AA Insurance Limited

Financial report
for the financial year ended 30 June 2023

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Financial report

for the financial year ended 30 June 2023

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Directors' report

The Board of Directors presents the Directors' report together with the financial report of AA Insurance Limited (the **Company**) for the financial year ended 30 June 2023.

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

Directors
The following persons were directors of the Company during the financial year and up to the date of this report:

Non-executive
D F McTaggart (Chairman)
J J Higgins
A Jones (resigned 27 July 2022)
A MacFarlane (appointed 27 July 2022)
G P Shepherd
N A Tereora
M R Winger

Registered office
Level 17
99 Albert Street
Auckland 1010
New Zealand

Auditor
KPMG
18 Viaduct Harbour Avenue
Auckland 1140
New Zealand

Dividends
During the financial year, the Company declared and paid dividends totalling $20,000,000 (2022: $40,000,000). Further details of dividends paid are set out in Note 3 to the financial statements.

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

Review of operations
The net profit after income tax for the year ended 30 June 2023 was $36,718,000 for the Company compared with net profit after income tax of $60,725,000 for the previous year ended 30 June 2022.

Events subsequent to reporting date
There is, at the date of this Report, no matter or circumstance that has arisen since 30 June 2023 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

Douglas F McTaggart BEcon (Hons), MA, PhD, DUniv, FAICD, SF Fin

Chairman, Non-executive Director

Douglas McTaggart is Chairman of the AA Insurance Board and the Remuneration Committee. He 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 CEO of QIC, Under Treasurer of the Queensland Department of Treasury, and was a director of UGL Limited (September 2012–August 2015).

Mr McTaggart is a director of Suncorp Group, former Chairman of the Audit Committee, and was a member of the People and Remuneration Committee and a director of the Group's New Zealand licensed entities. Mr McTaggart is now a member of the Suncorp Group Customer Committee. He has also been appointed to the Board of The Lottery Corporation. He was Chairman of Spark Infrastructure RE Limited, is a past Chairman of SunCentral Maroochydore and recently retired from the Australian National University Council. In addition, he is Chairman of Indigenous Business Australia Asset Management (IBAAM) and a member of the Expert Advisory Panel, Indigenous Business Australia Legislative Change Project.

James J Higgins BA, BBus, ICAA GradDipCA, DipGov

Non-executive Director

Jimmy Higgins was appointed to the AA Insurance Board on 20 July 2020. He is the Chief Executive Officer of Suncorp New Zealand. He has held several senior roles in the financial sector, including his appointment as Chief Financial Officer for Suncorp New Zealand in 2019. He has provided advice to many large corporations and to government on financial risk management, internal controls and corporate governance.

Since joining the Suncorp Group in 2008, Mr Higgins has worked in the general insurance business, delivering customer outcomes across the many Suncorp brands and portfolios. In particular, he has worked with customers, reinsurers, government, suppliers, corporate partners, brokers and Boards in managing claims and customer outcomes for General and Life insurance businesses.

Mr Higgins has strong commercial, financial and operational experience.

Andrew MacFarlane BCA, GradDipCA

Non-executive Director

Andrew MacFarlane was appointed to the AA Insurance Board on 27 July 2022. He is the Chief Financial Officer of Suncorp New Zealand. He is responsible for the financial management, investment, reinsurance and actuarial functions of Suncorp New Zealand.

Mr MacFarlane has extensive experience in financial services across New Zealand and Australia. Prior to joining the Suncorp Group, he spent 25 years with ANZ Bank, holding executive positions in Finance, Product Management, and Strategy. His most recent role was CFO Group Functions across the ANZ Group.
Mr MacFarlane is an experienced leader with a commitment to long term growth. His career has included leadership roles in business transformation (including the brand merger of ANZ and National Bank), delivering customer and product simplification programs, and enhancing financial management frameworks.

Directors' report (continued)

Greg Shepherd BCom, NZSE Dip, MInstD

Non-executive Director

Greg Shepherd was appointed as the NZAA's Independent Director to the AA Insurance Board in December 2021. He is also Acting Chief Executive and a Board member of AA Finance, and an Independent Director on the NZAA Limited Board. Mr Shepherd has most recently focused his energy on consultancy and governance for a variety of organisations across a broad range of sectors. Prior to this he held executive roles including a global role as EVP – Marketing & Brand for Fisher & Paykel Appliances, and was CEO/COO of Fisher & Paykel Finance. Mr Shepherd is a Member of NZ Institute of Directors, and holds a Bachelor of Commerce from Otago University, a NZ Stock Exchange Diploma, and is a Graduate of IESE Business School - 2016 Global CEO Program (CEIBS, Wharton & IESE).

Nadine Tereora

Non-executive Director

Nadine Tereora was appointed to the AA Insurance Board on 24 February 2022, upon assuming the role of Chief Executive of the New Zealand Automobile Association (NZAA) an organisation that now has more than 1.8 million Members, and is Chair of the Investment Committee. Mrs Tereora has extensive leadership experience in the financial services industry. She is a former Chief Operating Officer of Partners Life and served four years as CEO of Fidelity Life from 2016 to 2020. Mrs Tereora's 2014 appointment to Asteron Life, where she served as CEO and Executive General Manager, distinguished her as the first female CEO of a Suncorp Group company. Mrs Tereora has held key industry directorships for the past decade and has been a Financial Services Council Board member since October 2016.

Mark Winger LLB

Non-executive Director

Mark Winger was appointed to the AA Insurance Board on 22 April 2008. Mr Winger has extensive experience in commercial law, corporate law and trusts and is a senior partner in Auckland law firm Holmden Horrocks. Mr Winger is the President of the New Zealand Automobile Association, a member of its Board since its amalgamation in 1990 and a legal adviser to the Association, a director of AA Finance Limited and is current Chair of the NZAA Retirement Scheme. He is currently the Chair of the Freemasons Foundation, a charitable Trust, and has had extensive involvement as a trustee providing governance and strategic direction to a wide range of family, investment, charitable, and educational trusts.

This financial report of the Company was approved for issue by the Board on 9 August 2023.

Signed in accordance with a resolution of the directors.

Mark Winger

Director
9 August 2023

Director
9 August 2023

Corporate governance statement

Introduction

AA Insurance Limited ("the Company") is a company which is incorporated in New Zealand. Vero Insurance New Zealand Limited has a 68% shareholding in the Company and The New Zealand Automobile Association Limited has a 32% shareholding. Vero Insurance New Zealand Limited's ultimate parent is Suncorp Group Limited, an Australian public company listed on the Australian Stock Exchange. The Company is governed by a Joint Venture Agreement between Vero Insurance New Zealand Limited and The New Zealand Automobile Association Limited. Under this agreement each shareholder appoints three directors to the Company's Board with each director having equal voting rights with the Chairman having the casting vote.

The Company is a licensed insurer under the Insurance (Prudential Supervision) Act 2010.

This Corporate Governance Statement contains an outline of the principal corporate governance practices, policies and processes that have been established by the Company.

Board of Directors

At the date of this Statement, the Board comprises three independent non-executive directors (Douglas McTaggart, Greg Shepherd and Mark Winger) and three non-executive directors who are not independent (Jimmy Higgins, Andrew MacFarlane and Nadine Tereora). Douglas McTaggart is the Chairman of the Board. The Directors' Report includes brief details of the qualifications and experience of the Directors.

Although the Board has not adopted a tenure policy, the composition of the Board is subject to periodic review. The Board considers it important to maintain an appropriate mix between long-serving Directors with established knowledge of the Company's business and corporate history, and new Directors who bring fresh perspectives to the Board. There is a Board-approved process for nominating and appointing Directors.

All Directors are expected to keep up to date with matters affecting the business of the Company, the general insurance industry and their duties as Directors.

Each Director has met the requirements and criteria set out in the Board-approved Fit and Proper Policy. The Board also approves the continuing fitness and propriety of the Directors.

Duties and Responsibilities of the Board

The role of the Board of Directors is to provide effective governance over the operations of the Company having regard to the interests of its stakeholders including its shareholders, regulators, customers and employees.

The Board's 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 Company's constitution sets out the responsibilities of the Board and Directors and includes such matters as the appointment and removal of Directors, the minimum and maximum number of Directors, the quorum for Board meetings and the appointment of the Chairman.

The Board has adopted a charter which contains the principles for the operation of the Board, a description of the functions and responsibilities of the Board and those functions that are delegated to management. Matters covered by this charter include Board composition, responsibilities of the Chairman and individual Directors, conflicts of interest, Board meeting procedures, Board performance reviews and the criteria for determining Directors' independence. Provision is also made for the Board to delegate certain matters to committees of the Board.

Board meetings are held on a bi-monthly basis. The Board approves an annual programme of work and this is used as a guide to the preparation of each Board meeting agenda.

Corporate governance statement (continued)

The Board has delegated the day-to-day operation and management of the business of the Company to the Chief Executive.

Governance

The Board of the Company has adopted a number of internal policies. These internal policies form part of the Company's governance and compliance framework and also apply to Directors (to the extent they are relevant). These include a Code of Conduct, Conflicts of Interest Policy, ICT Policy, Internal Fraud Prevention Policy, Speak Up Policy and a Fit and Proper Policy.

