Vero Liability Insurance Limited

Financial report

for the financial year ended 30 June 2023

Vero Liability Insurance Limited

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 Vero Liability Insurance Limited (the **Company**) for the financial year ended 30 June 2023.

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

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

Non-executive
K A Armstrong
A Barrass (appointed 1 September 2022)
D M Flacks (Chairman)
J J Higgins
K L Jorgensen (appointed 1 September 2022)
D F McTaggart (resigned 13 March 2023)
L J Tanner (appointed 13 March 2023)

Executive
A R Tulloch
B N Waymouth

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

Auditor
KPMG
18 Viaduct Harbour Avenue
Auckland 1010
New Zealand

Dividends
During the financial year, the Company paid dividends totalling $32,700,000 (2022: $23,000,000). Further details of dividends paid are set out in Note 3 to the financial statements.

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

Review of operations
The net profit after income tax for the year ended 30 June 2023 was $34,584,000 for the Company compared with net profit after income tax of $28,295,000 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

Non-executives
Kate Armstrong
LLB, BA

Director since 2020. Ms Armstrong is a lawyer who has significant experience in the financial services sector, including investments, insurance and banking. She has been closely involved in the design and operation of customer and remediation programmes and was previously on the Board of the Financial Services Council. Ms Armstrong is also a director of Vero Insurance New Zealand Limited (the immediate parent company of Vero Liability Insurance Limited) and Asteron Life Limited, a related company.

Alison Barrass

BSc, PGDipBus, University of Southampton, University of Auckland

Director since 2022. An experienced governance professional, Ms Barrass is a director of a number of company boards. Ms Barrass has a broad range of skills, including knowledge and expertise in the fast-moving consumer goods (FMCG) sector and in governance, leadership and marketing-led innovation. She primarily works with New Zealand based businesses that are investing significantly in digitisation and/or international growth. Ms Barrass is also a director of Vero Insurance New Zealand Limited (the immediate parent company of Vero Liability Insurance Limited) and Asteron Life Limited, a related company.

David M Flacks

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

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

James J Higgins

BA (Psychology), BBus (Accountancy), GradDipCA

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

Kate L Jorgensen

MTF, BBus (Accountancy), CA, CMInstD

Director since 2022, Ms Jorgensen has significant financial, audit and commercial experience and has held several senior leadership positions within the telecommunications, infrastructure and construction industries in New Zealand. Kate's background as an experienced Audit and Risk Committee member who maintains excellent financial disciplines help give confidence to stakeholders. Ms Jorgensen is also a director of Vero Insurance New Zealand Limited (the immediate parent company of Vero Liability Insurance Limited) and Asteron Life Limited, a related company.

Directors’ report (continued)

Lindsay J Tanner

BA (Hons), LLB (Hons), MA (Melb)

Director since 2023. Mr Tanner has worked at the highest levels of government and business in Australia for over 35 years, including as Minister for Finance and Deregulation from 2007 to 2010, where he played a significant role in regulatory reform in the financial services sector. He also served as Minister for the Future Fund during the Global Financial Crisis. He began his professional career as a lawyer representing consumers in disputed personal injury and motor insurance claims. Mr Tanner is also a director of Vero Insurance New Zealand Limited (the immediate parent company of Vero Liability Insurance Limited), Suncorp Group Limited, Asteron Life Limited and related holding companies comprising Suncorp New Zealand.

Executives

Adrian R Tulloch

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

Benjamin N Waymouth

BA

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

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

Signed in accordance with a resolution of the Directors.

Director

Director

Corporate governance statement

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

Board
The role of the Board of Directors is to provide effective governance over the operations of the Company to ensure that systems and processes are in place and maintained to achieve business objectives, ensure compliance with applicable laws, manage risks and protect the interests of stakeholders including its ultimate parent Suncorp Group Limited, the Company's customers, employees, suppliers and local communities in which it operates.

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

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

The key skills, experience and qualities required for the effective management of the business are incorporated in a Board skills matrix. This is used as part of the Board performance evaluation process.

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

New Directors undergo an induction process and all Directors are expected to keep up to date with matters affecting the business of the Company, the Suncorp Group, the general insurance industry and their duties as Directors.

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

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

Membership
There are eight Directors in office, five being independent non-executive Directors (Kate Armstrong, Alison Barrass, David Flacks, Kate Jorgensen and Lindsay Tanner), one being non-independent non-executive (James Higgins) and two being executive Directors (Adrian Tulloch, Managing Director of Vero Liability and Ben Waymouth, Deputy Managing Director of Vero Liability). The Directors' Report includes brief details of the qualifications and experience of the Directors.

Board Audit and Risk Committee (BARC)
The role of the BARC is to assist the Board in fulfilling its statutory and fiduciary responsibilities with respect to the financial and operating environment, risk management systems and processes and ensuring a sound risk culture that maintains a focus on appropriate customer outcomes.

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

Corporate governance statement (continued)

Membership
All non-executive Directors, the Suncorp New Zealand Chief Executive Officer and the Managing Director are members of the BARC.

Management Committees
The Board has delegated the day-to-day operation and management of the Company to the Vero Liability Managing Director. To assist in these duties, management committees have been established to monitor and oversee key risks. Management committees in place are: Non-Financial Risk Committee (**NFRC**), Asset and Liability Committee (**ALCO**), Customer Conduct Committee (**CCC**), Vero Liability Management, Governance and Technical Committees.

Corporate Governance
The Company is part of the Suncorp Group and complies with Suncorp Group policies and requirements, except where these are inconsistent with the requirements of New Zealand law or regulatory requirements, or where the Board considers that they are not in the best interests of the Company. The Company has also adopted New Zealand specific policies, standards and guidelines where appropriate. Key policies in place include: the Code of Conduct, Conflict of Interest Policy, Business Continuity Management Policy, Enterprise Risk Management Framework, the Whistleblower Policy, Product Management Policy, Investment Governance Policy, Securities Trading Policy, Diversity and Inclusion Policy, Safety and Wellbeing Policy and the Responsible Banking and Sustainable Insurance Policy.

