,877	-	6,877
Receivables and other assets	-	40,568	-	40,568
Investment securities	180,538	-	-	180,538
	180,538	47,445	-	227,983
Payables and other liabilities*	-	-	(20,743)	(20,743)

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

Notes to the financial statements (continued)

22. Risk management

22.1 Risk management overview

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

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

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

Key risks	Definition
Strategic risk	The risk that the Company's business model or strategy is not viable due to external change and the risk of failed execution of the strategy.
Financial – Credit, counterparty and contagion risk	The risk that the other party in an agreement will default / will not meet its contractual obligations in accordance with agreed terms. Contagion risk is the risk that problems impacting one entity within the Suncorp Group may compromise the financial position of other entities within the Suncorp Group.
Financial - Liquidity risk	The risk that the Company will be unable to service its cash flow obligations today or in the future.
Financial - Market/investment risk	The risk of unfavourable changes in foreign exchange rates, interest rates, equity prices, credit spreads and market volatilities.
Financial - Asset and liability risk	The risk 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, people and systems or from external events. This includes legal risk, but excludes strategic and reputational risks.
Compliance risk	Managing compliance risk ensures our legislative, regulatory and industry code obligations are met. Compliance risk must be considered as part of identifying and assessing operational risks. Compliance and operational risks management practices are embedded in the risk, obligations and controls assessment review process and the dynamic risk assessment process that supports the Company's objective to prevent and detect compliance breaches.

KPMG

Notes to the financial statements (continued)

22.1 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 with our Being @ Suncorp Behaviours and our three Cultural Principles; Doing the Right Thing, Being Courageous, and Caring for Others, are key enablers to managing conduct risks and maximising the outcomes for our customers, shareholders and our people. The Company has implemented a Conduct Risk Management Programme to provide a structured approach to conduct related matters.

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

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

The primary role of the ALCO is to oversee the 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.

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 22.2 Insurance risk management
- Notes 22.3 to 22.5 Risk management for financial instruments: credit, liquidity and market risks. Financial instrument risk is not assessed on a look through basis.

22.2 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.

Notes to the financial statements (continued)

a) Policies and practices for mitigating insurance risk (continued)

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 financial statements.

22.3 Credit risk

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

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

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

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

Notes to the financial statements (continued)

22.3 Credit risk (continued)

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

There has been no material change in the credit risk faced by the Company, nor processes for managing the risk during the period. The Aggregate Risk Exposures Policy prescribes processes and requirements to comply with APRA Prudential Standard 3PS 221 Aggregate Risk Exposures. The Company has reporting obligations to the Suncorp Group for breaches of limits prescribed in the Policy. Currently the limits apply to aggregate exposures to each of the Australian major banks.

	Credit Rating						
	AAA	AA	A	BBB	Non-investment grade	Not Rated	Total
2022	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	**-**	**8,246**	**-**	**-**	**-**	**-**	**8,246**
Interest bearing securities	**36,101**	**108,939**	**28,474**	**6,939**	**-**	**-**	**180,453**
Reinsurance and other recoveries	**-**	**32,847**	**19,052**	**-**	**-**	**4,465**	**56,364**
Accrued income	**-**	**-**	**-**	**-**	**-**	**996**	**996**
Premiums due	**-**	**-**	**-**	**-**	**-**	**42,560**	**42,560**
Amounts due from reinsurers	**-**	**2,589**	**549**	**-**	**-**	**-**	**3,138**
	36,101	**152,621**	**48,075**	**6,939**	**-**	**48,021**	**291,757**
2021							
Cash and cash equivalents	-	6,877	-	-	-	-	6,877
Interest bearing securities	41,435	93,484	40,855	4,764	-	-	180,538
Reinsurance and other recoveries	-	33,167	16,598	-	-	4,525	54,290
Accrued income	-	-	-	-	-	1,041	1,041
Premiums due	-	-	-	-	-	37,827	37,827
Amounts due from reinsurers	-	1,164	506	-	-	-	1,670
	41,435	134,692	57,959	4,764	-	43,393	282,243

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

		Past due but not impaired					
	Neither past due nor impaired	0-3 mths	3-6 mths	6-12 mths	>12 mths	Impaired	Total
2022	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Premiums due	**41,001**	**1,080**	**129**	**350**	**-**	**-**	**42,560**
2021							
Premiums due	36,546	1,167	95	19	-	-	37,827

Notes to the financial statements (continued)

22.4 Liquidity risk

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

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

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

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.