Board Audit Risk and Compliance Committee

In order to enable the Board to focus on strategy, planning and performance enhancement, the Board has delegated certain duties to its Board Audit Risk and Compliance Committee ("BARCC"). The role of the BARCC is to assist the Board in fulfilling its statutory and fiduciary responsibilities with respect to the oversight of the effectiveness of risk management strategies and internal controls across the Company. The terms of reference of the BARCC are contained in a Board-approved charter. The members of the BARCC are the full Board and, as ex-officio non-voting members, the Company's Chief Executive, General Manager, Finance and Suncorp New Zealand Chief Risk Officer. It is chaired by Mark Winger, an independent non-executive director.

The BARCC is required to meet at least five times a year. The BARCC approves an annual programme of work and this is used as a guide to the preparation of each BARCC meeting agenda. The BARCC receives regular reports from Senior Management and Executives of the Company, Suncorp Group Internal Audit (which provides independent and objective internal audit services to the Company), the Suncorp New Zealand Chief Risk Officer, and the Company's external auditor. Other attendees of BARCC meetings include Suncorp Group Internal Audit, the external auditor and the Appointed Actuary as requested. The BARCC reviews and makes recommendations to the Board on matters such as the Company's Risk Appetite Statement, Risk Management Programme, Reinsurance Management Strategy, Internal Audit plan, its Delegations of Authority, Internal Capital Adequacy Assessment Process, financial statements and solvency returns. The BARCC regularly updates the Board on its activities and copies of its minutes are provided to the Board.

Under the terms of its charter, the BARCC is required to undertake an annual confirmation that it has discharged all of its duties set out in its charter. This is reported to the Board. The BARCC is also required to review its charter at least annually.

Management Risk Committee

The Risk Committee oversees the management of risks arising from the activities of the Company. The Risk Committee has its own charter and is chaired by the Chief Executive. Significant matters are escalated to the BARCC at least five times a year. Critical risks are escalated to the Chairman immediately.

Information on the Company's approach to Risk Management is contained in Note 23.

Strategy and Culture

AA Insurance's purpose is "We care, we help, and we get things sorted". Over the next five years, building on the foundations that have established the Company as a leading direct insurer, AA Insurance's strategic priorities will focus on Technology & Transformation, Efficiency & Performance, Operating Model, Portfolio, Reputation & Growth and People. These will be underpinned by AA Insurance's long-term strategy known internally as "The AA Insurance Blueprint" as well as its culture and its behaviours.

AA Insurance's long-term strategy is centred around providing competitive and flexible insurance while delivering the best customer service in the industry in alignment with our vision to earn the trust of every New Zealander by protecting what matters most. The organisation continues to adopt the WriteMark Plain Language Standards to make policies easier for customers to read.

AA Insurance's culture is driven by their people's shared values and beliefs, set out in the Company's Genuine Values, which guide the way AA Insurance acts towards its people and its customers.

Corporate Social Responsibility

The Company believes its growth and success should be sustainable, and should also benefit our customers, partners, people and communities. This means considering the environmental, social, governance and economic risks and opportunities that we face as a business. Our corporate responsibility framework is based on four key principles: we get things sorted for our customers, we help the environment, we care for our people and communities and we do the right thing.

Action on Climate Change

AA Insurance is actively seeking to address the risks and opportunities presented by climate change. AA Insurance will work with its key stakeholders to support a transition to a net-zero carbon emissions economy by 2050. This supports Suncorp's Climate Change Action Plan.

As a climate reporting entity under the new climate disclosure regime in Aotearoa New Zealand, the Company will publish its first climate statement alongside financial reporting for the financial year as at 30 June 2024. The company is on track to prepare a voluntary climate statement for the financial year 2023, in preparation for the mandatory disclosures.

Community Involvement

AA Insurance has a program in place which empowers employees to make a difference to causes they feel passionate about with a range of opportunities to get involved in, including volunteering, sponsorship and donations.

Diversity, Equity and Inclusion

AA Insurance's goal is to grow and embed practices that promote a diverse and inclusive workplace driven by acceptance, education and celebration of the uniqueness of every person who works here and are reflective of our customers and communities in Aotearoa New Zealand.

AA Insurance is a member of Diversity Works who support the implementation of the Company's Diversity, Equity and Inclusion (DEI) Plan, with a key focus on 5 areas of priority for 2023 to 2028:

- Diversity infrastructure
- Leadership
- Diverse recruitment
- Biculturalism
- Inclusive collaboration

Over the years from 2022 to 2023, we have created the AA Insurance DEI Strategy, set up our DEI committee in line with our strategic plan, and have three Employee Action Groups now established.

AA Insurance is represented on the Suncorp New Zealand Sustainability and Diversity Committee which assists the company in delivering its diversity objectives by:

- Developing and overseeing a diversity strategy.
- Recommending initiatives to support greater gender diversity, gender pay equality, mature age employees, cultural diversity and inclusivity.
- Promoting and championing diversity.

Independent Auditor's Report

To the Shareholders of AA Insurance Limited

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of AA Insurance Limited (the 'Company') on pages 13 to 54 present fairly, in all material respects

i. the Company's financial position as at 30 June 2023 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 issued by the New Zealand Accounting Standards Board and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 30 June 2023;
- the statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

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

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

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

Our firm has also provided other services to the Company in relation to regulatory assurance services. 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 Shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements.

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The key audit matter	How the matter was addressed in our audit
Outstanding claims liabilities and associated reinsurance and other recoveries receivable	
Outstanding claims liabilities	**$269.0 million**
Reinsurance and other recoveries	**$174.7 million**

Refer to notes 11 and 16 to the financial statements.

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

Outstanding claims liabilities related to the recent Auckland Anniversary Flood and ex-Tropical Cyclone Gabrielle (collectively "FY23 weather events"), together with Canterbury earthquakes have greater levels of uncertainty, as disclosed in Note 16 to the financial statements. This uncertainty can include:

- Proximity of weather events to year end and the amount of damage caused, resulting in losses still being assessed;
- Geotechnical uncertainty which can significantly impact the cost of a claim;
- Litigation, where the range of possible ultimate claim costs is substantial; and
- In respect of Canterbury earthquake claims specifically, limited information on claims managed by the Earthquake Commission, with greater management judgement required to make an allowance for any as yet unreported claims.

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 claim payments and case estimates, including IT general and application controls.
- Selecting a sample of case estimates and claim payments to check the accuracy of the claims information (both financial and non-financial), including the use of data analytics.
- Challenging the appropriateness of the Company's actuarial methods and key assumptions for the classes of business that were deemed to have higher claims estimation risks, including separate consideration of claims relating to the FY23 weather events and Canterbury earthquakes, and the impacts of economic uncertainties 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 challenged the actuarial methods and key assumptions by:
  - Analysing the accuracy of previous estimates;
  - Comparing key assumptions to the broader insurance industry, previous periods and current period claims experience;
  - Sample testing of the key qualitative claims information that is used by the Company's actuarial team to form their valuation assumptions; and
  - Analysing appropriateness of changes to methodologies as a result of the impact of FY23 weather events.
- Assessing the Company's estimation of risk margins to identify possible management bias.
- We evaluated the Company's actuarial methodologies for consistency with those used in the industry and with prior periods.
- Testing material reinsurance contracts to check that recoveries recognised in the financial statements align with the terms of those contracts and the amount of the respective outstanding claims liability.

Other information

The Directors, on behalf of the Company, are responsible for the other information included in the Company'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 Shareholders as a body. Our audit work has been undertaken so that we might state to the Shareholders 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 Shareholders 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 issued by the New Zealand Accounting Standards Board) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is 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

10 August 2023

Statement of comprehensive income
for the financial year ended 30 June 2023

	Note	2023 $'000	2022 $'000
Premium revenue	4	**701,796**	606,384
Outwards reinsurance premium expense		**(65,420)**	(31,373)
Net premium revenue		**636,376**	575,011
Gross incurred claims	5	**(758,625)**	(418,616)
Reinsurance and other recoveries revenue	4, 5	**277,448**	42,545
Net incurred claims	5	**(481,177)**	(376,071)
Acquisition costs		**(28,541)**	(24,723)
Other underwriting expenses		**(87,411)**	(75,604)
Underwriting expenses		**(115,952)**	(100,327)
Underwriting result		**39,247**	98,613
Investment income/(loss) on insurance funds	4.1	**9,459**	(89)
Investment expense on insurance funds		**(438)**	(432)
Insurance trading result		**48,268**	98,092
Investment income/(loss) on shareholder funds	4.1	**9,284**	(13,499)
Investment expense on shareholder funds		**(602)**	(543)
Loss on defined benefit funds		**(14)**	(21)
Share of joint venture loss		**(16)**	(4)
Finance costs	24	**(861)**	(915)
Other (expenses)/income	6	**(5,000)**	3,356
Profit before tax		**51,059**	86,466
Income tax expense	7.1	**(14,341)**	(25,741)
Profit for the financial year attributable to owners of the Company		**36,718**	60,725
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Actuarial loss on defined benefit funds		**(77)**	(174)
Total other comprehensive income		**(77)**	(174)
Total comprehensive income for the financial year		**36,641**	60,551

