Vero Insurance New Zealand Limited and subsidiaries

Consolidated financial report
for the financial year ended 30 June 2020

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Consolidated financial report

for the financial year ended 30 June 2020

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Directors' report

The Board of Directors presents the Directors' report together with the financial report of Vero Insurance New Zealand Limited (the **Company**) and of the **Group**, being the Company and its subsidiaries, for the financial year ended 30 June 2020.

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

Directors

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

Non-executive
K A Armstrong (appointed 4 May 2020)
D M Flacks (appointed Chairman 1 October 2019)
A R Gerry
Dr D F McTaggart
G T Ricketts (resigned as Chairman 30 September 2019, and resigned as Director 31 December 2019)

Executive
S B Johnston (appointed 20 September 2019)
P W Smeaton

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 $176,456,000 (2019: $155,804,000). Further details of dividends paid are set out in Note 3 to the financial statements.

Principal activities

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

Review of operations

The net profit after income tax for the year ended 30 June 2020 was $219,812,000 for the Group compared with net profit after income tax of $217,328,000 for the previous year ended 30 June 2019. The net profit after income tax for the year ended 30 June 2020 was $192,295,000 for the Company compared with net profit after income tax of $171,013,000 for the previous year ended 30 June 2019.

Events subsequent to reporting date

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

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

Directors' report (continued)

Information on Directors in office at the date of this report

Kate Armstrong

LLB,BA

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

David M Flacks

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

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

Alison R Gerry

MAPPFin, BMS (Hons)

Director since 2015, Ms Gerry is an experienced professional Director who has significant financial, commercial, governance and strategic experience in the financial services sector in New Zealand, Australia, London and Hong Kong. Ms Gerry is also a director of Vero Liability Insurance Limited, a wholly-owned subsidiary of Vero Insurance New Zealand Limited, and Asteron Life Limited, a related company. She chairs the Board Audit & Risk Committees of these companies.

Dr Douglas F McTaggart

BECON (Hons), MA, PHD, DUNIV, FAICD, SF FIN

Director since 2018, Dr McTaggart has an extensive background in financial markets and has deep academic and commercial experience. He is well-versed in operating in a rapidly changing regulatory environment and engaging effectively with regulators and government stakeholders. He is a former Chief Executive Officer of QIC, Under Treasurer of the Queensland Department of Treasury, and was a director of UGL Limited (September 2012–August 2015). Dr McTaggart is also a director of Vero Liability Insurance Limited and AA Insurance Limited, subsidiaries of Vero Insurance New Zealand Limited. He is also a director of Suncorp Group Limited, Asteron Life Limited, AA Finance Limited and related holding companies comprising Suncorp New Zealand.

Steve B Johnston

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

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

Directors' report (continued)

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

Paul W Smeaton

BBM, MAICD

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

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

Signed in accordance with a resolution of the Directors.

Director

Director

Corporate governance statement

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

Board

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

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

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

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

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

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

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

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

Membership

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

Board Audit and Risk Committee (BARC)

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

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

Membership

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

Corporate governance statement (continued)

Management Committees

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

Corporate Governance

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

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

Strategy and Culture

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

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

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

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

Corporate Responsibility

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

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

Corporate governance statement (continued)

Action on Climate Change

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

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

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

Community Involvement

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

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

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

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

Diversity & Inclusion

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

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

- Creating and overseeing a diversity strategy
- Recommending initiatives to support greater gender diversity
- Tracking progress including creating targets and regular scorecards
- Promoting and championing diversity

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

KPMG

Independent auditor's report

To the shareholder of Vero Insurance New Zealand Limited

Report on the company and group financial statements

Opinion

In our opinion, the accompanying financial statements of Vero Insurance New Zealand Limited (the "company") and its subsidiaries (the "group") on pages 13 to 72:

i. present fairly in all material respects the company's and the group's financial position as at 30 June 2020 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying company and group financial statements which comprise:

— the company and group statement of financial position as at 30 June 2020;

— the company and group statements of comprehensive income, changes in equity and cash flows for the year then ended; and

— notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

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

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

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the company and group financial statements section of our report.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the company and group financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholder may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the company and group financial statements as a whole and we do not express discrete opinions on separate elements of the company and group financial statements.

Key changes in the assessment of audit risks

COVID-19

The COVID-19 pandemic has created significant additional risks across a number of areas of the business, particularly the assessment of the outstanding claims liabilities and associated reinsurance and other recoveries. The expected claims experience is inherently more uncertain due to changes in claims incidence and potential delays in receipt of claims notifications from insureds across various business lines. While the key audit matter "Outstanding claims liabilities and associated reinsurance and other recoveries", detailed below, is unchanged from what would have been disclosed without COVID-19, the underlying audit risk has increased which impacted the extent and nature of audit evidence that we had to gather, specifically in relation to the key actuarial assumptions and judgements applied.

The key audit matter	How the matter was addressed in our audit
Outstanding claims liabilities and associated reinsurance and other recoveries **Outstanding claims liability** **\$621.1 million (Group)** **\$407.5 million (Company)** **Reinsurance and other recoveries** **\$281.6 million (Group)** **\$202.5 million (Company)**	
Refer to Notes 2 (impact of COVID-19), 11 and 19 to the financial statements. The valuation of outstanding claims liabilities and related reinsurance assets involved a high level of judgement in estimating future payments for claims incurred, including case estimates for reported claims and those incurred but not yet reported to the company and group. Outstanding claims liabilities related to the Canterbury and Kaikoura earthquakes have greater levels of uncertainty, as disclosed in Note 19 to the financial statements. This uncertainty can include: — Geotechnical uncertainty which can significantly impact the cost of a claim; — Litigation, where the range of possible ultimate claim costs is substantial; — The allocation of claim costs between earthquake events, as this impacts the amount recoverable from co-insurers and reinsurers; and	We involved our actuarial specialists and performed audit procedures, which included: — Testing key controls over claim payments and case estimates, including IT general and application controls. — Selecting a sample of case estimates and claim payments to check the accuracy of the claims information, including through the use of data analytics. — Challenging the appropriateness of the group's actuarial methods and key assumptions for the classes of business that were deemed to have higher claims estimations risks, including separate consideration of claims relating to the Canterbury and Kaikoura earthquakes, and the impact of COVID-19 on the methods and key assumptions. We performed independent reprojections of management's calculation of outstanding claims liability for a sample of classes of business. We assessed the selection of methods and key assumptions applied in the valuation of outstanding claims liabilities. We challenged the actuarial methods and key assumptions by: o Analysing the accuracy of previous estimates;

KPMG

The key audit matter	How the matter was addressed in our audit
— Less information on claims managed by co-insurers and the Earthquake Commission, with management judgement required to make an allowance for any as yet unreported claims. Valuation of reinsurance assets involves a high degree of uncertainty due to the dependence on the estimate of related claims costs. Valuation of reinsurance and other recoveries is affected by the same uncertainties.	o Comparing key assumptions to the broader insurance industry, previous periods and current period claims experience; o Sample testing of the key qualitative claims information that is used by the group's actuarial team to form their valuation assumptions; o Analysing adjustments made due to COVID-19. — Assessing the group's estimation of risk margins to identify possible management bias. We evaluated the group's actuarial methodologies for consistency with those used in the industry and with prior periods. — Testing material reinsurance contracts to check that recoveries recognised in the financial statements align with the terms of those contracts and the amount of the respective outstanding claims liability.