2022	Carrying amount $'000	1 year or less $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
Amounts due to reinsurers	**13,358**	**13,358**	**-**	**-**	**13,358**
Trade creditors and accruals	**2,757**	**2,757**	**-**	**-**	**2,757**
Lease liability	**2,456**	**983**	**1,555**	**-**	**2,538**
Outstanding claims liabilities	**165,367**	**49,807**	**93,657**	**21,903**	**165,367**
Amounts due to related parties	**3,689**	**3,689**	**-**	**-**	**3,689**
	187,627	**70,594**	**95,212**	**21,903**	**187,709**
2021					
Amounts due to reinsurers	11,745	11,745	-	-	11,745
Trade creditors and accruals	2,036	2,036	-	-	2,036
Lease liability	3,366	983	2,538	-	3,521
Outstanding claims liabilities	166,111	53,532	102,327	10,252	166,111
Amounts due to related parties	3,596	3,596	-	-	3,596
	186,854	71,892	104,865	10,252	187,009

22.5 Market risk

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

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

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

Notes to the financial statements (continued)

22.5 Market risk (continued)

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

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

COVID-19 has increased global market volatility and the market risk faced by the Company, however the investment portfolios have no 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.

a) Interest rate risk

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

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

The valuation of the outstanding claims liabilities includes the discounting to present value at balance date of expected future claim payments. Any assessment of the impact of changes in interest rates on investment income must include the offsetting adjustment to claims expense for changes in discount rates adopted in outstanding claims valuations. A movement of 100 basis points (2021:100 basis points) is considered reasonably possible and has been applied to the sensitivity analysis. This is disclosed in Note 16.4(b), represented by the impact of change in discount rate.

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

The sensitivity of profit or loss after tax to movements in interest rates in relation to interest-bearing financial assets held at the balance date is shown in the table below. 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 (2021: 100 basis points) is considered reasonably possible and has been applied to the sensitivity analysis.

	2022			2021		
	Exposure	Change in variable	Profit (loss) after tax &	Exposure	Change in variable	Profit (loss) after tax &
	$'000	%	$'000	$'000	%	$'000
Fixed interest bearing investment securities	133,714	+1	(2,693)	144,074	+1	(3,918)
		-1	2,810		-1	2,690
	133,714			144,074		

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.

Notes to the financial statements (continued)

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

b) Foreign exchange risk

The Company has no material foreign exchange risk.

c) Credit spread risk

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

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

Sensitivity of the Company's credit exposure to a +/- 100 basis point (2021: 100 basis points) change in yield is as follows:

	2022			2021		
	Exposure $'000	Change in variable %	Profit (loss) after tax & $'000	Exposure $'000	Change in variable %	Profit (loss) after tax & $'000
Interest bearing securities	180,453	+1	(3,051)	180,538	+1	(2,976)
		-1	3,050		-1	2,975
	180,453			180,538		

d) Equity price risks

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

22.6 Capital management

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

23. Property, plant and equipment and leases

	2022 $'000	2021 $'000
Right of use asset	2,120	2,940
Other plant and equipment	291	430
Property, plant and equipment and leases	2,411	3,370

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

Notes to the financial statements (continued)

	2022 $'000	2021 $'000
Right of use asset at the beginning of the financial year	**2,940**	3,760
Depreciation charge for the year	**(820)**	(820)
Right of use asset at the end of the financial year	**2,120**	2,940
Lease liability	**2,456**	3,366
Current	**932**	910
Non-current	**1,524**	2,456
Lease liability	**2,456**	3,366

23. Property, plant and equipment and leases (continued)

Interest expense on the lease liabilities of $73,000 was recognised as Finance costs in the statement of comprehensive income (30 June 2021: $95,000).

Total cash outflow for lease liabilities presented in the statement of cash flows was $909,000 (30 June 2021: $887,000).

24. Related parties

24.1 Controlling entities

Vero Liability Insurance Limited is a wholly owned subsidiary of Vero Insurance New Zealand Limited. The ultimate parent entity of the Company is Suncorp Group Limited, a company incorporated in Australia.

Some of the Directors of the Company are also Directors of Rasal Management Limited (**Rasal**). Rasal has a management agreement with the Company to provide management services.