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

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Statement of financial position
as at 30 June 2023

	Note	2023 $'000	2022 $'000
Assets			
Cash and cash equivalents	8	**11,483**	14,085
Receivables and other assets	9	**431,609**	278,326
Investment securities	10	**346,875**	378,497
Reinsurance and other recoveries receivable	11	**174,699**	26,826
Deferred reinsurance premiums	12	**77,685**	36,118
Deferred acquisition costs	13	**14,611**	14,877
Current tax asset	7.3	**1,014**	-
Property, plant and equipment	24	**28,907**	32,691
Intangible assets	25	**1,944**	2,896
Deferred tax assets	7.4	**5,898**	6,612
Investment in joint venture	27	**230**	245
Net defined benefit asset		**316**	364
Total assets		**1,095,271**	791,537
Liabilities			
Payables and other liabilities	14	**209,977**	142,952
Current tax liabilities	7.3	**-**	7,992
Unearned premium liabilities	15	**422,332**	349,298
Outstanding claims liabilities	16	**268,952**	113,156
Provisions	17	**11,503**	12,200
Deferred tax liabilities	7.4	**4,091**	4,164
Total liabilities		**916,855**	629,763
Net assets		**178,416**	161,775
Equity			
Share capital	18	**64,215**	64,215
Retained profits		**114,201**	97,560
Total equity		**178,416**	161,775

The Board of Directors of AA Insurance Limited approved these financial statements for issue on 9 August 2023.

For, and on behalf of the Board

Mark Winger

Director
9 August 2023

Director
9 August 2023

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

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Statement of changes in equity
for the financial year ended 30 June 2023

	Note	Share capital $'000	Retained profits $'000	Total $'000
Balance as at 1 July 2021		64,215	77,009	141,224
Profit for the financial year		-	60,725	60,725
Total other comprehensive income		-	(174)	(174)
Total comprehensive income for the financial year		-	60,551	60,551
Transactions with the owners, recorded directly in equity				
Dividends declared	3	-	(40,000)	(40,000)
Balance as at 30 June 2022		**64,215**	**97,560**	**161,775**
Balance as at 1 July 2022		**64,215**	**97,560**	**161,775**
Profit for the financial year		**-**	**36,718**	**36,718**
Total other comprehensive income		**-**	**(77)**	**(77)**
Total comprehensive income for the financial year		**-**	**36,641**	**36,641**
Transactions with the owners, recorded directly in equity				
Dividends declared	3	**-**	**(20,000)**	**(20,000)**
Balance as at 30 June 2023		**64,215**	**114,201**	**178,416**

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

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Statement of cash flows
for the financial year ended 30 June 2023

	Note	2023 $'000	2022 $'000
Cash flows from operating activities			
Premiums received		**706,660**	605,925
Claims paid		**(602,829)**	(393,411)
Interest received		**8,426**	4,574
Dividends received		**4,696**	2,073
Reinsurance and other recoveries received		**44,449**	35,922
Outward reinsurance premiums paid		**(61,828)**	(33,414)
Net movement in shared property reinstatement advances		**(41)**	(96)
Acquisition costs paid		**(28,275)**	(27,121)
Income tax paid*	7.3	**(22,706)**	(16,220)
Net movement in goods and services tax and levies		**13,959**	6,995
Finance costs paid	24	**(861)**	(915)
Underwriting and other operating expenses paid		**(81,017)**	(68,874)
Net cash from operating activities	21	**(19,367)**	115,438
Cash flows from investing activities			
Proceeds from sale of investment securities		**457,903**	334,331
Payments for purchase of investment securities		**(415,241)**	(397,688)
Proceeds from sale of plant and equipment		**40**	60
assets		**(1,837)**	(2,194)
Net cash used in investing activities		**40,865**	(65,491)
Cash flows from financing activities			
Repayment of leasing liabilities	24	**(4,100)**	(3,762)
Dividends paid to owners of the Company	3	**(20,000)**	(40,000)
Net cash used in financing activities		**(24,100)**	(43,762)
Net increase in cash and cash equivalents		**(2,602)**	6,185
Cash and cash equivalents at the beginning of the financial year		**14,085**	7,900
Cash and cash equivalents at the end of the financial year		**11,483**	14,085

*Income tax paid includes cash flows from tax offsets.

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

KPMG

For the year ended 30 June 2023

1. Reporting entity

AA Insurance Limited (the **Company**) is a company incorporated and domiciled in New Zealand. Its registered office is level 17, AA Centre, 99 Albert Street, Auckland.

The Company is a for-profit entity in the business of the underwriting of general insurance and the investment and administration of insurance funds. It operates exclusively in the direct sector of the general insurance market in 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. Vero Insurance New Zealand Limited has a 68% shareholding in the Company and The New Zealand Automobile Association Limited has a 32% shareholding.

2. Basis of preparation

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

Significant accounting policies applied in the preparation of these financial statements are set out in Note 29.

The reporting period is from 1 July 2022 to 30 June 2023.

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.

These financial statements have been prepared on a going concern basis.

2.1 Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (**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 became mandatory and were adopted during the financial year

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

2.3 Comparative information

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

2.4 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and amounts reported in the financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Estimates and underlying

assumptions are reviewed on an ongoing basis. Where revisions are made to accounting estimates, any financial impact is recognised in the period in which the estimate is revised.

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

- Outstanding claims liabilities and assets arising from reinsurance contracts (refer to Note 16.3)
- Provisions and contingent liabilities (refer to Note 17)

A number of issues are driving the global economic uncertainty, including geopolitical affairs, natural disasters, inflation, increasing interest rates and aftermath of the COVID-19 pandemic. This evolving global uncertainty has resulted in emergence of risks in the form of changes in consumer behaviour, disrupted supply chains, staff shortages and increased market volatility. The estimation and judgement in the preparation of Company's financial statements, where relevant, is disclosed in the notes to the Company's financial statements.

a) Outstanding claims liability 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 generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. IBNR and IBNER claims may not be adequately reported until years after the events giving rise to the claims occurred.

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

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

Details regarding actuarial estimates and judgements are detailed in Notes 5, 11 and 16. In particular, details of the uncertainties that exist in measuring gross incurred claims arising from the Canterbury earthquakes, Auckland flood and Cyclone Gabrielle are explained in Note 16.1.

Estimates of reinsurance and other recoveries receivable are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as credit risk. Details of the uncertainties that exist in measuring reinsurance recoveries arising from the Canterbury earthquakes, Auckland flood and Cyclone Gabrielle are explained in Note 16.1

The current economic conditions include a higher inflationary outlook. The impact of higher inflation has been considered within actuarial calculations.

b) Provisions and contingent liabilities

The Company has assessed the carrying value of its employee benefits liability at reporting date for changes in assumptions including potential changes to employee behaviours and trends in taking annual and long service leave. Per review of the Company's exposures at reporting date, details of the

Company's provisions, employee benefit liabilities and contingent assets and liabilities at reporting date are set out in Note 17.

c) Financial risk management

The Company has adopted prudent practices to manage liquidity risk and to ensure an adequate level of liquidity is maintained to meet obligations as they fall due across a wide range of operating circumstances. The Company has continued to maintain funding and liquidity metrics comfortably above regulatory minimums.

3. Dividends

	2023		2022	
	¢ per	$'000	¢ per	$'000
Ordinary shares				
Dividend declared and paid	**21**	**20,000**	41	40,000
Total dividends recognised in equity attributable to owners of the Company	**21**	**20,000**	41	40,000

4. Revenue

	2023 $'000	2022 $'000
Insurance income		
Gross written premium	**774,830**	655,479
Movement in unearned premium	**(73,034)**	(49,095)
Premium revenue	**701,796**	606,384
Reinsurance and other recoveries revenue	**277,448**	42,545
Total insurance income	**979,244**	648,929
Investment income		
Interest income	**8,536**	4,384
Dividend income	**4,696**	2,073
Net gain/(loss) on financial assets at fair value through profit or loss	**5,511**	(20,045)
Total investment income	**18,743**	(13,588)
Total revenue	**997,987**	635,341

4.1 Investment Income

	2023 $'000	2022 $'000
Investment income/(loss) on insurance funds	**9,459**	(89)
Investment income/(loss) on shareholder funds	**9,284**	(13,499)
Total investment income	**18,743**	(13,588)

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 2023			
Gross incurred claims and related expenses			
Undiscounted	**736,278**	**5,519**	**741,797**
Discount and discount movement	**16,010**	**818**	**16,828**
Gross incurred claims discounted	**752,288**	**6,337**	**758,625**
Reinsurance and other recoveries			
Undiscounted	**(270,535)**	**(10,176)**	**(280,711)**
Discount and discount movement	**3,416**	**(153)**	**3,263**
Reinsurance and other recoveries discounted	**(267,119)**	**(10,329)**	**(277,448)**
Net incurred claims	**485,169**	**(3,992)**	**481,177**
Year ended 30 June 2022			
Gross incurred claims and related expenses			
Undiscounted	414,143	5,961	420,104
Discount and discount movement	(870)	(618)	(1,488)
Gross incurred claims discounted	413,273	5,343	418,616
Reinsurance and other recoveries			
Undiscounted	(33,336)	(9,986)	(43,322)
Discount and discount movement	248	529	777
Reinsurance and other recoveries discounted	(33,088)	(9,457)	(42,545)
Net incurred claims	380,185	(4,114)	376,071

Details of the uncertainties that exist in measuring gross incurred claims and reinsurance recoveries arising from the Canterbury earthquakes, Auckland flood and Cyclone Gabrielle are explained in Note 16.1.