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

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

Action on Climate Change
Suncorp's approach to climate change is strategically linked to Suncorp's purpose of building futures and protecting what matters. This approach is underpinned by the Suncorp Climate Change Action Plan which has been adopted by the Board of the Company. The Climate Change Action Plan addresses Suncorp's climate change commitments and defines how the Suncorp Group will work with its customers and communities to support a transition to a net-zero carbon emissions economy by 2050. The plan has four key pillars:

1. Reducing our climate impact
2. Supporting the net-zero transition
3. Integrating and lifting capability
4. Partnering with purpose

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

Corporate governance statement (continued)

Diversity & Inclusion
Suncorp Group's goal is to be one of the most inclusive places to work in Australia and New Zealand, because our people, customers and communities all benefit from a fairer and more inclusive culture.

The Suncorp NZ Sustainability and Diversity Committee assists the Group in delivering these objectives by:

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

The Suncorp NZ Sustainability and Diversity Committee is chaired by the Suncorp New Zealand Chief Executive Officer.

Independent Auditor’s Report

To the Shareholder of Vero Liability Insurance Limited

Report on the audit of the financial statements

Opinion

In our opinion, the financial statements of Vero Liability Insurance Limited (the ‘Company’) on pages 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.

Basis for opinion

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

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

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the Shareholder 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.

The key audit matter	How the matter was addressed in our audit
Outstanding claims liabilities and associated reinsurance and other recoveries receivable **Outstanding claims liability $183.3 million** **Reinsurance and other recoveries $66.0 million**	
Refer to Note 10 and 16 to the Financial Report. The valuation of outstanding claims liabilities and related reinsurance assets involved a high level of judgement in estimating the future payments for claims incurred, including case estimates for reported claims and those incurred but not yet reported to the Company. The 'long tail' nature of the Company's liability insurance business has a greater level of uncertainty compared to 'short tail' non-life insurance classes of business, in the estimation of outstanding claims liabilities and related reinsurance assets. Valuation of reinsurance assets involves a high degree of uncertainty due to the dependence on the estimate on related claims costs. Valuation of reinsurance and other recoveries is affected by the same uncertainties.	We involved our actuarial specialists and performed audit procedures, which included: • Testing key controls over claims payments and case estimates, including IT general and application controls. • Selecting a sample of claim payments and case estimates to check the accuracy of the claims information (both financial and non-financial). • Challenging the appropriateness of the Company's actuarial methods and key assumptions and considered the impacts of economic uncertainties on the methods and key assumptions. • Performing independent re-projections of management's calculation of outstanding claims liability for a sample of classes of business. • Assessing the selection of methods and key assumptions applied in the valuation of outstanding claims liabilities. We challanged 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 – Evaluating actuarial methodologies for consistency with those used in the industry and with prior periods. • Assessing the Company's estimation of risk margins to identify possible management bias. Testing reinsurance contracts on a sample basis to check that recoveries recognised in the financial statements align with the terms of those contracts and the amount of the respective outstanding claims liability.

Other information

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

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

Use of this independent auditor's report

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

Responsibilities of the Directors for the financial statements

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

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards 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 fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

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

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

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

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

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

For and on behalf of

KPMG

KPMG
Auckland

10 August 2023

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

	Note	2023 $'000	2022 $'000
Premium revenue	4	**146,714**	137,806
Outwards reinsurance premium expense	11	**(44,058)**	(40,516)
Net premium revenue		**102,656**	97,290
Claims expense	5	**(60,627)**	(41,548)
Reinsurance and other recoveries revenue	4, 5	**28,546**	17,843
Net incurred claims	5	**(32,081)**	(23,705)
Acquisition costs	12	**(32,625)**	(31,926)
Other underwriting expenses		**(4,305)**	(3,875)
Underwriting expenses		**(36,930)**	(35,801)
Reinsurance commission revenue	4	**8,809**	8,287
Underwriting result		**42,454**	46,071
Investment (loss)/gain on insurance funds	4.1	**4,621**	(5,107)
Investment expense on insurance funds		**(270)**	(306)
Insurance trading result		**46,805**	40,658
Investment (loss)/gain on shareholder funds	4.1	**1,556**	(1,135)
Investment expense on shareholder funds		**(165)**	(88)
Finance costs	23	**(69)**	(73)
Profit before tax	6	**48,127**	39,362
Income tax expense	7.1	**(13,543)**	(11,067)
Profit for the financial year attributable to owner of the Company		**34,584**	28,295
Other comprehensive income		**-**	-
Total comprehensive income for the financial year		**34,584**	28,295

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

Statement of financial position
as at 30 June 2023

	Note	2023 $'000	2022 $'000
Assets			
Cash and cash equivalents		**7,906**	8,246
Receivables and other assets	8	**51,156**	46,703
Investment securities	9	**198,803**	180,453
Reinsurance and other recoveries receivable	10	**66,036**	56,364
Deferred reinsurance premiums	11	**30,862**	29,396
Deferred acquisition costs	12	**9,392**	8,562
Property, plant and equipment and leases	23	**6,574**	2,411
Intangible assets	13	**3,849**	2,405
Deferred tax assets	7.4	**848**	859
Total assets		**375,426**	335,399
Liabilities			
Payables and other liabilities	14	**37,918**	23,494
Current tax liabilities	7.3	**3,576**	3,998
Unearned premium liabilities	15	**85,995**	80,142
Outstanding claims liabilities	16	**183,319**	165,367
Provisions	26	**2,590**	2,487
Deferred tax liabilities	7.4	**2,630**	2,397
Total liabilities		**316,028**	277,885
Net assets		**59,398**	57,514
Equity			
Share capital	17	**15,047**	15,047
Retained profits		**44,351**	42,467
Total equity attributable to owner of the Company		**59,398**	57,514
Total equity		**59,398**	57,514

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

For, and on behalf of the Board

Director

Director

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

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

	Note	Share capital $'000	Retained profits $'000	Total $'000
Balance as at 1 July 2021		15,047	37,172	52,219
Profit for the financial year		-	28,295	28,295
Total comprehensive income for the financial year		-	28,295	28,295
Transactions with the owner, recorded directly in equity				
Dividends paid	3	-	(23,000)	(23,000)
Balance as at 30 June 2022		**15,047**	**42,467**	**57,514**
Balance as at 1 July 2022		**15,047**	**42,467**	**57,514**
Profit for the financial year		**-**	**34,584**	**34,584**
Total comprehensive income for the financial year		**-**	**34,584**	**34,584**
Transactions with the owner, recorded directly in equity				
Dividends paid	3	**-**	**(32,700)**	**(32,700)**
Balance as at 30 June 2023		**15,047**	**44,351**	**59,398**