Other information

The directors, on behalf of the company and group, 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 company and group financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

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

Use of this independent auditor's report

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

Responsibilities of the directors for the company and group financial statements

The directors, on behalf of the company and group, are responsible for:

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

- implementing necessary internal control to enable the preparation of a company and group 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 company and group financial statements

Our objective is:

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

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

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

A further description of our responsibilities for the audit of these company and group financial statements is located at the External Reporting Board (XRB) website at:
http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

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

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

For and on behalf of

KPMG

KPMG
Auckland

11 August 2020

Statements of comprehensive income
for the financial year ended 30 June 2020

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000	Company 2020 $'000	Company 2019 $'000
Premium revenue	4	1,673,132	1,605,921	1,123,825	1,083,363
Outwards reinsurance premium expense	12	(199,957)	(202,511)	(147,213)	(156,230)
Net premium revenue		1,473,175	1,403,410	976,612	927,133
Claims expense	5	(810,638)	(763,010)	(478,526)	(467,801)
Reinsurance and other recoveries revenue	4, 5	76,499	66,227	40,140	44,574
Net incurred claims	5	(734,139)	(696,783)	(438,386)	(423,227)
Acquisition costs	13	(345,296)	(332,108)	(294,667)	(282,382)
Other underwriting expenses		(130,802)	(122,488)	(67,963)	(67,839)
Underwriting expenses		(476,098)	(454,596)	(362,630)	(350,221)
Reinsurance commission revenue	4	10,672	10,130	5,521	5,263
Underwriting result		273,610	262,161	181,117	158,948
Investment income on insurance funds	4.1	19,898	22,868	9,794	12,567
Investment expense on insurance funds		(1,158)	(1,070)	(637)	(620)
Insurance trading result		292,350	283,959	190,274	170,895
Investment income on shareholder funds	4.1	20,559	17,891	62,435	50,445
Investment expense on shareholder funds		(1,126)	(919)	(604)	(438)
Loss on defined benefit funds		(1,574)	(529)	(1,553)	(530)
Share of joint venture gain/(loss)		137	(50)	-	-
Finance costs	27	(1,161)	-	(68)	-
Other expenses	6	(6,456)	-	(5,056)	-
Profit before tax	6	302,729	300,352	245,428	220,372
Income tax expense	7.1	(82,917)	(83,024)	(53,133)	(49,359)
Profit for the financial year		219,812	217,328	192,295	171,013
Other comprehensive loss					
Items that will not be reclassified subsequently to profit or loss					
Actuarial loss on defined benefit funds		(13,921)	(16,411)	(13,937)	(16,545)
Income tax credit	7.1	3,902	4,633	3,902	4,633
Total other comprehensive loss		(10,019)	(11,778)	(10,035)	(11,912)
Total comprehensive income for the financial year		209,793	205,550	182,260	159,101
Profit for the financial year attributable to:					
Owner of the Company		200,039	195,813	192,295	171,013
Non-controlling interests		19,773	21,515	-	-
Profit for the financial year		219,812	217,328	192,295	171,013
Total comprehensive income for the financial year attributable to:					
Owner of the Company		190,015	183,992	182,260	159,101
Non-controlling interests		19,778	21,558	-	-
Total comprehensive income for the financial year		209,793	205,550	182,260	159,101

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

Statements of financial position
as at 30 June 2020

	Note	Consolidated		Company	
		2020 $'000	2019 $'000	2020 $'000	2019 $'000
Assets					
Cash and cash equivalents	8	**45,404**	65,757	**36,126**	51,858
Receivables and other assets	9	**727,526**	673,570	**489,534**	452,323
Investment securities	10	**1,088,754**	1,014,411	**605,481**	600,344
Reinsurance and other recoveries receivable	11	**281,574**	489,503	**202,466**	420,483
Deferred reinsurance premiums	12	**179,987**	161,932	**132,058**	123,139
Deferred acquisition costs	13	**142,367**	137,239	**121,116**	114,856
Property, plant and equipment	27	**38,615**	6,388	**4,101**	2,909
Investment in subsidiaries	14	**-**	-	**37,304**	37,304
Investment in joint venture	15	**194**	58	**-**	-
Deferred tax assets	7.4	**32,635**	21,505	**24,541**	17,945
Intangible assets	16	**23,300**	29,400	**22,526**	29,939
Total assets		**2,560,356**	2,599,763	**1,675,253**	1,851,100
Liabilities					
Payables and other liabilities	17	**394,208**	361,224	**261,630**	274,594
Current tax liabilities	7.3	**53,386**	61,152	**36,295**	46,361
Unearned premium liabilities	18	**860,370**	820,672	**539,355**	522,614
Outstanding claims liabilities	19.1	**621,119**	804,841	**407,466**	617,268
Provisions	30	**58,889**	10,598	**19,817**	1,709
Defined benefit fund liabilities	20	**43,740**	29,144	**44,318**	29,693
Deferred tax liabilities	7.4	**44,632**	42,558	**33,982**	32,232
Total liabilities		**2,076,344**	2,130,189	**1,342,863**	1,524,471
Net assets		**484,012**	469,574	**332,390**	326,629
Equity					
Share capital	21	**217,629**	217,629	**217,629**	217,629
Capital notes	21	**59,191**	[illegible],191	**59,191**	59,191
Retained profits		**165,124**	15[illegible],535	**55,570**	49,809
Total equity attributable to owner of the Company		**441,944**	429,355	**332,390**	326,629
Non-controlling interest		**42,068**	40,219	**-**	-
Total equity		**484,012**	469,574	**332,390**	326,629

The Board of Directors of Vero Insurance New Zealand Limited approved these financial statements for issue on 6 August 2020.

For, and on behalf of the Board

Director a. Ryberg.

Director D. M[illegible]

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

Statements of changes in equity
for the financial year ended 30 June 2020

Consolidated	Note	Share capital and capital notes $'000	Retained profits $'000	Total $'000	Non-controlling interest $'000	Total Equity $'000
		Equity attributable to owners of the Company				
Balance as at 1 July 2018		276,820	124,347	401,167	29,861	431,028
Profit for the financial year		-	195,813	195,813	21,515	217,328
Total other comprehensive (loss)/income		-	(11,821)	(11,821)	43	(11,778)
Total comprehensive income for the financial year		-	183,992	183,992	21,558	205,550
Transactions with owners						
Dividends paid	3	-	(155,804)	(155,804)	(11,200)	(167,004)
Balance as at 30 June 2019		276,820	152,535	429,355	40,219	469,574
Balance as at 1 July 2019		276,820	152,535	429,355	40,219	469,574
Impact of initial application of NZ IFRS16 (net of tax)	2.2	-	(970)	(970)	(329)	(1,299)
Restated as at 1 July 2019		276,820	151,565	428,385	39,890	468,275
Profit for the financial year		-	200,039	200,039	19,773	219,812
Total other comprehensive (loss)/income		-	(10,024)	(10,024)	5	(10,019)
Total comprehensive income for the financial year		-	190,015	190,015	19,778	209,793
Transactions with owners						
Dividends paid	3	-	(176,456)	(176,456)	(17,600)	(194,056)
Balance as at 30 June 2020		276,820	165,124	441,944	42,068	484,012

Company	Note	Share capital and capital notes $'000	Retained profits $'000	Total $'000
Balance as at 1 July 2018		276,820	46,512	323,332
Profit for the financial year		-	171,013	171,013
Total other comprehensive loss		-	(11,912)	(11,912)
Total comprehensive income for the financial year		-	159,101	159,101
Transactions with owner				
Dividends paid	3	-	(155,804)	(155,804)
Balance as at 30 June 2019		276,820	49,809	326,629
Balance as at 1 July 2019		276,820	49,809	326,629
Impact of initial application of NZ IFRS16 (net of tax)	2.2	-	(43)	(43)
Restated balance as at 1 July 2019		276,820	49,766	326,586
Profit for the financial year		-	192,295	192,295
Total other comprehensive loss		-	(10,035)	(10,035)
Total comprehensive income for the financial year		-	182,260	182,260
Transactions with owner				
Dividends paid	3	-	(176,456)	(176,456)
Balance as at 30 June 2020		276,820	55,570	332,390