6. Profit before tax

	2023 $'000	2022 $'000
Profit before tax is arrived at after charging/(crediting) the following specific items:		
Bad and doubtful debt expense	**229**	179
Contributions to defined contribution/benefit superannuation schemes	**2,608**	2,233
Depreciation on property, plant and equipment	**5,219**	4,802
Employee benefits	**99,900**	84,171
Loss/(gain) on disposal of plant and equipment	**41**	(17)
Operating lease rental expenses	**57**	132
Software amortisation cost (Note 25.1)	**1,805**	1,843
Other expense/(income)	**5,000**	(3,356)

7. Income tax

7.1 Income tax expense

	2023 $'000	2022 $'000
Profit before tax	**51,059**	86,466
Prima facie income tax @ 28% (2022: 28%)	**14,297**	24,210
Movement in income tax expense due to:		
Non-deductible expenditure	**1,499**	36
Share of joint venture loss	**4**	1
Imputation credits	**(172)**	(127)
Tax exempt revenue	**(1,253)**	1,663
Other	**(28)**	(43)
Adjustment for prior years	**(6)**	1
Income tax expense	**14,341**	25,741
Income tax expense recognised in profit consists of:		
Current tax expense		
Current year	**13,841**	22,206
Adjustments for prior financial years	**(141)**	71
	13,700	22,277
Deferred tax expense		
Current year	**506**	3,534
Adjustments for prior financial years	**135**	(70)
	641	3,464
Income tax expense	**14,341**	25,741

7.2 Imputation credits

	2023 $'000	2022 $'000
Imputation credits balance	**29,496**	23,702
Imputation credits available for use in subsequent reporting periods	**29,496**	23,702

7.3 Current tax assets / (liabilities)

	2023 $'000	2022 $'000
Balance at the beginning of the financial year	**(7,992)**	(1,935)
Income tax paid	**21,500**	14,800
Current year tax on operating profit	**(13,841)**	(22,206)
Adjustment for prior years	**141**	(71)
Transfers between Group companies	**1,206**	1,420
Balance at the end of the financial year	**1,014**	(7,992)

7.4 Deferred tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The net deferred tax liability is detailed below:

	2023 $'000	2022 $'000
Deferred tax assets are attributable to		
Depreciable assets	**1,579**	755
Employee benefits	**2,902**	3,011
Leases	**1,088**	986
Provisions	**117**	226
Investments	**10**	1,432
Other	**202**	202
Total deferred tax assets	**5,898**	6,612
Deferred tax liabilities are attributable to		
Deferred acquisition costs	**(4,091)**	(4,164)
Total deferred tax liabilities	**(4,091)**	(4,164)
Net deferred tax assets	**1,807**	2,448
Movements		
Deferred tax assets		
Balance at the beginning of the financial year	**6,612**	9,636
Movement recognised in profit or loss	**(714)**	(3,024)
Balance at the end of the financial year	**5,898**	6,612
Deferred tax liabilities		
Balance at the beginning of the financial year	**4,164**	3,724
Movement recognised in profit or loss	**(73)**	440
Balance at the end of the financial year	**4,091**	4,164

8. Cash and cash equivalents

	2023 $'000	2022 $'000
Cash at bank and in hand	**6,822**	5,374
Shared property reinstatement deposits (Note 14)	**1**	42
Cash held within investment funds	**4,660**	8,669
	11,483	14,085

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

9. Receivables and other assets

	2023 $'000	2022 $'000
Trade and other receivables		
Premiums receivable	**340,938**	273,030
Amounts due from related parties (Note 26)	**48,880**	-
Prepaid expenses	**2,303**	1,213
Amounts due from reinsurers	**30,307**	2,739
Provision for bad and doubtful debts	**(24)**	(11)
Total trade and other receivables	**422,404**	276,971
Other assets		
Accrued income	**585**	475
Other assets	**8,620**	880
Total other assets	**9,205**	1,355
Total receivables	**431,609**	278,326
Current	**431,609**	278,326
Total receivables	**431,609**	278,326
Movements in for provision for bad and doubtful debts		
Balance at the beginning of the financial year	**(11)**	(7)
Provision recognised during the financial year	**(13)**	(4)
Balance at the end of the financial year	**(24)**	(11)

10. Investment securities

	2023 $'000	2022 $'000
Financial assets at fair value through profit or loss		
Interest bearing securities		
Debentures and corporate bonds	**17,793**	62,822
Government and semi-government securities	**34,580**	62,000
Discounted securities	**115,369**	95,727
Total interest bearing securities	**167,742**	220,549
Unit trusts	**179,133**	157,948
Total investment securities	**346,875**	378,497

11. Reinsurance and other recoveries

	2023 $'000	2022 $'000
Expected future reinsurance and other recoveries undiscounted	**178,941**	27,804
Discount to present value	**(4,242)**	(978)
Total reinsurance and other recoveries receivable	**174,699**	26,826
Current	**147,959**	19,416
Non-current	**26,740**	7,410
Total reinsurance and other recoveries receivable	**174,699**	26,826

Details of the uncertainties that exist in measuring reinsurance recoveries arising from the Canterbury earthquakes, Auckland flood and Cyclone Gabrielle are explained in Note 16.1.

12. Deferred reinsurance premiums

	2023 $'000	2022 $'000
Balance at the beginning of the financial year	**36,118**	28,496
Reinsurance premium liability incurred	**106,987**	38,995
Reinsurance premium charged to profit or loss	**(65,420)**	(31,373)
Balance at the end of the financial year	**77,685**	36,118

13. Deferred acquisition costs

	2023 $'000	2022 $'000
Balance at the beginning of the financial year	**14,877**	12,479
Acquisition costs deferred	**28,275**	27,121
Amortisation charged to profit or loss	**(28,541)**	(24,723)
Balance at the end of the financial year	**14,611**	14,877

14. Payables and other liabilities

	2023 $'000	2022 $'000
Trade creditors and accruals	**40,056**	24,744
Lease liability (Note 24)	**35,523**	39,091
GST payable	**40,204**	35,605
Investment payables	**5,529**	-
Amounts due to reinsurers	**85,496**	40,337
Shared property reinstatement deposits (Note 8)	**1**	42
Amounts due to related parties (Note 26)	**3,168**	3,134
Total payables and other liabilities	**209,977**	142,952
Current	**178,853**	107,946
Non-current	**31,124**	35,007
Total payables and other liabilities	**209,977**	142,952

The Financial Markets Authority (FMA) issued proceedings against AA Insurance on 31 May 2023 in respect of its remediations. Communications with the FMA are ongoing.

15. Unearned premium liabilities

	2023 $'000	2022 $'000
Balance at the beginning of the financial year	**349,298**	300,203
Premiums written during the financial year (Note 4)	**774,830**	655,479
Premiums earned during the financial year (Note 4)	**(701,796)**	(606,384)
Balance at the end of the financial year	**422,332**	349,298

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 2023 identified a surplus for the Company (30 June 2022: surplus).

	2023 $'000	2022 $'000
Net central estimate of present value of expected future cash flows from future claims	**333,627**	265,086
Risk margin of the present value of expected future cash flows	**9,486**	7,523
Future reinsurance cost	**43,507**	23,119
	386,620	295,728
Risk margin percentage	**2.8%**	2.8%
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

	2023 $'000	2022 $'000
Gross central estimate - undiscounted	**229,013**	96,810
Discount to present value	**(4,514)**	(1,524)
Claim handling expenses	**30,305**	7,518
Risk margin	**14,148**	10,352
Gross outstanding claims liabilities	**268,952**	113,156
Current	**259,438**	102,220
Non-current	**9,514**	10,936
Gross outstanding claims liabilities	**268,952**	113,156

The Auckland flood in January and ex-Tropical Cyclone Gabrielle in February are two significant events experienced this financial year. Both events caused a catastrophic amount of damage, and the resulting losses are still being assessed. The close timing of both events has compounded the challenge in managing the response.

At 30 June 2023, the central estimate of gross outstanding claims liabilities attributed to the Auckland flood totals $78.5 million for the Company. The equivalent figure for Cyclone Gabrielle totals $48.2 million for the Company.

There is still uncertainty with regards to the estimation of gross outstanding claims liabilities and related reinsurance recoveries for the 2010 and 2011 Canterbury earthquake claims, despite continued progress in the settlement of these claims. This uncertainty can include: geotechnical uncertainty, litigation and the allocation of claim costs between earthquake events.

At 30 June 2023, the central estimate of gross outstanding claims liabilities, plus the net risk margin, attributed to the Canterbury earthquakes totals $6.3 million (30 June 2022: $8.7 million).