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

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

	Note	2023 $'000	2022 $'000
Cash flows from operating activities			
Premiums received		**147,937**	139,539
Claims paid		**(42,675)**	(42,292)
Interest received		**6,458**	4,812
Reinsurance and other recoveries received		**20,136**	14,301
Outward reinsurance premiums paid		**(45,208)**	(42,284)
Acquisition costs paid		**(24,646)**	(22,783)
Income tax paid*		**(9,700)**	(11,010)
Finance costs paid	23	**(69)**	(73)
Underwriting and other operating expenses paid		**(2,828)**	(2,433)
Net movement in goods and services tax		**810**	(95)
Net cash from operating activities	20	**50,215**	37,682
Cash flows from investing activities			
Proceeds from sale of investment securities		**218,100**	193,239
Payments for purchase of investment securities		**(233,116)**	(204,142)
Proceeds from sale of plant and equipment		**140**	-
Payments for purchases of plant and equipment and intangibles		**(2,066)**	(1,501)
Net cash (used in) investing activities		**(16,942)**	(12,404)
Cash flows from financing activities			
Dividends paid to owner of the Company		**(32,700)**	(23,000)
Repayment of lease liabilities		**(913)**	(909)
Net cash (used in) financing activities		**(33,613)**	(23,909)
Net (decrease)/increase in cash and cash equivalents		**(340)**	1,369
Cash and cash equivalents at the beginning of the financial year		**8,246**	6,877
Cash and cash equivalents at the end of the financial year		**7,906**	8,246

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

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

Notes to the financial statements

1. Reporting entity

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

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

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

2. Basis of preparation

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

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

The reporting period is from 1 July 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. Where it is not specified, disclosures relate to the Company.

2.1 Statement of compliance

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

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

No new accounting standards adopted in the current year.

2.3 Use of estimates and judgements

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

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

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

Notes to the financial statements (continued)

2.3 Use of estimates and judgements (continued)

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.

Outstanding claims liabilities and assets arising from reinsurance contracts

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

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

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

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

Changes or uncertainties in the experience may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims. The ultimate net outstanding claims provision includes a risk margin to allow for the uncertainty within the estimation process.

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

Estimates of reinsurance and other recoveries receivable are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as credit risk.

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

Financial risk management

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

Notes to the financial statements (continued)

3. Dividends

	2023		2022	
	¢ per share	$'000	¢ per share	$'000
Ordinary shares				
Final dividend	**107**	**16,000**	61	9,200
Interim dividend	**111**	**16,700**	92	13,800
Total dividends recognised in equity attributable to owner of the Company	**218**	**32,700**	153	23,000

4. Revenue

	2023 $'000	2022 $'000
Insurance income		
Gross written premium	**152,567**	144,272
Movement in unearned premium	**(5,853)**	(6,466)
Premium revenue	**146,714**	137,806
Reinsurance and other recoveries revenue	**28,546**	17,843
Reinsurance commission revenue	**8,809**	8,287
Total insurance income	**184,069**	163,936
Investment gain/(loss)		
Interest income	**6,844**	4,767
Net loss on financial assets at fair value through profit or loss	**(667)**	(11,009)
Total investment gain/(loss)	**6,177**	(6,242)
Total revenue	**190,246**	157,694

4.1 Investment gain/(loss)

	2023 $'000	2022 $'000
Investment gain/(loss) on insurance funds	**4,621**	(5,107)
Investment gain/(loss) on shareholder funds	**1,556**	(1,135)
Total investment gain/(loss)	**6,177**	(6,242)

Notes to the financial statements (continued)

5. Net incurred claims

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

	Current Year $'000	Prior Year $'000	Total $'000
Year ended 30 June 2023			
Gross incurred claims and related expenses			
Undiscounted	**67,760**	**(939)**	**66,821**
Discount and discount movement	**(7,146)**	**952**	**(6,194)**
Gross incurred claims discounted	**60,614**	**13**	**60,627**
Reinsurance and other recoveries			
Undiscounted	**(21,423)**	**(8,855)**	**(30,278)**
Discount and discount movement	**1,758**	**(26)**	**1,732**
Reinsurance and other recoveries discounted	**(19,665)**	**(8,881)**	**(28,546)**
Net incurred claims	**40,949**	**(8,868)**	**32,081**
Year ended 30 June 2022			
Gross incurred claims and related expenses			
Undiscounted	63,502	(7,210)	56,292
Discount and discount movement	(5,981)	(8,763)	(14,744)
Gross incurred claims discounted	57,521	(15,973)	41,548
Reinsurance and other recoveries			
Undiscounted	(17,827)	(4,908)	(22,735)
Discount and discount movement	1,748	3,144	4,892
Reinsurance and other recoveries discounted	(16,079)	(1,764)	(17,843)
Net incurred claims	41,442	(17,737)	23,705

6. Profit before tax

	2023 $'000	2022 $'000
Profit before tax is arrived at after charging the following specific items:		
Contributions to defined contribution superannuation schemes	**551**	443
Depreciation on property, plant and equipment	**1,007**	967
Employee benefits	**9,055**	8,548
Gain on disposal of property, plant and equipment	**(22)**	-

Notes to the financial statements (continued)

7. Income tax

7.1 Income tax expense

	2023 $'000	2022 $'000
Profit before tax	**48,127**	39,362
Prima facie income tax at 28% (2022: 28%)	**13,476**	11,021
Movement in income tax expense due to:		
Non-deductible expenditure	**53**	39
Adjustment for prior financial years	**14**	7
Income tax expense	**13,543**	11,067
Income tax expense recognised in profit consists of:		
Current tax expense		
Current year	**13,286**	11,307
Adjustments for prior financial years	**13**	9
	13,299	11,316
Deferred tax expense		
Current year	**243**	(247)
Adjustments for prior financial years	**1**	(2)
	244	(249)
Income tax expense	**13,543**	11,067

7.2 Imputation credits

	2023 $'000	2022 $'000
SGHNZL ICA Group	**554,351**	523,929
Imputation credits available for use in subsequent reporting periods	**554,351**	523,929

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

7.3 Current tax

	2023 $'000	2022 $'000
Balance at the beginning of the financial year	**(3,998)**	(3,692)
Income tax paid	**9,700**	11,071
Current year tax on operating profit (Note 7.1)	**(13,286)**	(11,307)
Adjustment for prior financial years (Note 7.1)	**(13)**	(9)
Transfers between related parties	**4,021**	(61)
Balance at the end of the financial year	**(3,576)**	(3,998)

Notes to the financial statements (continued)

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.