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

Statements of cash flows
for the financial year ended 30 June 2020

	Note	Consolidated		Company	
		2020 $'000	2019 $'000	2020 $'000	2019 $'000
Cash flows from operating activities					
Premiums received		1,717,961	1,624,732	1,140,066	1,097,680
Claims paid		(993,822)	(1,060,013)	(689,035)	(761,336)
Interest received		28,278	26,773	18,927	17,624
Dividends received		1,853	2,324	52,406	42,329
Reinsurance and other recoveries received		263,059	364,936	230,195	340,514
Outward reinsurance premiums paid		(205,061)	(201,777)	(149,103)	(154,521)
Net movement in shared property reinstatement advances		(629)	(7,801)	(755)	(6,203)
Acquisition costs paid		(348,026)	(302,956)	(303,897)	(255,865)
Income tax paid*	7.3	(95,332)	(26,573)	(64,128)	(4,906)
Finance costs paid	27	(1,161)	-	(68)	-
Net movement in goods and services tax and levies		6,161	41,526	516	18,716
Underwriting and other operating expenses paid		(118,138)	(112,621)	(59,736)	(58,649)
Cash (paid)/received on behalf of related parties		(14,409)	14,409	(14,409)	14,409
Net cash from operating activities	24	240,734	362,959	160,979	289,792
Cash flows from investing activities					
Proceeds from sale of investment securities		1,246,678	1,452,613	809,000	926,527
Payments for purchase of investment securities		(1,310,069)	(1,668,958)	(812,412)	(1,081,478)
Payment for Autosure sale adjustment		-	(1,953)	-	(1,953)
Proceeds from sale of plant and equipment and computer software		5,612	401	5,464	325
Payments for purchases of plant and equipment and capitalised software costs		(4,436)	(488)	(1,768)	4
Net cash (used in)/from investing activities		(62,215)	(218,385)	285	(156,575)
Cash flows from financing activities					
Dividends paid to owners of the Company		(176,456)	(155,804)	(176,456)	(155,804)
Dividends paid to non-controlling interests		(17,600)	(11,200)	-	-
Repayment of lease liabilities		(4,816)	-	(539)	-
Net cash used in financing activities		(198,872)	(167,004)	(176,995)	(155,804)
Net decrease in cash and cash equivalents		(20,353)	(22,430)	(15,732)	(22,587)
Cash and cash equivalents at the beginning of the financial year		65,757	88,187	51,858	74,445
Cash and cash equivalents at the end of the financial year		45,404	65,757	36,126	51,858

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

Notes to the financial statements

1. Reporting entity

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

The consolidated financial statements of the Company as at and for the financial year ended 30 June 2020 comprise the Company and its subsidiaries (the **Group**) and were issued by the Board of Directors on 6 August 2020.

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

The Company's parent entity is Suncorp Group Holdings (NZ) Limited, with Suncorp Group Limited, a company incorporated in Australia, being the ultimate parent entity. Suncorp Group Limited and its subsidiaries are referred to as the **Suncorp Group**.

2. Basis of preparation

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

Significant accounting policies applied in the preparation of these financial statements are set out in Note 31. There have been no significant changes in accounting policies apart from the adoption of NZ IFRS 16 *Leases* (**NZ IFRS 16**).

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

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

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

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

2.1 Statement of compliance

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

Notes to the financial statements (continued)

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

NZ IFRS 16 *Leases*

NZ IFRS 16 *Leases* (**NZ IFRS 16**) replaced NZ IAS 17 *Leases* (**NZ IAS 17**) and related Interpretations.

NZ IFRS 16 introduces a single on-balance sheet lease accounting model for lessees which removes the operating or finance lease distinction which was previously required under NZ IAS 17. Lessor accounting remains similar to NZ IAS 17 and lessors will continue to classify leases as finance and operating.

The right-of-use (**ROU**) asset and lease liability are recognised for all leases with the exception of short-term leases (less than 12 months) and leases of low-value items which are exempted under NZ IFRS 16.

Transition

The Group adopted NZ IFRS 16 on 1 July 2019 (transition date) using the modified retrospective approach. In accordance with the transitional provisions under NZ IFRS 16 the comparative information has not been restated and continues to be reported under the previous standard (NZ IAS 17).

The Group determined the ROU asset for all significant real estate leases as if NZ IFRS 16 had always been applied and the resulting transitional adjustment was recognised in retained profits on the transition date. For all other leases the ROU asset was determined as an amount equal to the lease liability at the date of transition.

On transition the Group and Company respectively recognised a lease liability of $48,721,000 and $2,974,000 presented in the 'Payables and other liabilities' line item and a ROU asset of $37,329,000 and $2,914,000 presented in the 'Property, plant and equipment' line item. Amounts already recognised on the consolidated statements of financial position at 30 June 2019 (i.e. straight-line lease liabilities) of $9,588,000 and $nil under NZ IAS 17 were derecognised and offset against the ROU asset on transition which resulted in a reduction to retained profits (net of tax) of $1,299,000 and $43,000.

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

	Consolidated	Company
	2019	2019
	$'000	$'000
Operating lease commitment - 30 June 2019	55,038	3,210
Less:		
Impact of discounting future lease payments at the weighted average increamental borrowing rate	(6,317)	(236)
Lease liability 1 July 2019	48,721	2,974

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

In determining the ROU asset and lease liability on transition, the Group and Company applied practical expedients in accordance with the transitional requirements of NZ IFRS 16.

Notes to the financial statements (continued)

2.3 Comparative information

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

Certain amounts previously classified as 'Employee benefit obligations' or included within 'Payables and other liabilities' have been reclassified to 'Provisions'.

2.4 Use of estimates and judgements

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

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

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

COVID-19 impact on the use of estimates and assumptions

On 11 March 2020, the World Health Organization declared COVID-19 a global pandemic. COVID-19 is an infectious disease that can cause respiratory illness. While COVID-19 is a health crisis, it has caused socioeconomic disruption on a global scale. The Group has considered the impact of COVID-19 when preparing the consolidated financial statements and related note disclosures. The effects of COVID-19 caused increased estimation uncertainty and required the application of further judgement within those identified areas and has resulted in some changes to estimates and assumptions.

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

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

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

Notes to the financial statements (continued)

2.4 Use of estimates and judgements (continued)

Outstanding claims liabilities and assets arising from reinsurance contracts

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

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

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

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

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

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

Estimates of reinsurance and other recoveries receivable are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as credit risk. Details of the uncertainties that exist in measuring reinsurance recoveries arising from the Canterbury and Kaikoura earthquakes are explained in Note 19.1.

The Group has considered the impact from COVID-19 in its assumptions for measuring outstanding claims liabilities and assets arising from reinsurance contracts. In determining the adequacy of outstanding claims liabilities at the reporting date, the Group has reviewed the discount rates and assumptions in calculating the outstanding claims liability including policyholder behaviours during and post COVID-19 lockdown, the severity of claims post COVID-19 lockdown, and how experience to date from the COVID-19 outbreak varies from existing assumptions about pandemic risk and how those risks are managed. As a result of this assessment, assumptions used in determining the outstanding claims liabilities and reinsurance and other recoveries at reporting date have been adjusted to reflect the increased uncertainty (refer to notes 11, 19.1, 19.4).