The central estimate represents actuarial estimates, as at 30 June 2023, of what the Company ultimately has left to pay, prior to receiving any reinsurance recoveries in relation to these claims. Given the nature of the uncertainties associated with the remaining earthquake claims, the Auckland flood claims and Cyclone Gabrielle claims, the actual claims experience may deviate, perhaps substantially, from the central estimate as at 30 June 2023.

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

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

16.2 Reconciliation of movement in discounted outstanding claims liabilities

	2023 $'000	2022 $'000
Net outstanding claims liabilities at the beginning of the financial year	**86,330**	69,859
Prior periods		
Payments net of reinsurance recoveries	**(78,141)**	(61,923)
Movement in discounting	**2,112**	819
Margin release on prior periods	**(3,438)**	(4,287)
Incurred claims due to changes in assumptions and experience	**(2,226)**	(31)
Change in discount rate	**(438)**	(615)
Change in claims handling expense rate	**(2)**	-
Current period		
Net ultimate incurred costs	**485,169**	380,185
Payments net of reinsurance recoveries	**(395,113)**	(297,677)
Net outstanding claims liabilities at end of the financial year	**94,253**	86,330
Reinsurance and other recoveries receivable (Note 11)	**174,699**	26,826
Gross outstanding claims liabilities	**268,952**	113,156

16.3 Actuarial Assumptions and Methods

a) Assumptions

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

	2023	2022
Weighted average term to settlement (years)	**0.19**	0.27
Economic inflation rate	**7.2%**	6.9%
Superimposed inflation rate	**0.0%**	0.0%
Discount rate	**5.5%**	3.1%
Claim handling expense ratio	**14.3%**	10.6%
Risk margin	**17.7%**	13.6%

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

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

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

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

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

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

The assumptions regarding uncertainty for each class are applied to the net central estimates, and the results aggregated, allowing for diversification in order to arrive at an overall provision, which is intended to have a 90% (2022: 90%) probability of sufficiency.

A net risk margin at an approximate 90% probability of sufficiency (2022: 90%) has been included in the net outstanding claims provision in respect of the 2010 and 2011 Canterbury earthquakes. The net risk margin takes into account: the retention and limits of the applicable property catastrophe programmes; the timing of cash flows; and the currency exchange rates that are likely over the future payment period.

b) Impact of changes in assumptions

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

	Movement in variables	2023 $'000	2022 $'000
Weighted average term to settlement - years	+0.5	**(749)**	(1,580)
	-0.5	**743**	1,552
Inflation rate	+1%	**(162)**	(213)
	-1%	**163**	214
Discount rate	+1%	**164**	220
	-1%	**(166)**	(222)
Claim handling expense ratio	+1%	**(825)**	(780)
	-1%	**825**	780
Risk margin	+1%	**(801)**	(760)
	-1%	**801**	760

c) Actuarial information

John Smeed, of Finity Consulting Pty Limited, is the Appointed Actuary for the Company. Mr. Smeed is a Fellow of the New Zealand Society of Actuaries. Mr. Smeed 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 "Valuations of General Insurance Claims". The effective date of the Appointed Actuary's advice is at 30 June 2023.

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

In particular, the Appointed 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 2023 have been outlined above.

In addition, the Company's Board Audit Risk and Compliance Committee (**BARCC)** receives a Financial Condition Report (**FCR**) annually from the Appointed Actuary of the Company in accordance with the 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. 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 be necessary to settle the obligation and can be reliably estimated.

	Jun-22 $'000	Additions $'000	Amounts used $'000	Unused amounts reversed $'000	Jun-23 $'000
Annual leave and other employee benefits	11,393	13,743	(13,540)	(510)	11,086
Divestments and restructuring	-	336	-	-	336
Customer remediation	807	-	(726)	-	81
Total	12,200	14,079	(14,266)	(510)	11,503
Current	12,200	14,079	(14,266)	(510)	11,503
Total	12,200	14,079	(14,266)	(510)	11,503

Annual leave and other employee benefits

The provision is determined based on expected payments.

Customer remediation

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

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

b) Contingent liabilities

There were no contingent liabilities as at 30 June 2023 (2022: Nil).

18.Share capital

	2023 Shares No. (000)	2023 Shares $'000	2022 Shares No. (000)	2022 Shares $'000
Issued and fully paid ordinary shares	97,334	63,718	97,334	63,718
Shareholder contribution under equity settled employee share plans	-	497	-	497
Total share capital	97,334	64,215	97,334	64,215

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

As at 30 June 2023, the Company had 66,186,860 ordinary shares with no par value issued to Vero Insurance New Zealand Limited (2022: 66,186,860) and 31,146,760 issued to New Zealand Automobile Association Limited (2022: 31,146,760). All shares rank equally with one vote attached to each fully paid ordinary share.

19. Capital management

19.1 Capital management policies and objectives

The capital management strategy of the Company is to optimise shareholder value, having regard to the need to hold sufficient capital to protect the interests of policy holders, and comply with relevant

regulatory requirements, by managing the level, mix and use of capital resources. The primary objective is to ensure there are sufficient capital resources to maintain and grow the business, in accordance with risk appetite. The Company's Internal Capital Adequacy Assessment Process (**ICAAP**) provides the framework to ensure that it 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 Company.

The Company is a licensed insurance company in accordance with the Insurance (Prudential Supervision) Act 2010 (**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 Interim Solvency Standard, the new solvency standard for regulated insurers, will be effective for the Company from 1 July 2023.

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 in Note 19.3 below.

The Company satisfied all externally imposed capital requirements which it was subject to during the year ended 30 June 2023.

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 BARCC oversees the capital computations and maintains the 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 programme, catastrophe exposure and investment strategy.

19.2 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 is included in the definition of 'capital' in the Solvency Standard.

19.3 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:

	2023 $'000	2022 $'000
Actual solvency capital	**167,603**	150,437
Minimum solvency capital	**110,044**	90,845
Solvency Margin	**57,559**	59,592
Solvency Ratio	**1.52**	1.66

20. Credit rating

The Company has an AA- credit rating from Standard & Poor's (2022: AA-) which provide an indication of the Company's ability to pay current and future claims.

21. Notes to the statement of cash flows

	2023 $'000	2022 $'000
Profit for the period after tax	**36,718**	60,725
Non-cash items		
Movement in financial assets at fair value through profit or loss (Note 4)	**(5,511)**	20,045
Depreciation and amortisation expense (Note 6)	**7,024**	6,645
Loss/(gain) on disposal of plant and equipment (Note 6)	**41**	(17)
Movement in defined benefit fund	**(77)**	(174)
Share of joint venture loss	**16**	4
Change in assets and liabilities		
Increase in receivables	**(153,284)**	(35,434)
Increase in reinsurance and other recoveries receivable	**(147,873)**	(8,734)
Increase in deferred reinsurance premiums	**(41,567)**	(7,622)
Decrease/(increase) in deferred acquisition expenses	**266**	(2,398)
Increase in taxation receivable	**(1,014)**	-
Decrease in deferred tax assets	**714**	3,024
Decrease in net defined benefit asset	**48**	162
Increase in payables and other liabilities	**65,064**	15,059
Increase in unearned premium liabilities	**73,034**	49,095
(Decrease)/increase in current tax liabilities	**(7,992)**	6,057
Increase in outstanding claims liabilities	**155,796**	25,205
Decrease in provisions	**(697)**	(16,644)
(Decrease)/increase in deferred tax liabilities	**(73)**	440
Net cash from operating activities	**(19,367)**	115,438

22. Financial instruments

22.1 Comparison of fair value to carrying amounts

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

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

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

Financial assets and liabilities that are not recognised and measured at fair value include cash and cash equivalents, receivables and other assets and payables. The basis of recognition and measurement of these financial assets and liabilities is described in Note 29.

22.2 Fair value hierarchy

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

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

Level 2

Holdings in unit trusts are valued using quoted prices in a non-active market.

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 2023				
Financial assets				
Investment securities	**5,105**	**341,770**	**-**	**346,875**
As at 30 June 2022				
Financial assets				
Investment securities	1,598	376,899	-	378,497

There have been no material transfers between Level 1 and Level 2 during the year ended 30 June 2023.

22.3 Accounting classification and fair values

The fair values of financial assets and liabilities, together with the carrying amount shown in the statement of financial position, are as follows:

2023	Financial Assets at Fair Value $'000	Financial Assets at Amortised Cost $'000	Financial Liabilities at Amortised Cost $'000	Carrying amount $'000
Cash and cash equivalents	**-**	**11,483**	**-**	**11,483**
Receivables and other assets*	**-**	**431,609**	**-**	**431,609**
Investment securities	**346,875**	**-**	**-**	**346,875**
	346,875	**443,092**	**-**	**789,967**
Payables and other liabilities*	**-**	**-**	**(169,773)**	**(169,773)**
2022				
Cash and cash equivalents	-	14,085	-	14,085
Receivables and other assets*	-	278,326	-	278,326
Investment securities	378,497	-	-	378,497
	378,497	292,411	-	670,908
Payables and other liabilities*	-	-	(107,347)	(107,347)

* Receivables and other assets exclude GST receivable which is not a financial asset as it is created as a result of statutory requirements as opposed to being a contractual obligation. 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.