24.2 Transactions and balances

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

	2022 $'000	2021 $'000
Premiums received		
Fellow subsidiaries of the ultimate parent	**3**	16
Premiums paid		
Fellow subsidiaries of the ultimate parent	**29**	28
Accounting and administration fees received		
Parent	**706**	339
Accounting and administration services paid		
Parent	**734**	614
Fellow subsidiaries of the ultimate parent	**4,573**	3,759
Management services and profit shares paid		
Other related parties (Rasal)	**3,664**	3,229
Group tax loss offsets/transfers received		
Parent	**14**	54
Fellow subsidiaries of the ultimate parent	**47**	-
Dividend paid		
Parent	**23,000**	21,100

Aggregate amounts receivable from or payable to related parties as at 30 June 2022 and 30 June 2021 are as follows:

	2022 $'000	2021 $'000
Amounts payable to:		
Parent	**932**	916
Fellow subsidiaries of the ultimate parent	**166**	501
Other related parties (Rasal)	**2,591**	2,179
Total amounts payable to related parties	**3,689**	3,596

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

24.3 Key management personnel

The Key Management Personnel (**KMP**) compensation is provided by the Company, the parent of the Company or related parties of the ultimate parent entity. Remuneration provided other than by a Suncorp Group entity located in New Zealand is not included in this disclosure. This applies to Dr D F McTaggart for the years ended 30 June 2022 and 30 June 2021. 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:

	2022 $'000	2021 $'000
Short-term employee benefits	**5,265**	4,469
Post employment benefits	**35**	32
Long-term benefits	**57**	65
Termination benefits	**-**	227
Share based payment	**524**	258
Total Compensation	**5,881**	5,051

Compensation of KMP has been determined in accordance with their roles within Suncorp Group. In some cases where the employee holds roles across various entities within the Suncorp Group, employee service contracts do not include any compensation, including bonuses, specifically related to the role of KMP of the Company and to allocate a figure may be misleading. In some cases, there is no link between KMP compensation and performance of the Company. Therefore, in such cases as there is no reasonable basis for allocating a KMP compensation amount to the Company, the entire compensation of the KMP has been disclosed above. KMP hold various insurance policies with the Company or related companies which are operated in the normal course of business.

25 Auditor's remuneration

	2022 $'000	2021 $'000
During the year the auditor of the Company was paid for the following services:		
Audit fees		
Audit of annual accounts of the Company	**134**	138
Non-audit fees		
Assurance engagements on RBNZ solvency returns	**71**	70
Responsible Banking and Insurance Policy Review	**-**	6
Total auditor's remuneration	**205**	214

KPMG

Notes to the financial statements (continued)

26 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.

	2021	Additions	Amounts used	Unused amounts reversed	2022
	$'000	$'000	$'000	$'000	$'000
Annual Leave and other employee benefits	**2,432**	**2,589**	**(2,534)**	**-**	**2,487**
Total	**2,432**	**2,589**	**(2,534)**	**-**	**2,487**
Current					**2,487**
Total					**2,487**

	2020	Additions	Amounts used	Unused amounts reversed	2021
	$'000	$'000	$'000	$'000	$'000
Annual Leave and other employee benefits	2,444	2,530	(2,487)	(55)	2,432
Total	2,444	2,530	(2,487)	(55)	2,432
Current					2,432
Total					2,432

Annual leave and other employee benefits

The provision is determined based on expected payments.

b) Contingent liabilities

There were no contingent liabilities as at 30 June 2022 (2021: $nil).

27 Significant accounting policies

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

27.1 Foreign currency

Transactions denominated in foreign currencies are initially translated to New Zealand dollars at the spot exchange rates ruling at the date of the transaction. Foreign currency monetary assets and liabilities at the end of the reporting period are translated to New Zealand dollars at the spot rates of exchange current on that date. The resulting differences on monetary items are recognised in the profit 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)

27.2 Revenue and expense recognition

a) Premium revenue

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

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

b) Claims expense

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

c) Reinsurance

Reinsurance commission revenue

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

Reinsurance and other recoveries revenue

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

Outwards reinsurance expense

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

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

d) Investment revenue

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

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

Investment revenue is classified as either investment income on insurance funds or shareholder funds. Investment income on insurance funds represents revenue derived from financial assets backing general insurance liabilities as detailed in Note 27.8(d) while investment income from shareholder funds represents revenue from financial assets that do not back general insurance liabilities.