Notes to the financial statements (continued)

2.4 Use of estimates and judgements (continued)

Impairment of goodwill

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

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

Valuation of financial instruments

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

Provisions and contingent liabilities

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

Financial risk management

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

Notes to the financial statements (continued)

3. Dividends

	2020		2019	
	¢ per share/note	$'000	¢ per share/note	$'000
Ordinary shares				
Dividends	108.79	173,400	95.55	152,300
Capital notes				
Coupon payments	516.29	3,056	591.98	3,504
Total dividends recognised in equity attributable to owners of the Company		176,456		155,804

4. Revenue

	Consolidated		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Insurance income				
Gross written premium	1,712,830	1,669,797	1,140,566	1,114,481
Movement in unearned premium	(39,698)	(63,876)	(16,741)	(31,118)
Premium revenue	1,673,132	1,605,921	1,123,825	1,083,363
Reinsurance and other recoveries revenue	76,499	66,227	40,140	44,574
Reinsurance commission revenue	10,672	10,130	5,521	5,263
Total insurance income	1,760,303	1,682,278	1,169,486	1,133,200
Investment income				
Interest income	27,181	27,962	17,802	18,750
Dividend income				
Other entities	1,853	2,324	6	29
Related parties (Note 28.2)	-	-	52,400	42,300
Net gain on financial assets at fair value through profit or loss	11,423	10,473	2,021	1,933
Total investment income	40,457	40,759	72,229	63,012
Total revenue	1,800,760	1,723,037	1,241,715	1,196,212

The 2020 gross written premium figures presented above are net of premium reversals for customer remediation (Group: $17,960,000; Company: $11,193,000) and customer hardship and rebates (Group: $22,473,000; Company $3,473,000). These amounts are included as part of the customer remediation and customer hardship and rebates provisions included within note 30.

4.1 Investment Income

	Consolidated		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Investment income on insurance funds	19,898	22,868	9,794	12,567
Investment income on shareholder funds	20,559	17,891	62,435	50,445
Total investment income	40,457	40,759	72,229	63,012

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Notes to the financial statements (continued)

5. Net incurred claims

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

	Consolidated			Company		
	Current Year $'000	Prior Year $'000	Total $'000	Current Year $'000	Prior Year $'000	Total $'000
Year ended 30 June 2020						
Gross incurred claims and related expenses						
Undiscounted	843,502	(42,857)	800,645	512,986	(40,879)	472,107
Discount and discount movement	(1,206)	11,199	9,993	(74)	6,493	6,419
Gross incurred claims discounted	842,296	(31,658)	810,638	512,912	(34,386)	478,526
Reinsurance and other recoveries						
Undiscounted	(91,613)	21,547	(70,066)	(59,474)	24,419	(35,055)
Discount and discount movement	197	(6,630)	(6,433)	68	(5,153)	(5,085)
Reinsurance and other recoveries discounted	(91,416)	14,917	(76,499)	(59,406)	19,266	(40,140)
Net incurred claims	750,880	(16,741)	734,139	453,506	(15,120)	438,386
Year ended 30 June 2019						
Gross incurred claims and related expenses						
Undiscounted	776,889	(28,887)	748,002	466,082	(11,327)	454,755
Discount and discount movement	(2,920)	17,928	15,008	(876)	13,922	13,046
Gross incurred claims discounted	773,969	(10,959)	763,010	465,206	2,595	467,801
Reinsurance and other recoveries						
Undiscounted	(56,788)	2,734	(54,054)	(26,136)	(6,881)	(33,017)
Discount and discount movement	508	(12,681)	(12,173)	158	(11,715)	(11,557)
Reinsurance and other recoveries discounted	(56,280)	(9,947)	(66,227)	(25,978)	(18,596)	(44,574)
Net incurred claims	717,689	(20,906)	696,783	439,228	(16,001)	423,227

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

6. Profit before tax

	Consolidated		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Profit before tax is arrived at after charging the following specific items:				
Bad and doubtful debt expense	152	178	30	9
Contributions to defined contribution superannuation schemes	1,441	1,790	-	-
Depreciation on property, plant and equipment	7,256	3,040	1,683	1,670
Employee benefits	68,345	63,006	-	-
(Gain)/Loss on disposal of property, plant and equipment	(14)	(4)	(29)	6
Software impairment (Note 16.3)	-	2,881	-	2,881
Software amortisation cost (Note 16.3)	3,819	5,315	3,782	5,315
Other expenses	6,456	-	5,056	-

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

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Notes to the financial statements (continued)

7. Income tax

7.1 Income tax expense

	Consolidated		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Profit before tax	302,729	300,352	245,428	220,372
Prima facie income tax @ 28% (2019: 28%)	84,764	84,100	68,720	61,704
Movement in income tax expense due to:				
Non-deductible expenditure	125	118	1	2
Non-taxable related party dividends	-	-	(4,200)	(5,180)
Capital notes distribution	(856)	(490)	(856)	(490)
Imputation credits	(107)	(110)	(10,472)	(6,664)
Tax exempt revenue	(975)	(555)	-	-
Other	(63)	3	(68)	-
Adjustment for prior financial years	29	(42)	8	(13)
Income tax expense	82,917	83,024	53,133	49,359
Income tax expense recognised in profit consists of:				
Current tax expense				
Current year	89,189	82,791	55,754	49,897
Adjustment for prior financial years	(1,623)	490	(1,692)	184
	87,566	83,281	54,062	50,081
Deferred tax expense				
Current year	(6,301)	275	(2,629)	(525)
Adjustment for prior financial years	1,652	(532)	1,700	(197)
	(4,649)	(257)	(929)	(722)
Income tax expense	82,917	83,024	53,133	49,359
Income tax credit recognised in other comprehensive loss				
Income tax credit on actuarial losses on defined benefit funds	(3,902)	(4,633)	(3,902)	(4,633)

7.2 Imputation credits

	Consolidated		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
SGHNZL ICA Group	404,163	331,372	404,163	331,372
Subsidiaries outside the SGHNZL ICA Group	10,082	6,802	-	-
Imputation credits available for use in subsequent reporting periods	414,245	338,174	404,163	331,372

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

Notes to the financial statements (continued)

7.3 Current tax

	Consolidated		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Balance at the beginning of the financial year	(61,152)	(4,444)	(46,361)	(1,186)
Income tax paid net of refunds	90,079	26,518	58,825	4,851
Current year tax on operating profit (Note 7.1)	(89,189)	(82,791)	(55,754)	(49,897)
Adjustment for prior financial years (Note 7.1)	1,623	(490)	1,692	(184)
Transfers between related parties	5,253	55	5,303	55
Balance at the end of the financial year	(53,386)	(61,152)	(36,295)	(46,361)

7.4 Deferred tax

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

	Consolidated		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Deferred tax assets are attributable to:				
Depreciable assets	2,810	2,571	1,738	1,583
Defined benefit scheme	12,409	10,690	12,409	8,314
Leases	729	-	22	-
Provisions	11,651	3,287	5,549	910
Payables and other liabilities	5,036	4,957	4,823	7,138
Total deferred tax assets	32,635	21,505	24,541	17,945
Deferred tax liabilities are attributable to:				
Investments	(1,384)	(556)	(69)	(72)
Deferred acquisition costs	(39,863)	(38,427)	(33,913)	(32,160)
Risk margins	(3,385)	(3,575)	-	-
Total deferred tax liabilities	(44,632)	(42,558)	(33,982)	(32,232)
Net deferred tax liabilities	(11,997)	(21,053)	(9,441)	(14,287)
Movements				
Deferred tax assets				
Balance at the beginning of the financial year	21,505	13,825	17,945	10,934
Movement recognised in profit or loss	6,585	3,047	2,541	2,378
Reclassification	138	-	138	-
Impact on initial application of NZ IFRS16	505	-	17	-
Recognised in other comprehensive loss	3,902	4,633	3,900	4,633
Balance at the end of the financial year	32,635	21,505	24,541	17,945
Deferred tax liabilities				
Balance at the beginning of the financial year	(42,558)	(39,768)	(32,232)	(30,576)
Movement recognised in profit or loss	(1,936)	(2,790)	(1,612)	(1,656)
Reclassification	(138)	-	(138)	-
Balance at the end of the financial year	(44,632)	(42,558)	(33,982)	(32,232)