	2023 $'000	2022 $'000
Deferred tax assets are attributable to		
Depreciable assets	**67**	62
Employee benefits	**709**	682
Payables and other liabilities	**20**	50
Leases	**52**	65
Total deferred tax assets	**848**	859
Deferred tax liabilities are attributable to		
Deferred acquisition costs	**(2,630)**	(2,397)
Total deferred tax liabilities	**(2,630)**	(2,397)
Net deferred tax liabilities	**(1,782)**	(1,538)
Movements		
Deferred tax assets		
Balance at the beginning of the financial year	**859**	850
Movement recognised in profit or loss	**(11)**	9
Balance at the end of the financial year	**848**	859
Deferred tax liabilities		
Balance at the beginning of the financial year	**(2,397)**	(2,637)
Movement recognised in profit or loss	**(233)**	240
Balance at the end of the financial year	**(2,630)**	(2,397)

8. Receivables and other assets

	2023 $'000	2022 $'000
Trade and other receivables		
Premiums due	**47,190**	42,560
Prepaid expenses	**10**	9
Amounts due from reinsurers	**1,873**	3,138
Total trade and other receivables	**49,073**	45,707
Other assets		
Accrued income	**1,382**	996
Investment receivables	**698**	-
Other assets	**3**	-
Total other assets	**2,083**	996
Total receivables and other assets	**51,156**	46,703
Current	**51,156**	46,703
Total receivables and other assets	**51,156**	46,703

Notes to the financial statements (continued)

9. Investment securities

	2023 $'000	2022 $'000
Financial assets at fair value through profit or loss		
Interest bearing securities	**198,803**	180,453
Total investment securities	**198,803**	180,453

10. Reinsurance and other recoveries receivable

	2023 $'000	2022 $'000
Expected future reinsurance and other recoveries undiscounted	**73,804**	62,400
Discount to present value	**(7,768)**	(6,036)
Total reinsurance and other recoveries receivable	**66,036**	56,364
Current	**26,705**	17,031
Non-current	**39,331**	39,333
Total reinsurance and other recoveries receivable	**66,036**	56,364

11. Deferred reinsurance premiums

	2023 $'000	2022 $'000
Balance at the beginning of the financial year	**29,396**	26,015
Reinsurance premium liability incurred	**45,524**	43,897
Reinsurance premium charged to profit or loss	**(44,058)**	(40,516)
Balance at the end of the financial year	**30,862**	29,396

12. Deferred acquisition costs

	2023 $'000	2022 $'000
Balance at the beginning of the financial year	**8,562**	9,418
Acquisition costs deferred	**24,646**	22,783
Amortisation charged to profit or loss	**(32,625)**	(31,926)
Reinsurance commission recognised in profit or loss	**8,809**	8,287
Balance at the end of the financial year	**9,392**	8,562

Notes to the financial statements (continued)

13. Intangible assets

Intangible assets consist of computer software. Computer software is deemed to have a finite life and is amortised at a rate of 20%-33% per annum on a straight-line basis.

	Company	
	2023 $'000	**2022 $'000**
At 1 July		
Cost	**4,063**	2,571
Accumulated amortisation	**(1,658)**	(1,658)
Additions – internally developed	**1,444**	1,492
Balance at the end of the financial year	**3,849**	2,405
At 30 June		
Cost	**5,507**	4,063
Accumulated amortisation	**(1,658)**	(1,658)
Balance at the end of the financial year	**3,849**	2,405

14. Payables and other liabilities

	2023 $'000	**2022 $'000**
Trade creditors and accruals	**2,405**	2,757
Lease liability (Note 23)	**6,210**	2,456
GST payable	**2,044**	1,234
Investment payables	**4,698**	-
Amounts due to reinsurers	**13,674**	13,358
Amounts due to related parties (Note 24)	**8,887**	3,689
Total payables and other liabilities	**37,918**	23,494
Current	**32,447**	21,970
Non-current	**5,471**	1,524
Total payables and other liabilities	**37,918**	23,494

15. Unearned premium liabilities

	2023 $'000	**2022 $'000**
Balance at the beginning of the financial year	**80,142**	73,676
Premiums written during the financial year (Note 4)	**152,567**	144,272
Premiums earned during the financial year (Note 4)	**(146,714)**	(137,806)
Balance at the end of the financial year	**85,995**	80,142

Notes to the financial statements (continued)

15.1 Liability adequacy test

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

The liability adequacy test which was performed as at 30 June 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	**19,276**	18,217
Risk margin of the present value of expected future cash flows	**1,582**	1,495
	20,857	19,711
	2023 %	**2022 %**
Risk margin percentage	**8.2**	8.2
Probability of sufficiency	**60.0**	60.0

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

16. Outstanding claims liabilities

16.1 Gross outstanding claims liabilities

	2023 $'000	2022 $'000
Gross central estimate - undiscounted	**168,052**	147,699
Discount to present value	**(19,620)**	(14,755)
Claim handling expenses	**8,240**	7,657
Risk margin	**26,647**	24,766
Gross outstanding claims liabilities	**183,319**	165,367
Current	**64,014**	49,807
Non-current	**119,305**	115,560
Gross outstanding claims liabilities	**183,319**	165,367