27.3 Income tax

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

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

Notes to the financial statements (continued)

27.3 Income tax (continued)

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

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

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

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

27.4 Goods and services tax

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

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

27.5 Cash and cash equivalents

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

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

27.6 Receivables and other assets

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

27.7 Payables and other liabilities

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

27.8 Financial assets

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

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 Company as at fair value through profit or loss.

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

Financial assets at FVTPL are initially recognised on the trade date at fair value. Transaction costs are recognised in the profit or loss as incurred. Subsequently, the assets are measured at fair value on each reporting date based on the quoted market price where available. Where a quoted price is not available one of the following valuation techniques are used to value the assets at reporting date: recent arm's length transactions, discounted cash flow analysis, option pricing models or other valuation techniques commonly used by market participants.

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

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

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

b) Financial assets at amortised cost

Financial assets 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 27.10.

c) Derecognition of financial assets

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

d) General insurance activities

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

Financial assets backing general insurance liabilities

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

Notes to the financial statements (continued)

d) General insurance activities (continued)

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

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

Financial assets not backing general insurance liabilities

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

27.9 Financial liabilities

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

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

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.

27.10 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.

a) Calculation of recoverable amount

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

Notes to the financial statements (continued)

a) Calculation of recoverable amount (continued)

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

b) Reversal of impairment

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

27.11 Leases

a) Lease liabilities

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

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

27.12 Property, plant and equipment

a) Recognition and initial measurement

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

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;
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- the initial estimate of the costs of removal and site restoration, if any.

b) Subsequent measurement

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

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

Notes to the financial statements (continued)

c) Depreciation

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

The following depreciation rates have been used:

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

d) Retirement

The carrying amount of plant and equipment is derecognised upon disposal or where no future economic benefits are expected from its use. The gain or loss arising from the derecognition is recognised in the profit 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.

27.13 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.

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.

Notes to the financial statements (continued)

27.14 Employee benefit obligations

a) Short term employee benefits

Annual leave

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

Sick leave

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

Short term bonus plans

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

Other leave and non-monetary benefits

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

b) Post-employment benefits (superannuation)

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

c) Other long-term employee benefits

Long service leave

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

Annual Leave

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

d) Termination benefits

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

27.15 Deferred insurance activities

a) Deferred acquisition costs (DAC)

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

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

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

b) Deferred reinsurance premiums

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

27.16 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 16.4.

27.17 Unearned premium liabilities

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

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

27.18 Contributed capital

a) Ordinary shares

Ordinary shares are recognised as equity.

b) Transaction costs

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

c) Dividends

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

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

27.19 Contingent liabilities and contingent assets

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

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

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

27.20 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, liabilities and equity for the earliest prior period presented.

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

27.21 New accounting standards and interpretations not yet adopted

NZ IFRS 17 Insurance Contracts (NZ IFRS 17) is a new accounting standard for all types of insurance contracts and replaces NZ IFRS 4 Insurance Contracts. NZ IFRS 17 was issued in August 2017 and following stakeholder feedback, amendments were approved in August 2020 to address implementation issues identified. A further amendment was approved in January 2022 to add a transition option that permits an entity to apply a classification overlay relating to comparative information about financial assets presented on initial application of NZ IFRS 17 and NZ IFRS 9 Financial Instruments at the same time. NZ IFRS 17 is effective for the Company financial statements for the reporting period beginning on 1 July 2023.

NZ IFRS 17 introduces three new measurement models. The general model measures insurance contracts based on the fulfilment cash flows (the present value of estimated future cash flows with an explicit risk adjustment for non-financial risk) and the contractual service margin (the unearned profit that will be recognised as services are provided 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.

27.21 New accounting standards and interpretations not yet adopted (continued)

The measurement model requirements are applied at an aggregated level rather than at an individual contract level. Contracts are initially aggregated into portfolios (comprised of contracts subject to similar risks that are managed together) and then divided into groups based on the expected profitability of contracts and the periods in which the contracts are written. Contracts may not be grouped if they are written more than 12 months apart. Under the level of aggregation requirements, the identification and measurement of contracts that are expected to be loss making will be performed at a lower granularity than occurs for the liability adequacy test under NZ IFRS 4, with any loss component recognised on initial recognition of the group of contracts.