23. Risk management

23.1 Risk management objectives and structure

The Company recognises that effective risk management is critical to the achievement of the Company's objectives. The Board is ultimately responsible for implementing and assessing the effectiveness of risk management strategies and internal controls across the Company.

The BARCC assists the Board in verifying and safeguarding the integrity of the Company's financial reporting, and evaluating and improving the effectiveness of the control, risk management and governance processes. The BARCC has a responsibility to ensure that appropriate systems are in place;

- which facilitate the effective identification, monitoring and management of the principal strategic, operational, insurance, conduct and financial risks to which the Company is exposed
- are directed to ensuring that the Company complies with its legal and regulatory obligations, and conforms to the highest standards of business and ethical behaviour and meet regulatory and community conduct expectations.

The Company has a Management Risk Committee in place, with its own charter. The primary role of the Risk Committee is to oversee the management of financial and non-financial risks arising from the activities of the business within the Company Board-approved risk parameters: Strategic Risk, Financial Risk, Operational Risk (including customer value and conduct risks), Compliance Risk and Insurance Risk.

The Suncorp New Zealand Chief Risk Office team provides second line risk services to the Company and works closely with the Company's first line Risk Advisory team. The Board has approved the Company's Risk Appetite Statement (RAS) and Risk Management Programme (RMP) relating to key categories of risk faced by the Company. Management has the primary responsibility and accountability for embedding the RAS and RMP within the business operations of the Company. The Company adopts a Three Lines of Defence model in order to manage the accountabilities and governance arrangements for the management of risk, which is outlined below.

The Three Lines of Defence model of accountability as it applies to the Company involves:

Line of Defence	Responsibility of	Accountable for
First	All Staff, Risk Advisory Team	Identify, assess and manage the risk and control environment, within risk appetite and policy and framework requirements.
Second	Suncorp New Zealand Chief Risk Office	Oversee, monitor, guide and challenge Line 1 activities
Third	Internal Audit	Independent assurance over internal controls and risk management practices.

Material policies subject to review by Board and that form part of the risk management programme comprise:

- The Risk Appetite Statement **(RAS),** and its linkage to strategic business and capital plans. Risk Appetite is set at Board level.
- Risk Management Programme **(RMP)** which sets out the strategies in place for the identification and management of the key risks to which the Company is exposed. The RMP describes the strategy adopted by the Board for managing risk, including the risk appetite, policies, procedures, management responsibilities and controls. The RMP is endorsed by the BARCC, approved by the Board and submitted to the Reserve Bank of New Zealand.

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

Key risks	Definition
Strategic risk	The risk of loss arising from uncertainty about the future operating environment, including capital volatility, credit rating, earnings volatility, shareholder, brand and reputation, commercial, conduct and customer value risks.

Financial risk	The risk that the Company will be unable to meet its financial obligations and solvency requirements. It also includes the risk of unfavourable changes in foreign exchange rates, interest rates, equity prices and market volatilities, and the risks associated with aggregate external exposures (in the context of exposures of the Suncorp Group) to an Australian major bank or its subsidiaries.
Operational & Compliance risk	Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events beyond the Company or management's control. Compliance risk is the risk of legal and regulatory sanctions, financial loss, or loss to reputation which the Company may suffer as result of its failure to comply with all applicable legislation, regulations, industry codes and company policy.
Insurance risk	The risk of financial loss and the inability to meet liabilities due to inadequate or inappropriate insurance product design, pricing, underwriting, concentration risk, reserving, claims management or reinsurance management.

23.2 Company insurance risk management

a) Policies and practices for mitigating insurance risk

Controls are implemented to manage the following components of insurance risk:

- pricing, including pricing strategies (Pricing Framework), technical pricing and pricing adequacy reviews;
- roles and responsibilities for pricing, the development and approval of new products and changes to existing products (Product Development Framework);
- processes that identify and respond to changes in the internal and external environment impacting insurance products;
- underwriting, portfolio reviews including processes to consider aggregate exposures from a portfolio perspective to determine the actual exposure to particular risks or an event, monitoring of significant concentration of risk, and guidelines around the utilisation of reinsurance in pricing and underwriting;
- delegated authorities for the acceptance, assessment and settlement of claims including operational and ex-gratia authority limits;
- procedures relating to the notification, assessment, evaluation, settlement and closure of claims, and processes to detect and reduce loss associated with claims risk; and
- reserving practices and procedures at individual claim and portfolio level.

At regular points during the year, the Company engages external assurance providers to advise on the management of insurance risk, including actuaries, reinsurance brokers, and internal and external auditors.

Concentration of insurance risk is mitigated through diversification over geographical segments, the use of reinsurer coverage and ensuring there is an appropriate mixture of business. Treaty reinsurance contracts are purchased to ensure that any accumulation of losses from a single event is mitigated.

b) Terms and conditions of insurance business

Insurance contracts are generally entered into on an annual basis and at the time of entering into a contract all terms and conditions are negotiable or, in the case of renewals, renegotiated.

23.3 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	For instalment business, outstanding premiums on policies arise on those which are generally paid on a periodic instalment basis. Payment default will result in the termination of the insurance contract with the policyholders, eliminating both the credit risk and insurance risk for the unpaid balance.
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 guidelines 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 programmes is minimised by placement of cover with reinsurers holding strong credit ratings and in line with 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 Company policy.

For investment securities, credit ratings of counterparties for which credit risk is assessed only relate to the interest-bearing securities of the Company.

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

	Credit Rating						
	AAA	AA	A	BBB	Non-investment grade	Not Rated	Total
2023	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	**-**	**8,983**	**2,500**	**-**	**-**	**-**	**11,483**
Interest bearing investment securities	**44,863**	**64,959**	**53,862**	**4,058**	**-**	**-**	**167,742**
Reinsurance and other recoveries	**-**	**113,775**	**47,993**	**17**	**-**	**12,914**	**174,699**
Accrued income	**-**	**-**	**-**	**-**	**-**	**585**	**585**
Premiums receivable	**-**	**-**	**-**	**-**	**-**	**340,938**	**340,938**
Amounts due from related parties	**-**	**48,880**	**-**	**-**	**-**	**-**	**48,880**
Amounts due from reinsurers	**-**	**20,325**	**9,982**	**-**	**-**	**-**	**30,307**
Other assets	**-**	**-**	**-**	**-**	**-**	**8,620**	**8,620**
	44,863	**256,922**	**114,337**	**4,075**	**-**	**363,057**	**783,254**
2022							
Cash and cash equivalents	-	8,085	6,000	-	-	-	14,085
Interest bearing investment securities	66,004	94,310	57,289	2,946	-	-	220,549
Reinsurance and other recoveries	-	7,079	9,121	105	-	10,521	26,826
Accrued income	-	-	-	-	-	475	475
Premiums receivable	-	-	-	-	-	273,030	273,030
Amounts due from reinsurers	-	1,206	1,528	5	-	-	2,739
Other assets	-	-	-	-	-	880	880
	66,004	110,680	73,938	3,056	-	284,906	538,584

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
2023	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Premiums due	**339,771**	**1,143**	**-**	**-**	**-**	**24**	**340,938**
2022							
Premiums due	272,367	652	-	-	-	11	273,030

23.4 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 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 liquidity 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.

2023	Carrying amount $'000	1 year or less $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
Amounts due to reinsurers	**85,496**	**85,496**	**-**	**-**	**85,496**
Trade creditors and accruals	**40,056**	**40,056**	**-**	**-**	**40,056**
Lease liability	**35,523**	**4,399**	**19,272**	**11,852**	**35,523**
GST payables	**40,204**	**40,204**	**-**	**-**	**40,204**
Investment payables	**5,529**	**5,529**	**-**	**-**	**5,529**
Outstanding claims liabilities	**268,952**	**259,438**	**9,221**	**293**	**268,952**
Amounts due to related parties	**3,168**	**3,168**	**-**	**-**	**3,168**
Provisions	**11,503**	**11,503**	**-**	**-**	**11,503**
	490,431	**449,793**	**28,493**	**12,145**	**490,431**
2022					
Amounts due to reinsurers	40,337	40,337	-	-	40,337
Trade creditors and accruals	24,744	24,744	-	-	24,744
Lease liability	39,091	4,939	20,491	17,678	43,108
GST payables	35,605	35,605	-	-	35,605
Outstanding claims liabilities	113,156	102,220	10,245	691	113,156
Amounts due to related parties	3,134	3,134	-	-	3,134
Provisions	12,200	12,200	-	-	12,200
	268,266	223,178	30,736	18,369	272,283

23.5 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 Technical Funds and Shareholder Funds.

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

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, cash and equities. The investment mandate balances expected investment returns, volatility of expected investment returns and the impact of volatility on both the capital adequacy and profitability of the business.

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

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

a) Interest rate risk

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

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

The valuation of the outstanding claims liabilities includes the discounting to present value at balance date of expected future claim payments. Any assessment of the impact of changes in interest rates on investment income must include the offsetting adjustment to claims expense for changes in discount rates adopted in outstanding claims valuations.