16.2 Reconciliation of movement in discounted outstanding claims liabilities

	Note	2023 $'000	2022 $'000
Net outstanding claims liabilities at the beginning of the financial year		**109,003**	111,821
Prior periods			
Payments net of reinsurance recoveries		**(19,239)**	(20,319)
Movement in discounting		**3,800**	3,763
Margin release on prior periods		**(10,412)**	(17,882)
Changes in assumptions and experience		**1,311**	4,652
Change in discount rate		**(3,567)**	(8,270)
Current period			
Net ultimate incurred costs		**40,949**	41,442
Payments net of reinsurance recoveries		**(4,562)**	(6,204)
Net outstanding claims liabilities at end of the financial year		**117,283**	109,003
Reinsurance and other recoveries receivable	10	**66,036**	56,364
Gross outstanding claims liabilities		**183,319**	165,367

16.3 Claims development table

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

	Accident year											2023
Accident year	**Prior $'000**	**2014 $'000**	**2015 $'000**	**2016 $'000**	**2017 $'000**	**2018 $'000**	**2019 $'000**	**2020 $'000**	**2021 $'000**	**2022 $'000**	**2023 $'000**	**Total $'000**
Estimate of ultimate claims cost:												
At end of accident year		18,938	21,029	23,441	24,628	24,414	27,920	28,913	30,504	33,713	33,876	33,876
One year later		19,999	25,475	24,180	24,531	26,874	27,842	24,850	28,552	32,368	-	32,368
Two years later		20,700	23,899	23,160	22,380	26,189	26,816	24,080	26,365	-	-	26,365
Three years later		19,623	24,052	21,765	22,707	26,250	26,004	23,259	-	-	-	23,259
Four years later		19,467	24,193	20,978	23,037	24,414	26,258	-	-	-	-	26,258
Five years later		19,321	22,803	20,176	22,893	23,401	-	-	-	-	-	23,401
Six years later		19,235	22,343	19,513	23,355	-	-	-	-	-	-	23,355
Seven years later		18,487	22,351	20,243	-	-	-	-	-	-	-	20,243
Eight years later		18,373	22,231	-	-	-	-	-	-	-	-	22,231
Nine years later		18,424		-	-	-	-	-	-	-	-	18,424
Current estimate of cumulative claims cost	164,755	18,424	22,231	20,243	23,355	23,401	26,258	23,259	26,365	32,368	33,876	414,535
Cumulative payments	163,251	18,407	21,072	18,645	20,978	19,785	17,718	14,044	12,420	10,290	3,676	320,287
Outstanding claims - undiscounted	1,504	17	1,159	1,598	2,377	3,616	8,540	9,215	13,946	22,078	30,201	94,249
Discount to present value	(10)	(1)	(83)	(159)	(296)	(440)	(1,067)	(1,193)	(1,818)	(2,891)	(3,895)	(11,853)
Outstanding claims	1,494	16	1,076	1,438	2,081	3,177	7,472	8,021	12,128	19,187	26,305	82,396
Claims handling expenses												8,240
Risk margin												26,647
Total net outstanding claims liabilities												117,283
Reinsurance and other recoveries receivable												66,036
Total gross outstanding claims liabilities												183,319

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

Notes to the financial statements (continued)

16.4 Actuarial Assumptions and Methods

a) Assumptions

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

	2023	2022
Weighted average term to settlement (years)	**3.00**	3.09
Discount rate	**4.8%**	3.7%
Claim handling expense ratio	**10.0%**	10.0%
Risk margin	**29.4%**	29.4%

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

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

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

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

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

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

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

b) Impact of changes in assumptions

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

Notes to the financial statements (continued)

b) Impact of changes in assumptions (continued)

	Movement in variables	2023 $'000	2022 $'000
Weighted average term to settlement - years	0.5	**(2,309)**	(2,752)
	-0.5	**2,264**	2,684
Inflation rate	1%	**(2,950)**	(2,863)
	-1%	**2,904**	2,815
Discount rate	1%	**2,990**	2,930
	-1%	**(3,098)**	(3,040)
Claim handling expense ratio	1%	**(1,066)**	(991)
	-1%	**1,066**	991
Risk margin	1%	**(906)**	(842)
	-1%	**906**	842

c) Actuarial information

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

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

The outstanding claims reserves disclosed for the Company have been calculated in accordance with the New Zealand Society of Actuaries Professional Standard No. 30 “Valuation of General Insurance Claims”. The effective date of Mr Follington’s advice is 30 June 2023.

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

In particular, the Appointed Actuary is satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liabilities. There were no qualifications contained in his actuarial advice. The key assumptions used in the compilation of the reserves as at 30 June 2023 have been outlined above.

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

17. Share capital

	2023 Shares No. (000)	2023 Shares $'000	2022 Shares No. (000)	2022 Shares $'000
Issued and fully paid ordinary shares	**15,000**	**15,000**	15,000	15,000
Shareholder contribution under equity settled employee share plans	**-**	**47**	-	47
Total share capital	**15,000**	**15,047**	15,000	15,047

Notes to the financial statements (continued)

17. Share capital (continued)

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

As at 30 June 2023, the Company had 15,000,100 ordinary shares with no par value issued to Vero Insurance New Zealand Limited (2022:15,000,100). All shares rank equally with one vote attached to each fully paid ordinary share.

18. Capital management

18.1 Capital management policies and objectives

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

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

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

The Company satisfied all externally imposed capital requirements which they were subject to during the year ended 30 June 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 Board Audit and Risk Committee oversees capital computations and maintains optimal capital structure by advising the Board on dividend payments and share issues. In addition, the Company manages its required level of capital through analysis and optimisation of the product and asset mix, reinsurance program investment strategy.