Notes to the financial statements (continued)

8. Cash and cash equivalents

	Consolidated		Company	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Cash at bank and on hand	14,313	15,074	10,199	11,024
Shared property reinstatement deposits (Note 17)	196	825	17	772
Cash held within investment portfolios	30,895	49,858	25,910	40,062
Total cash and cash equivalents	45,404	65,757	36,126	51,858

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

9. Receivables and other assets

	Consolidated		Company	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Trade and other receivables				
Premiums due	632,560	599,465	399,041	388,188
Amounts due from related parties (Note 28.2)	255	706	1,557	2,043
Prepaid expenses	825	17	-	-
Amounts due from reinsurers	84,787	62,521	81,897	53,169
Provision for bad and doubtful debts	(37)	(7)	(30)	-
Total trade and other receivables	718,390	662,702	482,465	443,400
Other assets				
Accrued income	5,178	6,275	3,351	4,476
Investment receivables	262	-	37	-
Other assets	3,696	4,593	3,681	4,447
Total other assets	9,136	10,868	7,069	8,923
Total receivables and other assets	727,526	673,570	489,534	452,323
Current	727,526	673,570	489,534	452,323
Total receivables and other assets	727,526	673,570	489,534	452,323
Movements in provision for bad and doubtful debts				
Balance at the beginning of the financial year	(7)	(5)	-	-
Provision raised during the financial year	(30)	(2)	(30)	-
Balance at the end of the financial year	(37)	(7)	(30)	-

Notes to the financial statements (continued)

10. Investment securities

	Consolidated		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Financial assets at fair value through profit or loss				
Interest bearing securities	959,663	890,367	605,153	599,899
Unit trusts	128,763	123,599	-	-
Equities	328	445	328	445
Total investment securities	1,088,754	1,014,411	605,481	600,344

11. Reinsurance and other recoveries receivable

	Consolidated		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Expected future reinsurance and other recoveries undiscounted	282,312	496,466	202,627	425,732
Discount to present value	(738)	(6,963)	(161)	(5,249)
Total reinsurance and other recoveries receivable	281,574	489,503	202,466	420,483
Current	165,852	197,406	127,455	171,650
Non-current	115,722	292,097	75,011	248,833
Total reinsurance and other recoveries receivable	281,574	489,503	202,466	420,483

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

12. Deferred reinsurance premiums

	Consolidated		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Balance at the beginning of the financial year	161,932	162,284	123,139	131,339
Reinsurance premium liability incurred	218,012	202,159	156,132	148,030
Reinsurance premium charged to profit or loss	(199,957)	(202,511)	(147,213)	(156,230)
Balance at the end of the financial year	179,987	161,932	132,058	123,139

13. Deferred acquisition costs

	Consolidated		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Balance at the beginning of the financial year	137,239	129,397	114,856	108,942
Acquisition costs deferred	339,752	329,820	295,406	283,033
Amortisation charged to profit or loss	(345,296)	(332,108)	(294,667)	(282,382)
Reinsurance commission recognised in profit or loss	10,672	10,130	5,521	5,263
Balance at the end of the financial year	142,367	137,239	121,116	114,856

Notes to the financial statements (continued)

14. Investment in subsidiaries

	Company	
	2020	2019
	$'000	$'000
Shares in subsidiaries	37,304	37,304

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

		Company	
		2020	2019
Trading subsidiaries	**Principal activity**	%	%
AA Insurance Limited	General Insurance	68	68
Vero Liability Insurance Limited	General Insurance	100	100

15. Investment in joint venture

			Consolidated	
	2020	2019	2020	2019
Share of interest in joint venture	%	%	$'000	$'000
AA Home Limited	50	50	194	58

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

16. Intangible assets

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

	Consolidated		Company	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Goodwill	21,902	21,902	22,441	22,441
Computer software	1,398	7,498	85	7,498
Total intangible assets	23,300	29,400	22,526	29,939

16.1 Goodwill

	Consolidated		Company	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
At 1 July				
Cost	27,067	27,067	27,543	27,543
Accumulated impairment	(5,165)	(5,165)	(5,102)	(5,102)
Balance at the beginning of the financial year	21,902	21,902	22,441	22,441
At 30 June				
Cost	27,067	27,067	27,543	27,543
Accumulated impairment	(5,165)	(5,165)	(5,102)	(5,102)
Balance at the end of the financial year	21,902	21,902	22,441	22,441

Notes to the financial statements (continued)

16.2 Impairment testing for cash-generating units containing goodwill

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

	Consolidated		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
AA Insurance	13,235	13,235	13,410	13,410
AMP General	8,667	8,667	9,031	9,031
Carrying amount of goodwill	21,902	21,902	22,441	22,441

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

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

- Cash flows are projected from the financial forecasts prepared by the business units covering a three-year period, extended to five years based on specific assumptions for the fourth and fifth year;
- A terminal growth rate of 2.5% (2019: 2.5%) is used to extrapolate cash flows beyond the five-year projections, which does not exceed the long-term average growth rate for the industry;
- The weighted average cost of capital of 7.4% (2019: 8.1%) is used as the post-tax discount rate.

At 30 June 2020, the recoverable amount exceeds carrying amount of each CGU including the goodwill, therefore no impairment loss has been recognised in profit or loss (2019: $nil). Based on information available and market conditions at 30 June 2020, a reasonably possible change to any of the key assumptions made in this assessment would not cause the CGU's recoverable amount to be less than its carrying amount.

16.3 Software

	Consolidated		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
At 1 July				
Cost	64,185	64,225	62,527	62,567
Accumulated amortisation and impairment	(56,687)	(48,491)	(55,029)	(46,833)
Balance at the beginning of the financial year	7,498	15,734	7,498	15,734
Additions	3,068	(40)	1,718	(40)
Disposals	(5,349)	-	(5,349)	-
Amortisation charge	(3,819)	(5,315)	(3,782)	(5,315)
Impairment charge	-	(2,881)	-	(2,881)
Balance at the end of the financial year	1,398	7,498	85	7,498
At 30 June				
Cost	61,904	64,185	58,896	62,527
Accumulated amortisation and impairment	(60,506)	(56,687)	(58,811)	(55,029)
Balance at the end of the financial year	1,398	7,498	85	7,498

Notes to the financial statements (continued)

17. Payables and other liabilities

	Consolidated		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Trade creditors and accruals	106,677	118,748	85,252	91,955
GST payable	49,279	50,946	22,257	26,554
Investment payables	-	209	-	258
Amounts due to reinsurers	176,914	163,963	139,267	132,238
Shared property reinstatement advances (Note 8)	196	825	17	772
Amounts due to related parties (Note 28.2)	16,203	26,533	12,405	22,817
Lease liability (Note 27)	44,939	-	2,432	-
Total payables and other liabilities	394,208	361,224	261,630	274,594
Current	354,132	352,812	259,695	274,594
Non-current	40,076	8,412	1,935	-
Total payables and other liabilities	394,208	361,224	261,630	274,594

18. Unearned premium liabilities

	Consolidated		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Balance at the beginning of the financial year	820,672	757,668	522,614	492,368
Autosure portfolio transfer	-	(872)	-	(872)
Premiums written during the financial year (Note 4)	1,712,830	1,669,797	1,140,566	1,114,481
Premiums earned during the financial year (Note 4)	(1,673,132)	(1,605,921)	(1,123,825)	(1,083,363)
Balance at the end of the financial year	860,370	820,672	539,355	522,614

The Autosure portfolio transfer amounts relate to adjustments in respect of the unearned premium liabilities that were transferred as part of the disposal of this business during the 2017 financial year.