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

The sensitivity of profit or loss after tax to movements in interest rates in relation to interest-bearing financial assets held at the balance date is shown in the table below. It is assumed that all residual exposures for the shareholder after tax are included in the sensitivity analysis, that the percentage point change occurs at the balance date and there are concurrent movements in interest rates and parallel shifts in the yield curves. Given the volatility experienced in the market recently, a movement of 100 basis points (2022:100 basis points) is considered reasonably possible and has been applied to the sensitivity analysis.

	2023			2022		
	Exposure $'000	**Change in variable %**	**Profit (loss) after tax $'000**	**Exposure $'000**	**Change in variable %**	**Profit (loss) after tax $'000**
Fixed interest bearing investment securities	**16,440**	**+1**	**(133)**	65,681	+1	(892)
		-1	**136**		-1	975

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 had no impact on either profit or equity from the measurement of cash and cash equivalents for the current financial year.

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

b) Foreign exchange risk

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

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

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

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

c) Other market risk

Other market risks are the risk of a loss of current and future earnings from adverse movements in the changes in market prices due to factors other than interest rates and foreign exchange. Those factors may be specific to the individual financial instrument or its issuer, or factors that affect all similar financial instruments traded in the market. The main "other market risks" that the Company's investment portfolios are exposed to is 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 (2022: 100 basis points) change in yield is as follows:

	2023			2022		
	Exposure $'000	Change in variable %	Profit (loss) after tax $'000	Exposure $'000	Change in variable %	Profit (loss) after tax $'000
Discounted securities and corporate bonds	**133,162**	**+1**	**(1,160)**	158,549	+1	(1,353)
		-1	**1,160**		-1	1,353
Government and local government securities	**34,580**	**+1**	**(153)**	62,000	+1	(273)
		-1	**153**		-1	273
	167,742			220,549		

d) Equity price risk

The Company holds unit trust investments that expose the Company to equity price risk. The profit and loss impact on equity price movement is determined by multiplying market value by the variable of +/- 500 basis points (2022: 500 basis points):

	2023			2022		
	Exposure $'000	Change in variable %	Profit (loss) after tax $'000	Exposure $'000	Change in variable %	Profit (loss) after tax $'000
Domestic equities in unit trusts	**22,646**	**+5**	**815**	19,522	+5	703
		-5	**(815)**		-5	(703)
Domestic fixed interest in unit trusts	**82,316**	**+5**	**2,963**	73,853	+5	2,659
		-5	**(2,963)**		-5	(2,659)
International equities in unit trusts	**31,225**	**+5**	**1,124**	26,772	+5	964
		-5	**(1,124)**		-5	(964)
International fixed interest in unit trusts	**42,946**	**+5**	**1,546**	37,801	+5	1,361
		-5	**(1,546)**		-5	(1,361)
	179,133			157,948		

23.6 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 19.

24. Property, plant and equipment and leases

	2023 $'000	2022 $'000
Property - Right of use asset	**25,747**	28,837
Plant and equipment	**3,160**	3,854
Total property, plant and equipment	**28,907**	32,691

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

Real Estate	2023 $'000	2022 $'000
Right of use asset at the beginning of the financial year	**28,837**	25,447
Depreciation charge for the year	**(3,627)**	(3,485)
Additions to right of use assets	**537**	6,875
Right of use asset at 30 June 2023	**25,747**	28,837
Lease liability at 30 June 2023	**35,523**	39,091
Current	**4,399**	4,085
Non-current	**31,124**	35,006
Lease liability at 30 June 2023	**35,523**	39,091

Interest expense on the lease liabilities for the Company of $861,000 (2022: $915,000) was recognised as Finance costs in the statement of comprehensive income.

Total cash outflow for lease liabilities presented in the statement of cash flow for the Company was $4,100,000 (2022: $3,762,000).

The Company has no lease commitments which have not been recognised as a lease liability as the respective lease commencement dates are after the end of the financial year (2022: Nil).

25. Intangible assets

Intangible assets consist of computer software. The value of the software has been reviewed for impairment in accordance with NZ IAS 36 Impairment of Assets. Computer software is deemed to have a finite life and is amortised at a rate of 33% per annum on a straight line basis.

	2023 $'000	2022 $'000
Computer software	**1,944**	2,896
Total intangible assets	**1,944**	2,896

25.1 Computer software

	2023 $'000	2022 $'000
At 1 July		
Cost	**5,528**	5,528
Accumulated amortisation and impairment	**(2,632)**	(789)
Balance at the beginning of the financial year	**2,896**	4,739
Additions	**853**	-
Amortisation charge	**(1,805)**	(1,843)
Balance at the end of the financial year	**1,944**	2,896
At 30 June		
Cost	**6,381**	5,528
Accumulated amortisation and impairment	**(4,437)**	(2,632)
Balance at the end of the financial year	**1,944**	2,896

26. Related parties

26.1 Controlling entities

The ultimate parent of the Company is Suncorp Group Limited (Suncorp Group).

The parent of the Company is Vero Insurance New Zealand Limited and it has a 68% shareholding in the Company. The New Zealand Automobile Association Limited has the remaining 32% shareholding in the Company.

26.2 Transactions and balances

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

	2023 $'000	2022 $'000
Premiums received		
Other - Shareholder	**135**	129
Reinsurance premiums paid		
Fellow subsidiaries of the ultimate parent	**23,095**	3,046
Reinsurance recoveries received		
Parent	**6,772**	8,408
Fellow subsidiaries of the ultimate parent	**6,115**	-
Accounting and administration fees received		
Other related parties	**-**	151
Accounting and administration services paid		
Parent	**705**	592
Fellow subsidiaries of the ultimate parent	**13,950**	12,441
Services fee		
Other - Shareholder	**13,282**	12,056
Joint venture	**1,743**	1,610
Employer contributions paid to superannuation schemes		
Other related parties	**5**	5
Group tax loss offsets paid		
Fellow subsidiaries of the ultimate parent	**1,206**	1,420
Dividend paid		
Parent	**13,600**	27,200
Other - Shareholder	**6,400**	12,800

Aggregate amounts receivable from or payable to related parties as at 30 June 2023 and 30 June 2022 are as follows:

	2023 $'000	2022 $'000
Amounts receivable from:		
Parent	**48,880**	-
Total amounts receivable from related parties	**48,880**	-
Amounts payable to:		
Parent	**-**	1
Fellow subsidiaries of the ultimate parent	**2,167**	2,255
Joint venture	**161**	149
Other - Shareholder	**840**	729
Total amounts payable to related parties	**3,168**	3,134

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

26.3 Key management personnel

Key Management Personnel (KMP) are those persons who have authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. KMP include Board of Directors, Chief Executive Officer and senior executives who report to the Chief Executive Officer.

	2023 $'000	2022 $'000
Short-term employee benefits	**3,704**	2,924
Long-term benefits	**18**	48
Termination benefits	**468**	-
Total compensation	**4,190**	2,972

KMP hold various policies with the Company which are transacted in the normal course of business and any claims are paid out on usual commercial terms.

27. Investment in joint venture

AA Insurance Limited has a 50% interest in AA Home Limited (AHL), a joint venture between the New Zealand Automobile Association Limited (NZAA) and the Company. This entity was established on 5 March 2018 and its primary activity is the provision of home repair services. AHL has a balance date of 30 June.

The contractual terms of the arrangement provide for each partner to appoint an equal number of directors to AHL, have equal voting rights and rights to its share of the net assets of the company. This arrangement has been accordingly classified as a joint venture.

28. Auditor's remuneration

	2023 $'000	2022 $'000
During the year the auditor of the Company provided the following services:		
Audit fees		
Audit of annual accounts of the Company	**467**	137
Non-audit fees		
Assurance engagements on RBNZ solvency returns	**75**	71
Total auditor's remuneration	**542**	208

The audit fee for financial year ended 30 June 2023 included fees associated with the audit of the NZ IFRS 17 transition.

29. Significant accounting policies

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

29.1 Foreign currency

Transactions denominated in foreign currencies are initially translated to New Zealand dollars at the spot exchange rates ruling at the date of the transaction. Foreign currency monetary assets and liabilities at the end of the reporting period are translated to New Zealand dollars at the spot rates of exchange current on that date. The resulting differences on monetary items are recognised in the profit and loss as exchange gains and losses in the financial year in which the exchange rates change. Foreign currency non-monetary assets and liabilities that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency non-monetary assets and liabilities that are stated at fair value are translated to New Zealand dollars at foreign exchange rates ruling at the dates the fair value was determined.

29.2 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 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 29.7(d) while investment income from shareholder funds represents revenue from financial assets that do not back general insurance liabilities.

29.3 Income tax

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

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

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

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

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

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

a) Goods and 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.

29.4 Cash and cash equivalents

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

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

29.5 Receivables and other assets

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

29.6 Payables and other liabilities

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

29.7 Financial assets

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

a) Financial assets at fair value through profit or loss

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 are classified at fair value through profit or loss (**FVTPL**). Assets that are SPPI but managed on a fair value basis are also classified at FVTPL. Where financial assets other than FVTPL back liabilities at fair value through profit or loss, this would create an accounting mismatch and the financial assets can be designated as at FVTPL to remove this mismatch.