18.2 Capital composition

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

18.3 Regulatory capital

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

	2023 $'000	2022 $'000
Actual solvency	**54,701**	54,249
Minimum solvency capital	**22,725**	21,948
Solvency Margin	**31,976**	32,301
Solvency Ratio	**2.41**	2.47

Notes to the financial statements (continued)

19. Credit rating

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

20. Notes to the statement of cash flows

	2023 $'000	2022 $'000
Profit for the financial year	**34,584**	28,295
Non-cash items		
Movement in financial assets at fair value through profit or loss (Note 4)	**667**	11,009
Depreciation expense (Note 6)	**1,007**	967
Gain on disposal of property, plant and equipment	**(22)**	-
Change in assets and liabilities		
Increase in receivables and other assets net of investment receivables	**(3,755)**	(6,156)
Increase in reinsurance and other recoveries receivable	**(9,672)**	(2,074)
Increase in deferred reinsurance premiums	**(1,466)**	(3,381)
(Increase)/decrease in deferred acquisition costs	**(830)**	856
Decrease/(increase) in deferred tax asset	**11**	(9)
Increase in payables and other liabilities net of investment payables	**5,972**	2,332
(Decrease)/increase in current tax liabilities	**(422)**	306
Increase in unearned premium liabilities	**5,853**	6,466
Increase/(decrease) in outstanding claims liabilities	**17,952**	(744)
Increase in provisions	**103**	55
Increase/(decrease) in deferred tax liabilities	**233**	(240)
Net cash from operating activities	**50,215**	37,682

21. Financial instruments

21.1 Comparison of fair value to carrying amounts

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

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

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

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

Notes to the financial statements (continued)

21.2 Fair value hierarchy

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

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

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

Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
As at 30 June 2023				
Financial assets				
Investment securities	**12,165**	**186,638**	**-**	**198,803**
As at 30 June 2022				
Financial assets				
Investment securities	3,444	177,009	-	180,453

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

21.3 Accounting classification

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

	Financial Assets at Fair Value	Financial Assets at Amortised Cost	Financial Liabilities at Amortised Cost	Carrying Amount
2023	$'000	$'000	$'000	$'000
Cash and cash equivalents	**-**	**7,906**	**-**	**7,906**
Receivables and other assets	**-**	**51,156**	**-**	**51,156**
Investment securities	**198,803**	**-**	**-**	**198,803**
	198,803	**59,062**	**-**	**257,865**
Payables and other liabilities*	**-**	**-**	**(35,874)**	**(35,874)**
2022				
Cash and cash equivalents	-	8,246	-	8,246
Receivables and other assets	-	46,703	-	46,703
Investment securities	180,453	-	-	180,453
	180,453	54,949	-	235,402
Payables and other liabilities*	-	-	(22,260)	(22,260)

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

Notes to the financial statements (continued)

22. Risk management

22.1 Risk management overview

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

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

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

Key risks	Definition
Strategic risk	The risk that the Company's business model or strategy is not viable due to external change and the risk of failed execution of the strategy.
Financial – Credit, counterparty and contagion risk	The risk that the other party in an agreement will default / will not meet its contractual obligations in accordance with agreed terms. Contagion risk is the risk that problems impacting one entity within the Suncorp Group may compromise the financial position of other entities within the Suncorp Group.
Financial - Liquidity risk	The risk that the Company will be unable to service its cash flow obligations today or in the future.
Financial - Market/investment risk	The risk of unfavourable changes in foreign exchange rates, interest rates, equity prices, credit spreads and market volatilities.
Financial - Asset and liability risk	The risk of adverse movements in the relative value of assets and liabilities due to changes in market factors (e.g. interest rates, inflation, FX), the variation in repricing profiles or from the different characteristics of the assets and liabilities.
Insurance risk	The risk that for any class of risk insured, the present value of actual claims payable will exceed the present value of actual premium revenues generated (net of reinsurance). This includes product design, pricing, reinsurance, underwriting, claims and reserving risks.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes legal risk, but excludes strategic and reputational risks.
Compliance risk	Managing compliance risk ensures our legislative, regulatory and industry code obligations are met. Compliance risk must be considered as part of identifying and assessing operational risks. Compliance and operational risks management practices are embedded in the risk, obligations and controls assessment review process and the dynamic risk assessment process that supports the Company's objective to prevent and detect compliance breaches.

22.1 Risk management overview (continued)

An integral part of managing operational risk is managing conduct risk. The Company recognises that a strong organisational culture which aligns with our Being @ Suncorp Behaviours and our three Cultural Principles; Doing the Right Thing, Being Courageous, and Caring for Others, are key enablers to managing conduct risks and maximising the outcomes for our customers, shareholders and our people. The Company has implemented a Conduct Risk Management Programme to provide a structured approach to conduct related matters.

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

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

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

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

The CCC exists to assist senior management who oversee the management of conduct risk impacting on customers from an ‘end-to-end’ perspective and make recommendations for improving customer outcomes and mitigating conduct risk.

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

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

22.2 Insurance risk management

a) Policies and practices for mitigating insurance risk

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

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

Notes to the financial statements (continued)

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

Concentration of insurance risk is mitigated through diversification over classes of insurance business, industry segments and the use of reinsurer coverage. In relation to the use of reinsurer coverage catastrophe and facultative reinsurance, contracts are purchased to ensure that any accumulation of losses from a single event or series of events is mitigated.

b) Terms and conditions of insurance business

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

22.3 Credit risk

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

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

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

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

22.3 Credit risk (continued)

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

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

	Credit Rating						
	AAA	AA	A	BBB	Non-investment grade	Not Rated	Total
2023	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	**-**	**7,906**	**-**	**-**	**-**	**-**	**7,906**
Interest bearing securities	**53,625**	**105,520**	**34,710**	**4,948**	**-**	**-**	**198,803**
Reinsurance and other recoveries	**-**	**37,325**	**24,502**	**-**	**-**	**4,209**	**66,036**
Accrued income	**-**	**-**	**-**	**-**	**-**	**1,382**	**1,382**
Premiums due	**-**	**-**	**-**	**-**	**-**	**47,190**	**47,190**
Amounts due from reinsurers	**-**	**1,325**	**548**	**-**	**-**	**-**	**1,873**
	53,625	**152,076**	**59,760**	**4,948**	**-**	**52,781**	**323,190**
2022							
Cash and cash equivalents	-	8,246	-	-	-	-	8,246
Interest bearing securities	36,101	108,939	28,474	6,939	-	-	180,453
Reinsurance and other recoveries	-	32,847	19,052	-	-	4,465	56,364
Accrued income	-	-	-	-	-	996	996
Premiums due	-	-	-	-	-	42,560	42,560
Amounts due from reinsurers	-	2,589	549	-	-	-	3,138
	36,101	152,621	48,075	6,939	-	48,021	291,757

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	**44,241**	**2,692**	**206**	**51**	**-**	**-**	**47,190**
2022							
Premiums due	41,001	1,080	129	350	-	-	42,560

Notes to the financial statements (continued)

22.4 Liquidity risk

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

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

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

The table below summarises the maturity profile of certain financial liabilities based on the remaining undiscounted contractual obligations.