18.1 Liability adequacy test

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

The liability adequacy test which was performed as at 30 June 2020 identified a surplus for the Group and Company (30 June 2019: surplus).

	Consolidated		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Net central estimate of present value of expected future cash flows from future claims	455,950	429,610	250,220	251,139
Risk margin of the present value of expected future cash flows	20,221	16,792	13,440	12,544
	476,171	446,402	263,660	263,683
	2020 %	2019 %	2020 %	2019 %
Risk margin percentage	4.4	3.9	5.4	5.0
Probability of sufficiency	60.0	60.0	60.0	60.0

Notes to the financial statements (continued)

18.1 Liability adequacy test (continued)

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

19. Outstanding claims liabilities

19.1 Gross outstanding claims liabilities

	Consolidated		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Gross central estimate - undiscounted	541,625	734,475	356,518	567,179
Discount to present value	(2,424)	(11,584)	(991)	(7,910)
Claim handling expenses	30,513	32,023	19,525	22,586
Risk margin	51,405	49,927	32,414	35,413
Gross outstanding claims liabilities	621,119	804,841	407,466	617,268
Current	420,470	423,851	308,310	332,634
Non-current	200,649	380,990	99,156	284,634
Gross outstanding claims liabilities	621,119	804,841	407,466	617,268

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

At 30 June 2020, the central estimate of gross outstanding claims liabilities, plus the net risk margin, attributed to the Kaikoura earthquakes totals $93 million and $93 million for the Group and Company, respectively (2019: $307 million and $306 million respectively). The equivalent figures for the Canterbury earthquakes totals $100 million and $85 million for the Group and Company, respectively (2019: $139 million and $116 million respectively).

The central estimate represents actuarial estimates, as at 30 June 2020, of what the Group and Company ultimately has left to pay, prior to receiving any reinsurance recoveries in relation to these claims. Given the nature of the uncertainties associated with the remaining earthquake claims, including any recoveries from the Earthquake Commission, the actual claims experience may deviate, perhaps substantially, from the central estimate as at 30 June 2020.

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

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

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

Notes to the financial statements (continued)

19.2 Reconciliation of movement in discounted outstanding claims liabilities

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000	Company 2020 $'000	Company 2019 $'000
Net outstanding claims liabilities at the beginning of the financial year		315,338	337,376	196,785	218,833
Prior periods					
Payments net of reinsurance and other recoveries		(187,437)	(206,628)	(134,624)	(147,857)
Movement in discounting		748	2,645	340	1,519
Margin release on prior periods		(19,585)	(21,479)	(16,646)	(14,799)
Incurred claims due to changes in assumptions and experience		2,500	(2,726)	5,407	(727)
Change in discount rate		4,617	2,179	1,480	592
Change in claims handling expense rate		-	(28)	-	-
Change in inflation assumption		923	(649)	187	(549)
Movement in risk margins		(5,944)	(848)	(5,888)	(2,037)
Current period					
Net ultimate incurred costs		750,880	717,689	453,506	439,228
Payments net of reinsurance recoveries		(522,495)	(512,193)	(295,547)	(297,418)
Net outstanding claims liabilities at end of the financial year		339,545	315,338	205,000	196,785
Reinsurance and other recoveries receivable	11	281,574	489,503	202,466	420,483
Gross outstanding claims liabilities		621,119	804,841	407,466	617,268

19.3 Claims development tables

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

Consolidated	Accident year											2020
Accident year	Prior $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	Total $'000
Estimate of ultimate claims cost:												
At end of accident year		173,474	44,976	27,357	28,346	29,590	32,328	31,563	31,232	37,205	35,991	35,991
One year later		201,947	46,363	27,371	29,103	32,625	31,316	30,973	33,874	37,758		37,758
Two years later		232,508	43,717	29,349	29,340	31,779	29,830	28,628	32,917			32,917
Three years later		279,859	40,554	28,041	27,469	31,996	28,408	28,908				28,908
Four years later		288,287	42,005	27,269	27,092	32,049	27,641					27,641
Five years later		280,470	44,083	28,856	27,776	30,841						30,841
Six years later		281,221	44,116	28,162	27,689							27,689
Seven years later		286,873	41,134	27,698								27,698
Eight years later		289,589	41,182									41,182
Nine years later		296,171										296,171
Current estimate of cumulative claims cost	230,536	296,171	41,182	27,698	27,689	30,841	27,641	28,908	32,917	37,758	35,991	817,332
Payments	230,477	281,712	40,135	26,607	26,646	27,603	23,179	21,090	20,462	16,867	6,553	721,331
Outstanding claims - undiscounted	59	14,459	1,047	1,091	1,043	3,238	4,462	7,818	12,455	20,891	29,438	96,001
Discount to present value	1	(747)	(6)	(6)	(6)	(20)	(31)	(63)	(114)	(190)	(275)	(1,457)
Outstanding claims - long tail	60	13,712	1,041	1,085	1,037	3,218	4,431	7,755	12,341	20,701	29,163	94,544
Outstanding claims - short tail												163,083
Claims handling expenses												30,613
Risk margin												51,405
Total net outstanding claims liabilities												339,545
Reinsurance and other recoveries receivable												281,574
Total gross outstanding claims liabilities												621,119

Notes to the financial statements (continued)

19.3 Claims development tables (continued)

Company	Accident year											2020
Accident year	Prior $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000	2018 $'000	2019 $'000	2020 $'000	Total $'000
Estimate of ultimate claims cost:												
At end of accident year		146,243	23,465	7,997	9,407	8,561	8,887	6,934	6,818	9,285	7,079	7,079
One year later		174,381	24,074	6,793	9,105	7,150	7,136	6,443	7,000	9,916		9,916
Two years later		202,036	19,714	6,659	8,641	7,880	6,670	6,248	6,729			6,729
Three years later		242,500	15,488	6,631	7,847	7,944	6,642	6,201				6,201
Four years later		247,440	17,523	6,426	7,624	7,856	6,663					6,663
Five years later		242,584	17,546	7,200	8,455	8,038						8,038
Six years later		242,520	18,632	7,202	8,454							8,454
Seven years later		248,003	17,779	7,195								7,195
Eight years later		249,979	17,894									17,894
Nine years later		255,539										255,539
Current estimate of cumulative claims cost	127,115	255,539	17,894	7,195	8,454	8,038	6,663	6,201	6,729	9,916	7,079	460,823
Payments	127,166	243,017	17,183	7,185	8,453	7,932	6,595	5,868	6,364	6,283	2,394	438,440
Outstanding claims - undiscounted	(51)	12,522	711	10	1	106	68	333	365	3,633	4,685	22,383
Discount to present value	1	(658)	(5)	-	-	-	-	(1)	(1)	(14)	(16)	(694)
Outstanding claims - long tail	(50)	11,864	706	10	1	106	68	332	364	3,619	4,669	21,689
Outstanding claims - short tail												131,372
Claims handling expenses												19,525
Risk margin												32,414
Total net outstanding claims liabilities												205,000
Reinsurance and other recoveries receivable												202,466
Total gross outstanding claims liabilities												407,466

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

19.4 Actuarial Assumptions and Methods

a) Assumptions

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

	Consolidated		Company	
	2020	2019	2020	2019
Weighted average term to settlement (years)	0.99	0.97	0.51	0.53
Economic inflation rate	2.1%	1.9%	1.7%	1.6%
Superimposed inflation rate	1.8%	1.6%	0.3%	0.2%
Discount rate	0.4%	1.3%	0.3%	1.3%
Claim handling expense ratio	9.1%	9.0%	8.4%	8.7%
Risk margin	17.8%	18.8%	18.8%	21.9%

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

Notes to the financial statements (continued)

a) Assumptions (continued)

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

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

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

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

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

The assumptions regarding uncertainty for each class are applied to the net central estimates, and the results aggregated, allowing for diversification in order to arrive at an overall provision, which is intended to have a 90% (2019: 90%) probability of sufficiency (**POS**).