Based on the current insurance business, the Company expects to be eligible to use the premium allocation approach for all its general insurance contracts. Applying the NZ IFRS 17 measurement models:

- Insurance contracts issued to policyholders and reinsurance contracts held are measured separately.
- Discount rates are required to reflect the time value of money, the characteristics of the cash flows and the liquidity characteristics of the insurance contracts. This differs from the risk-free discount rates used under NZ IFRS 4. The Company is currently developing and testing its framework and models to determine discount rates and expects to apply the bottom-up approach, whereby a risk-free yield curve is adjusted to reflect the liquidity characteristics of the insurance cash flows through the addition of an illiquidity premium. The Company expects to present the financial impacts of discounting in the profit or loss, rather than disaggregate the impact between profit or loss and other comprehensive income.
- The risk adjustment reflects the compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risks as the entity fulfills insurance contracts. This differs from the risk margin used under NZ IFRS 4 which reflects the inherent uncertainty in the central estimate of estimated future cash flows. The Company is currently developing and testing its framework and models for determining the risk adjustment and expects to use a confidence level approach.
- Acquisition costs that form part of the fulfilment cash flows of groups of insurance contracts measured using the premium allocation approach can either be immediately expensed or included within the insurance contract balance and amortised over the coverage period. For general insurance contracts applying the premium allocation approach, the Company expects to amortise acquisition costs over the coverage period.

NZ IFRS 17 also introduces significant changes to the presentation and disclosure of insurance contracts which include:

- The separate disclosure of assets and liabilities related to insurance contracts issued and reinsurance contracts held, replacing current balance sheet items such as premiums due, reinsurance and other recoveries receivable, deferred reinsurance premiums, deferred acquisition costs, amounts due to reinsurers, unearned premium liabilities and outstanding claims liabilities.
- The presentation of insurance revenue and insurance service expense gross of reinsurance. Insurance service expense includes claims expenses, non-reinsurance recoveries and expenses that are directly attributable to the fulfilment of insurance contracts. The reinsurance result is disclosed separately and is included in the insurance service result. The financial impact of changes to discount rates and the unwinding of the discounting of insurance and reinsurance assets and liabilities will be presented as part of the investment result rather than the insurance service result.
- Additional disclosures to provide information on amounts recognised for insurance contracts and the nature and extent of risk arising from insurance contracts.

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Notes to the financial statements (continued)

27.21 New accounting standards and interpretations not yet adopted (continued)

NZ IFRS 17 is to be applied retrospectively to all insurance contracts on the transition date unless it is impracticable to do so, in which case a modified retrospective or fair value approach may be applied. The Company expects to use the full retrospective approach for 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 the Suncorp Group is progressing with implementation and testing of changes to finance systems and processes and actuarial modelling.

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 and tax legislation or guidance. The Suncorp Group continues to closely monitor all these developments and to assess the impacts of the standard and other regulations on the Company. The financial impact of adopting NZ IFRS 17 is not reasonably estimable at the date of this report.

28 Subsequent events

There were no material events post 30 June 2022 which would require adjustment to the amounts reflected in the 30 June 2022 financial statements or disclosures thereto.

20 July 2022

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

Dear Directors,

Appointed Actuary report required under Section 78 of the Insurance (Prudential Supervision) Act 2010

Section 78 of the Insurance (Prudential Supervision) Act 2010 specifies those matters that must be addressed, namely:

(a) I am the Appointed Actuary of Vero Liability Insurance Limited (**VLIL**); and

(b) I have reviewed the actuarial information contained in, or used in the preparation of the financial statements of VLIL. The review has been carried out in accordance with the applicable solvency standard. For the avoidance of doubt, actuarial information means:

- Information relating to VLIL's calculations of premiums, claims, reserves, insurance rates, and technical provisions; and
- Information relating to assessments of the probability of uncertain future events occurring and the financial implications for the insurer if those events do occur; and
- Information specified in an applicable solvency standard as being actuarial information for the purposes of this section; and

(c) The scope and limitations of the review will be detailed in Section 1 of the Financial Condition Report (**FCR**) as at 30 June 2022; and

(d) I have no relationship with VLIL other than that of Appointed Actuary; and

(e) I have obtained all information and explanations that I require; and

(f) In my opinion and from an actuarial perspective:

- The actuarial information contained in the financial statements has been appropriately included in those statements; and
- The actuarial information used in the preparation of the financial statements has been used appropriately; and

(g) No condition has been imposed under Section 21 (2)(b) as at 30 June 2022; and

(h) No condition has been imposed under Section 21 (2)(c) as at 30 June 2022.

Kind regards,

Adam Follington
Appointed Actuary, Vero Liability Insurance Limited
Fellow of the New Zealand Society of Actuaries
Tel: + 64 212 715 667