2023	Carrying amount $'000	1 year or less $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
Amounts due to reinsurers	**13,674**	**13,674**	**-**	**-**	**13,674**
Trade creditors and accruals	**2,405**	**2,405**	**-**	**-**	**2,405**
Lease liability	**6,210**	**983**	**4,382**	**1,765**	**7,130**
Investment payables	**4,698**	**4,698**			**4,698**
Amounts due to related parties	**8,887**	**8,887**	**-**	**-**	**8,887**
	35,874	**30,647**	**4,382**	**1,765**	**36,794**
2022					
Amounts due to reinsurers	13,358	13,358	-	-	13,358
Trade creditors and accruals	2,757	2,757	-	-	2,757
Lease liability	2,456	983	1,555	-	2,538
Investment payables	-	-		-	-
Amounts due to related parties	3,689	3,689	-	-	3,689
	22,260	20,787	1,555	-	22,342

22.5 Market risk

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

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

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

Notes to the financial statements (continued)

22.5 Market risk (continued)

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

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

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

a) Interest rate risk

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

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

The valuation of the outstanding claims liabilities includes the discounting to present value at balance date of expected future claim payments. Any assessment of the impact of changes in interest rates on investment income must include the offsetting adjustment to claims expense for changes in discount rates adopted in outstanding claims valuations. A movement of 100 basis points (2022:100 basis points) is considered reasonably possible and has been applied to the sensitivity analysis. This is disclosed in Note 16.4(b), represented by the impact of change in discount rate.

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

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

	2023			2022		
	Exposure	Change in variable	Profit (loss) after tax & equity	Exposure	Change in variable	Profit (loss) after tax & equity
	$'000	%	$'000	$'000	%	$'000
Fixed interest bearing investment securities	**134,190**	**+1**	**(2,684)**	133,714	+1	(2,693)
		-1	**2,811**		-1	2,810
	134,190			133,714		

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

Notes to the financial statements (continued)

a) Interest rate risk (continued)

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

b) Foreign exchange risk

The Company has no material foreign exchange risk.

c) Credit spread risk

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

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

Sensitivity of the Company's credit exposure to a +/- 100 basis point (2022: 100 basis points) change in yield is as follows:

	2023			2022		
	Exposure	Change in variable	Profit (loss) after tax & equity	Exposure	Change in variable	Profit (loss) after tax & equity
	$'000	%	$'000	$'000	%	$'000
Interest bearing securities	**198,803**	**+1**	**(3,259)**	180,453	+1	(3,051)
		-1	**3,258**		-1	3,050
	198,803			180,453		

d) Equity price risks

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

22.6 Capital management

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

23. Property, plant and equipment and leases

	2023	2022
	$'000	$'000
Right of use asset	**5,961**	2,120
Other plant and equipment	**613**	291
Property, plant and equipment and leases	**6,574**	2,411

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

Notes to the financial statements (continued)

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

	2023 $'000	2022 $'000
Right of use asset at the beginning of the financial year	**2,120**	2,940
Depreciation charge for the year	**(827)**	(820)
Additions to right of use assets	**4,668**	-
Right of use asset at the end of the financial year	**5,961**	2,120
Lease liability	**6,210**	2,456
Current	**739**	932
Non-current	**5,471**	1,524
Lease liability	**6,210**	2,456

Interest expense on the lease liabilities of $69,000 was recognised as Finance costs in the statement of comprehensive income (30 June 2022: $73,000).

Total cash outflow for lease liabilities presented in the statement of cash flows was $913,000 (30 June 2022: $909,000).

The additions to right of use assets during the year relates to the extension of the current lease for a further 5 years.

24. Related parties

24.1 Controlling entities

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

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

24.2 Transactions and balances

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

Notes to the financial statements (continued)

24.2 Transactions and balances (continued)

	2023 $'000	2022 $'000
Premiums received		
Fellow subsidiaries of the ultimate parent	**-**	3
Premiums paid		
Fellow subsidiaries of the ultimate parent	**28**	29
Accounting and administration fees received		
Parent	**520**	706
Accounting and administration services paid		
Parent	**784**	734
Fellow subsidiaries of the ultimate parent	**5,211**	4,573
Management services and profit shares paid		
Other related parties (Rasal)	**4,094**	3,664
Group tax loss offsets/transfers received		
Parent	**-**	14
Fellow subsidiaries of the ultimate parent	**-**	47
Group tax loss offsets/tax transfers paid		
Parent	**578**	-
Fellow subsidiaries of the ultimate parent	**3,443**	-
Fixed asset transfers received		
Fellow subsidiaries of the ultimate parent	**17**	-
Fixed asset transfers paid		
Parent	**89**	-
Dividend paid		
Parent	**32,700**	23,000

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 payable to:		
Parent	**1,850**	932
Fellow subsidiaries of the ultimate parent	**4,054**	166
Other related parties (Rasal)	**2,983**	2,591
Total amounts payable to related parties	**8,887**	3,689

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

24.3 Key management personnel

The Key Management Personnel (**KMP**) compensation is provided by the Company, the parent of the Company or related parties of the ultimate parent entity. Remuneration provided other than by a Suncorp Group entity located in New Zealand is not included in this disclosure. This applies to D F McTaggart for the years ended 30 June 2023 and 30 June 2022 and L J Tanner for the year ended 30 June 2023. They were remunerated by a related party of the ultimate parent outside of New Zealand and did not receive any compensation specifically related to their activities as a KMP of the Company. The KMP compensation is as follows:

	2023 $'000	2022 $'000
Short-term employee benefits	**5,873**	5,265
Post employment benefits	**38**	35
Long-term benefits	**129**	57
Share based payment	**396**	524
Total Compensation	**6,436**	5,881

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

25 Auditor's remuneration

	2023 $'000	2022 $'000
During the year the auditor of the Company was paid for the following services:		
Audit fees		
Audit of annual accounts of the Company	**498**	134
Non-audit fees		
Assurance engagements on RBNZ solvency returns	**75**	71
Total auditor's remuneration	**573**	205