The impacts from COVID-19 on the New Zealand economy are still uncertain but are likely to impact the cost to settle claims and hence our net outstanding claims liability. Due to these uncertainties an additional risk margin amounting to 7% is included in the net outstanding claims provision.

A net risk margin at an approximate 90% POS (2019: 90%) has been included in the net outstanding claims provision in respect of the 2010 and 2011 Canterbury earthquakes. The net risk margin takes into account the retention and limits of the 2010 and 2011 Suncorp Group catastrophe programmes; the timing of cash flows and the currency exchange rates that are likely over the future payment period.

b) Impact of changes in assumptions

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

		Consolidated		Company	
	Movement in variables	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Weighted average term to settlement - years	+0.5	(5,850)	(3,604)	(1,728)	(548)
	-0.5	5,751	3,563	1,713	546
Inflation rate	+1%	(3,195)	(2,871)	(1,030)	(1,014)
	-1%	3,196	2,872	1,034	1,018
Discount rate*	+1%	3,274	2,910	1,042	1,014
	-1%	(1,345)	(2,966)	(342)	(1,029)
Claim handling expense ratio	+1%	(3,113)	(2,894)	(1,892)	(1,811)
	-1%	3,113	2,894	1,892	1,811
Risk margin	+1%	(2,881)	(2,654)	(1,726)	(1,614)
	-1%	2,881	2,654	1,726	1,614

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

Notes to the financial statements (continued)

c) Actuarial information

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

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

The outstanding claims reserves disclosed for the Group have been calculated in accordance with the New Zealand Society of Actuaries Professional Standard No. 30 "Valuations of General Insurance Claims". The effective date of the respective Appointed Actuaries' advice is 30 June 2020.

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

In particular, the Appointed Actuaries are satisfied as to the nature, sufficiency and accuracy of the data used to determine the outstanding claims liabilities. There were no qualifications contained in their respective actuarial advice. The key assumptions used in the compilations of the reserves as at 30 June 2020 have been outlined above.

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

20. Defined benefit fund liabilities

20.1 Defined benefit superannuation funds

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

Notes to the financial statements (continued)

20.1 Defined benefit superannuation funds (continued)

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

Consolidated	2020			2019		
	Surplus $'000	Deficit $'000	Net $'000	Surplus $'000	Deficit $'000	Net $'000
Vero & Asteron New Zealand Staff Pension Scheme	-	(36,912)	(36,912)	-	(25,138)	(25,138)
RIG Superannuation Fund	-	(3,246)	(3,246)	-	(1,833)	(1,833)
Commercial Union General Insurance Staff Pension Scheme	-	(3,582)	(3,582)	-	(2,173)	(2,173)
Total net defined benefit liability	-	(43,740)	(43,740)	-	(29,144)	(29,144)
Non-current	-	(43,740)	(43,740)	-	(29,144)	(29,144)
Total net defined benefit liability	-	(43,740)	(43,740)	-	(29,144)	(29,144)

Company	2020			2019		
	Surplus $'000	Deficit $'000	Net $'000	Surplus $'000	Deficit $'000	Net $'000
Vero & Asteron New Zealand Staff Pension Scheme	-	(37,490)	(37,490)	-	(25,687)	(25,687)
RIG Superannuation Fund	-	(3,246)	(3,246)	-	(1,833)	(1,833)
Commercial Union General Insurance Staff Pension Scheme	-	(3,582)	(3,582)	-	(2,173)	(2,173)
Total net defined benefit liability	-	(44,318)	(44,318)	-	(29,693)	(29,693)
Non-current	-	(44,318)	(44,318)	-	(29,693)	(29,693)
Total net defined benefit liability	-	(44,318)	(44,318)	-	(29,693)	(29,693)

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

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

Notes to the financial statements (continued)

20.1 Defined benefit superannuation funds (continued)

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

a) **Present value of superannuation commitments**

	Consolidated		Company	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Fair value of fund assets at the end of the financial year	49,898	53,141	47,770	51,208
Defined benefit obligations at the end of the financial year	(79,205)	(72,668)	(77,464)	(71,103)
Adjustment for contributions tax	(14,433)	(9,617)	(14,624)	(9,798)
Net liability recognised in the statements of financial position	(43,740)	(29,144)	(44,318)	(29,693)

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

b) **Reconciliation of movements**

	Consolidated		Company	
	2020	2019	2020	2019
Changes in the fair value of plan assets	$'000	$'000	$'000	$'000
Balance at the beginning of the financial year	53,141	55,913	51,208	54,403
Interest income	962	1,691	925	1,643
Actual return on plan assets less interest income	(487)	(195)	(709)	(593)
Contributions by Group companies	602	387	579	369
Contributions by plan participants	5	8	5	8
Benefits paid	(4,047)	(4,004)	(3,971)	(3,978)
Settlements	-	(371)	-	(371)
Premiums and expenses paid	(278)	(288)	(267)	(273)
Balance at the end of the financial year	49,898	53,141	47,770	51,208

	Consolidated		Company	
	2020	2019	2020	2019
Changes in the present value of defined benefit fund obligations	$'000	$'000	$'000	$'000
Balance at the beginning of the financial year	(72,668)	(64,089)	(71,103)	(62,857)
Current service cost	(683)	(647)	(662)	(621)
Interest expense	(1,334)	(1,945)	(1,304)	(1,906)
Contributions by plan participants	(5)	(8)	(5)	(8)
Actuarial losses arising from changes in financial assumptions	(8,762)	(10,042)	(8,492)	(9,744)
Actuarial losses arising from liability experience	(78)	(760)	(136)	(749)
Benefits paid	4,047	4,004	3,971	3,978
Settlements	-	531	-	531
Premiums and expenses paid	278	288	267	273
Balance at the end of the financial year	(79,205)	(72,668)	(77,464)	(71,103)

Notes to the financial statements (continued)

c) Categories of fund assets

Major categories of fund assets as a percentage of total fund assets	Consolidated 2020 %	Consolidated 2019 %	Company 2020 %	Company 2019 %
Equity	34.1	32.4	34.2	32.5
Fixed Income	38.0	37.2	38.0	37.2
Investments in managed funds	15.2	17.7	15.1	17.6
Cash	12.7	12.7	12.7	12.7
	100.0	100.0	100.0	100.0

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

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

d) Principal actuarial assumptions

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

	Consolidated 2020 %	Consolidated 2019 %	Company 2020 %	Company 2019 %
Vero & Asteron New Zealand Staff Pension Scheme				
Discount rate	1.00	1.94	1.00	1.94
Future salary increases	0.0 for 1 yr, 1.75 for 2 yrs then 2.0 thereafter	1.75 for 3 yrs then 2.0 thereafter	0.0 for 1 yr, 1.75 for 2 yrs then 2.0 thereafter	1.75 for 3 yrs then 2.0 thereafter
RIG Superannuation Fund				
Discount rate	0.65	1.60	0.65	1.60
Future salary increases	n/a	n/a	n/a	n/a
Commercial Union General Insurance Staff Pension Scheme				
Discount rate	0.89	1.82	0.89	1.82
Future salary increases	0.0 for 1 yr, 1.75 for 2 yrs then 2.0 thereafter	1.75 for 3 yrs then 2.0 thereafter	0.0 for 1 yr, 1.75 for 2 yrs then 2.0 thereafter	1.75 for 3 yrs then 2.0 thereafter