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

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

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

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

b) Financial assets at amortised cost

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

c) Derecognition of financial assets

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

d) General insurance activities

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

Financial assets backing general insurance liabilities

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

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

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

Financial assets not backing general insurance liabilities

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

29.8 Financial liabilities

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

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

a) Financial liabilities at fair value through profit or loss

A financial liability at fair value through profit or loss is a financial liability 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.

29.9 Impairment

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

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

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

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

a) Calculation of recoverable amount

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

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

b) Reversal of impairment

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

29.10 Property, plant and equipment

a) Recognition and initial measurement

An item of property, plant and equipment is recognised (capitalised) as an asset if it is probable that future economic benefits associated with the item will flow to the 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; and
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- the initial estimate of the costs of removal and site restoration, if any.

b) Subsequent measurement

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

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

c) Depreciation

The depreciable amount of each item of property, 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 20%-33%
- Leasehold Alterations 20%
- Motor Vehicles 14%

d) Retirement

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

29.11 Intangibles

a) Initial recognition and measurement

Intangible assets 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.

The intangibles assets comprise of computer software.

b) Subsequent expenditure

Subsequent expenditure on intangible assets 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 and 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.

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 computer software has been assessed as three years and it is amortised on a straight-line basis over this period.

29.12 Leases

a) Lease liabilities

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

The lease liabilities are remeasured when there is a change in the contractual cash flow (i.e. due to a change in an index, rate or term). Any remeasurements result in a corresponding adjustment to the right-of-use (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 (ROU) 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 expense' line item.

29.13 Employee benefit obligations

a) Short term employee benefits

Annual leave

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

Sick leave

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

Short term bonus plans

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

Other leave and non-monetary benefits

The cost associated with parental leave as well as non-monetary benefits such as car-parking, payments of professional memberships and discounts is recognised in the period in which the employee takes the

benefits. A liability is not recognised for any non-accumulating benefits employees have not taken during the period.

b) Post-employment benefits (superannuation)

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

For defined contribution funds, the Company pays contributions to publicly or privately administered pension insurance funds on a mandatory, contractual or voluntary basis. The Company's legal or constructive obligation is limited to these contributions.

The defined benefit fund provides defined pension annuities and lump sum benefits based on years of service and final average salary. The Company's net obligation in respect of defined benefit fund is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any fund assets.

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

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

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

c) Other long-term employee benefits

Long service leave

A liability for long service leave is recognised in the 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.

29.14 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 where 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.

29.15 Outstanding claims liabilities

The outstanding claims liability is measured as the central estimate of the present value of expected future payments against claims incurred at the reporting date and includes an additional risk margin to allow for the inherent uncertainty in the central estimate. Standard actuarial methods are applied to all classes of business to assess the net central estimate of outstanding claims liabilities. The outstanding claims liability is heavily dependent on assumptions and judgements. The details of actuarial assumptions and the process for determining the risk margins are set out in Note 16.3.

29.16 Unearned premium liabilities

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

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

29.17 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.

29.18 Interest in joint venture

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

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

29.19 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.

29.20 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 and loss in the period of the change and future periods, as applicable.

b) Errors

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

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

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

29.21 New accounting standards and interpretations not yet adopted

NZ IFRS 17 Insurance Contracts

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 is effective for the Company's financial statements for the reporting period beginning 1 July 2023.

a) Measurement models

NZ IFRS 17 introduces three new measurement models – the general model, the variable fee approach and premium allocation approach. 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 (PAA) is similar to the current measurement model used for general insurance.

The Company has developed a model and methodology to assess eligibility of contracts to use the premium allocation approach. The Company expects to use the premium allocation approach for all its general insurance and reinsurance contracts. Insurance contracts issued to policyholders and reinsurance contracts are measured separately.

Acquisition costs relating to insurance contracts issued to policyholders measured under the premium allocation approach can either be immediately expensed or capitalised and amortised over the coverage

period. For general insurance contracts applying the premium allocation approach, the Company will amortise acquisition costs over the coverage period. Under NZ IFRS 17, certain expenses are not attributed to insurance and reinsurance contracts and will be accounted for outside of the insurance service result.

b) Onerous contracts

NZ IFRS 17 requires the identification of groups of onerous contracts at a more granular level than the liability adequacy test performed under the NZ IFRS 4 accounting standard, with a loss component recognised on initial recognition of the group of contracts. Under the PAA, the Company assumes that no contracts in the portfolio are potentially onerous at initial recognition unless facts and circumstances indicate otherwise. The Company has developed a framework for identifying indicators of possible onerous contracts using internal management information. No contracts have been assessed as onerous on transition to NZ IFRS 17. This will be assessed on an ongoing basis as part of the Company's reporting processes.

c) Discount rates

NZ IFRS 17 requires estimates of future cash flows of insurance contracts to be discounted to reflect the time value of money, the financial risks, and liquidity characteristics of the cash flows. This differs from the risk-free discount rates used under current accounting standards. To calculate the discount rate, a bottom-up approach will be applied, whereby the risk-free yield curve is adjusted to reflect the liquidity characteristics of the insurance cash flows through the addition of an illiquidity premium which will increase the discount rate. The Company has developed a framework to determine an illiquidity premium. The Company will present the financial impacts of discounting in the profit or loss, rather than disaggregate the impact between profit or loss and other comprehensive income.

d) Risk Adjustment

The measurement of insurance contract liabilities includes a risk adjustment to reflect the compensation an entity requires for bearing the uncertainty about the amount and timing of the cashflows that arises from non-financial risks as the entity fulfills insurance contracts. This differs from the risk margin used under the NZ IFRS 4 accounting standard which reflects the inherent uncertainty in the central estimate of estimated future cash flows. The Company has developed a framework and models for determining the risk adjustment and expects to use a probability of adequacy of between 75% and 80% determined by a cost of capital model.

e) Capital impacts

The Company has analysed the implications of implementing NZ IFRS 17 for changes to capital and solvency standards. Major changes to capital management and dividend policy are not expected to arise from NZ IFRS 17, but stress tests will be performed to ensure they are appropriate for the Company's strategy.

f) Tax impacts

The current income tax settings for insurance have largely not changed for NZ IFRS 17. However there has been legislative change to align the income tax treatment of outstanding claims reserves to the treatment under NZ IFRS 17. Otherwise, differences between the income tax treatment and NZ IFRS 17 give rise to a temporary difference.

g) Presentation and disclosure

NZ IFRS 17 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 receivable, 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 insurance finance 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.

h) Transition approach

NZ IFRS 17 is to be applied retrospectively to all insurance contracts on the transition date unless it is impractical to do so, in which case a modified retrospective or fair value approach may be applied. The Company will use the full retrospective approach..

i) Financial impact

On transition to NZ IFRS 17 on 1 July 2022, the impact on the Company's reported equity/net assets is estimated to be within a range of $3 million to $7 million increase before tax. Work is ongoing to finalise the impacts and to restate comparative information for reporting under NZ IFRS 17 and as such the financial impact for the financial year ending 30 June 2023 is still to be quantified.

The differences between NZ IFRS 4 and NZ IFRS 17 total equity are mainly driven by the application of the risk adjustment and the discounting of claims liabilities applying the principles of the new standard.

The NZ IFRS 17 requirements are complex and global interpretation of these requirements continues to evolve. The actual financial impact is subject to finalisation of key judgements and assumptions relating to the requirements of NZ IFRS 17.

The accounting policy decisions have been made and the technology and systems builds have been completed. The Company is well progressed with the implementation and final testing of changes to finance systems and processes, actuarial and capital modelling and financial, regulatory and management reporting.

30. Subsequent events

There were no material events post 30 June 2023 which would require adjustment to the amounts reflected in the 30 June 2023 financial statements or disclosures thereto.

finity

9 August 2023

The Board of Directors
AA Insurance Limited
Level 4, 46 Sale Street
Auckland 1010

Dear Directors

Review of Actuarial Information contained in Financial Statements As at 30 June 2023 AA Insurance Limited

Finity Consulting Pty Limited (Finity) has been asked by AA Insurance Limited (AAI) to carry out a review of the 30 June 2023 actuarial information contained in the financial statements and provide an opinion as to its appropriateness and accordance with Section 78 of the Insurance (Prudential Supervision) Act 2010. John Smeed is an employee of Finity and is the Appointed Actuary to AAI. Finity has no relationship with AAI apart from the Appointed Actuary role.

AAI's policy is to seek and adopt the advice of the Appointed Actuary in respect of the actuarial information contained in its financial statements. We confirm that the financial statements as at 30 June 2023 have been prepared in accordance with this policy, and as such this satisfies the requirements of the Act.

Having carried out our actuarial review nothing has come to our attention that would lead us to believe that the actuarial information contained in the financial statements for AAI as at 30 June 2023 is inappropriate or has been used or included inappropriately. No limitations were placed on us in performing our review and all data and information requested was provided. In our opinion AAI has maintained a solvency margin in excess of the minimum required as at the balance date.

This review is being provided for the sole use of AAI for the purpose stated above. It is not intended, nor necessarily suitable, for any other purpose and should only be relied on for the purpose for which it is intended.

Yours sincerely

John Smeed
Appointed Actuary
Fellow of the NZ Society of Actuaries