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

Notes to the financial statements (continued)

26 Provisions and contingent liabilities

a) Provisions

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

	2022 $'000	Additions $'000	Amounts used $'000	Unused amounts reversed $'000	2023 $'000
Annual Leave and other employee benefits	**2,487**	**2,638**	**(2,535)**	**-**	**2,590**
Total	**2,487**	**2,638**	**(2,535)**	**-**	**2,590**
Current					**2,590**
Total					**2,590**

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

Annual leave and other employee benefits

The provision is determined based on expected payments.

b) Contingent liabilities

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

27 Significant accounting policies

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

27.1 Foreign currency

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

Notes to the financial statements (continued)

27.2 Revenue and expense recognition

a) Premium revenue

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

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

b) Claims expense

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

c) Reinsurance

Reinsurance commission revenue

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

Reinsurance and other recoveries revenue

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

Outwards reinsurance expense

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

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

d) Investment revenue

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

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

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

Notes to the financial statements (continued)

27.3 Income tax

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

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

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

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

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

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

27.4 Goods and services tax

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

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

27.5 Cash and cash equivalents

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

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

27.6 Receivables and other assets

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

27.7 Payables and other liabilities

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

27.8 Financial assets

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

a) Financial assets at fair value through profit or loss

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

- It is classified as held for trading; or
- Upon initial recognition it is classified by the Company as at fair value through profit or loss.

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

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

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

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

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

b) Financial assets at amortised cost

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

An allowance for expected credit losses (**ECL**) is recognised for all debt instruments not held at fair value through profit or loss. Further information on ECL and impairment provisioning is provided in Note 27.10.

c) Derecognition of financial assets

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

Notes to the financial statements (continued)

d) General insurance activities

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

Financial assets backing general insurance liabilities

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

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

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

Financial assets not backing general insurance liabilities

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

27.9 Financial liabilities

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

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

a) Financial liabilities at fair value through profit or loss

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

- held for trading;
- derivative; or
- at fair value through profit or loss.

b) Financial liabilities at amortised cost

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

Notes to the financial statements (continued)

27.10 Impairment

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

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

a) Calculation of recoverable amount

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

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

b) Reversal of impairment

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

27.11 Leases

a) Lease liabilities

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

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

b) Right-of-use asset

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

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

Notes to the financial statements (continued)

27.12 Property, plant and equipment

a) Recognition and initial measurement

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

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

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

b) Subsequent measurement

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

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

c) Depreciation

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

The following depreciation rates have been used:

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

d) Retirement

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

27.13 Intangibles

a) Initial recognition and measurement

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

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

b) Subsequent expenditure

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

c) Amortisation

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

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

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

27.14 Employee benefit obligations

a) Short term employee benefits

Annual leave

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

Sick leave

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

Short term bonus plans

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

Other leave and non-monetary benefits

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

b) Post-employment benefits (superannuation)

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

c) Other long-term employee benefits

Long service leave

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

Annual Leave

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

d) Termination benefits

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

27.15 Deferred insurance activities

a) Deferred acquisition costs (DAC)

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

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

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

b) Deferred reinsurance premiums

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

27.16 Outstanding claims liabilities

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

Standard actuarial methods are applied to all classes of business to assess the net central estimate of outstanding claims liabilities. The outstanding claims liability is heavily dependent on assumptions and judgements. The details of actuarial assumptions and the process for determining the risk margins are set out in Note 16.4.

Notes to the financial statements (continued)

27.17 Unearned premium liabilities

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

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

27.18 Contributed capital

a) Ordinary shares

Ordinary shares are recognised as equity.

b) Transaction costs

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

c) Dividends

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

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

27.19 Contingent liabilities and contingent assets

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

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

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

Notes to the financial statements (continued)

27.20 Changes in accounting estimates and errors

a) Estimates

If a change in an accounting estimate gives rise to a change in an asset or liability, or relates to equity, it is recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change. Otherwise, it is recognised prospectively by including it in the profit or loss in the period of the change and future periods, as applicable.

b) Errors

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

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

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

27.21 New accounting standards and interpretations not yet adopted

NZ IFRS 17 Insurance Contracts (NZ IFRS 17) is a new accounting standard for all types of insurance contracts and replaces NZ IFRS 4 Insurance Contracts. NZ IFRS 17 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 the transition to NZ IFRS17. This will be assessed on an ongoing basis as part of the Company's reporting processes.

Notes to the financial statements (continued)

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

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 due, reinsurance and other recoveries receivable, deferred reinsurance premiums, deferred acquisition costs, amounts due to reinsurers, unearned premium liabilities and outstanding claims liabilities.
- The presentation of insurance revenue and insurance service expense gross of reinsurance. Insurance service expense includes claims expenses, non-reinsurance recoveries and expenses that are directly attributable to the fulfilment of insurance contracts. The reinsurance result is disclosed separately and is included in the insurance service result. The financial impact of changes to discount rates and the unwinding of the discounting of insurance and reinsurance assets and liabilities will be presented as part of the 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.

Notes to the financial statements (continued)

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

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 $10 million to $15 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.

28 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.

29th July 2023

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

Dear Directors,

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

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

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

(b) I have reviewed the actuarial information contained in, or used in the preparation of the financial statements of VLIL. The review has been carried out in accordance with the applicable solvency standard. For the avoidance of doubt, actuarial information means:
- Information relating to VLIL's calculations of premiums, claims, reserves, insurance rates, and technical provisions; and
- Information relating to assessments of the probability of uncertain future events occurring and the financial implications for the insurer if those events do occur; and
- Information specified in an applicable solvency standard as being actuarial information for the purposes of this section; and

(c) The scope and limitations of the review will be detailed in Section 1 of the Financial Condition Report (**FCR**) as at 30 June 2023; and

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

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

(f) In my opinion and from an actuarial perspective:
- The actuarial information contained in the financial statements has been appropriately included in those statements; and
- The actuarial information used in the preparation of the financial statements has been used appropriately; and

(g) No condition has been imposed under Section 21 (2)(b) as at 30 June 2023; and

(h) No condition has been imposed under Section 21 (2)(c) as at 30 June 2023.

Kind regards,

Adam Follington

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