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

Notes to the financial statements (continued)

d) Principal actuarial assumptions (continued)

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

	Consolidated		Company	
	2020	2019	2020	2019
Vero & Asteron New Zealand Staff Pension Scheme	14	13	14	13
RIG Superannuation Fund	8	8	8	8
Commercial Union General Insurance Staff Pension Scheme	12	11	12	11

e) Sensitivity analysis

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

Consolidated	2020		2019	
	Increase $'000	Decrease $'000	Increase $'000	Decrease $'000
Discount rate movement (100 basis points)*	(9,532)	11,509	(8,344)	10,335
Future salary increases (100 basis points)	1,099	(989)	994	(905)
One year movement in life expectancy	3,114	(3,078)	2,593	(2,581)

Company	2020		2019	
	Increase $'000	Decrease $'000	Increase $'000	Decrease $'000
Discount rate movement (100 basis points)*	(9,239)	11,117	(8,088)	9,994
Future salary increases (100 basis points)	1,014	(917)	926	(848)
One year movement in life expectancy	3,055	(3,020)	2,546	(2,534)

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

f) Funding

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

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

For the RIG Superannuation Fund, the most recent statutory review was carried out as at 31 March 2019 and, on the basis of that review, no employer contributions are currently required.

For the Commercial Union General Insurance Staff Pension Scheme the most recent statutory review was carried out as at 31 March 2017 and on the basis of that review, no employer contributions are currently required. The March 2020 review is currently in progress.

Notes to the financial statements (continued)

f) Funding (continued)

The Group, via AA Insurance Limited and a related entity Suncorp NZ Employees Limited, intends to contribute $413,000 to the defined superannuation benefit funds in the financial year ending 30 June 2021, being 20% of active members' salary in the Vero & Asteron New Zealand Staff Pension Scheme.

21. Share capital and capital notes

	Company		Company	
	2020 Shares/ Notes No. (000)	2020 Shares/ Notes $'000	2019 Shares/ Notes No. (000)	2019 Shares/ Notes $'000
Issued and fully paid ordinary shares	159,393	211,318	159,393	211,318
Shareholder contribution under equity settled employee share plans	-	6,311	-	6,311
Total share capital	159,393	217,629	159,393	217,629
Capital notes	592	59,191	592	59,191
Total capital notes	592	59,191	592	59,191
Total share and capital notes		276,820		276,820

21.1 Share capital

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

As at 30 June 2020, the Company had 159,392,655 ordinary shares with no par value issued to Suncorp Group Holdings (NZ) Limited (2019:159,392,655).

Capital notes

At 30 June 2020 the Company had 591,910 capital notes (2019: 591,910) with a face value of $59,191,000 issued to its parent Suncorp Group Holdings (NZ) Limited.

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

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

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

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

Notes to the financial statements (continued)

22. Capital management

22.1 Capital management policies and objectives

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

The Company and its two general insurance subsidiaries, Vero Liability Insurance Limited and AA Insurance Limited, are licensed insurance companies in accordance with the Insurance (Prudential Supervision) Act 2010 (**IPSA**). All three companies manage their capital in accordance with the requirements of IPSA and the Solvency Standard for Non-life Insurance Business (the **Solvency Standard**) issued by the Reserve Bank of New Zealand.

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

The Group and Company satisfied all externally imposed capital requirements which they were subject to during the year ended 30 June 2020.

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

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

22.2 Capital composition

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

Regulatory capital

Regulatory capital is made up of two components, actual solvency capital and minimum solvency capital with the difference representing the solvency margin. The calculation of the solvency margin for the Group, being the Company and its two general insurance subsidiaries Vero Liability Insurance Limited and AA Insurance Limited (**Licensed Insurer Group**), and the Company is detailed below:

	Licensed Insurer Group		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Actual solvency	427,030	406,021	248,019	241,442
Minimum solvency capital	221,197	206,646	133,532	128,389
Solvency margin	205,833	199,375	114,487	113,053
Solvency ratio	1.93	1.96	1.86	1.88

Notes to the financial statements (continued)

23. Credit rating

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

	Credit Rating	
	2020	2019
Vero Insurance New Zealand Limited	A+	A+
Vero Liability Insurance Limited	A+	A+
AA Insurance Limited	A+	A+

24. Notes to the statements of cash flows

	Consolidated		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Profit for the financial year	219,812	217,328	192,295	171,013
Non-cash items				
Movement in financial assets at fair value through profit or loss	(11,423)	(10,473)	(2,021)	(1,933)
Depreciation, amortisation and impairment expense	11,075	11,236	5,465	9,866
Changes in assets and liabilities related to Autosure disposal	-	1,953	-	1,953
(Gain)/Loss on disposal of plant and equipment	(14)	(4)	(29)	6
Share of joint venture (gain)/loss	(137)	50	-	-
Reversal of lease incentive	9,588	-	-	-
Tax on opening retained profits adjustment for IFRS 16	505	-	17	-
Movement in defined benefit fund	(10,019)	(11,778)	(10,035)	(11,912)
Change in assets and liabilities				
(Increase)/decrease in receivables and other assets	(53,694)	(25,406)	(37,174)	6,218
Decrease in reinsurance and other recoveries receivable	207,929	274,965	218,017	269,278
(Increase)/decrease in deferred reinsurance premiums	(18,055)	352	(8,919)	8,200
Increase in deferred acquisition costs	(5,128)	(7,842)	(6,260)	(5,914)
Increase in deferred tax assets	(11,130)	(7,680)	(6,596)	(7,011)
Increase/(decrease) in payables and other liabilities	(11,746)	75,585	(15,138)	45,493
Increase in unearned premium liabilities	39,698	63,004	16,741	30,246
(Decrease)/increase in current tax liabilities	(7,766)	56,708	(10,066)	45,175
Decrease in outstanding claims liabilities	(183,722)	(297,003)	(209,802)	(291,327)
Increase in defined benefit fund liabilities	14,596	17,465	14,625	17,076
Increase in deferred tax liabilities	2,074	2,790	1,750	1,656
Increase in provisions	48,291	1,709	18,108	1,709
Net cash from operating activities	240,734	362,959	160,979	289,792

Notes to the financial statements (continued)

25. Financial instruments

25.1 Comparison of fair value to carrying amounts

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

Investments traded in an active market are valued at the closing quoted market price. The significant majority of other investments are valued using independently sourced valuations that do not involve the exercise of judgement by management.

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

25.2 Fair value hierarchy

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

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

The Level 2 securities held by the Group represent investment securities valued using a market comparison technique. For investment securities the fair value is calculated using observable inputs from a non-active market for an identical security with the valuation reflecting the exit price for the security. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Consolidated				
As at 30 June 2020				
Financial assets				
Investment securities	51,678	1,037,076	-	1,088,754
As at 30 June 2019				
Financial assets				
Investment securities	59,853	954,558	-	1,014,411
Company				
As at 30 June 2020				
Financial assets				
Investment securities	44,529	560,952	-	605,481
As at 30 June 2019				
Financial assets				
Investment securities	50,289	550,055	-	600,344

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

Notes to the financial statements (continued)

25.3 Accounting classification

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

Consolidated

2020	Financial Assets at Fair Value $'000	Financial Assets at Amortised Cost $'000	Financial Liabilities at Amortised Cost $'000	Carrying amount $'000
Cash and cash equivalents	-	45,404	-	45,404
Receivables and other assets	-	727,526	-	727,526
Investment securities	1,088,754	-	-	1,088,754
	1,088,754	772,930	-	1,861,684
Payables and other liabilities*	-	-	(344,929)	(344,929)
2019				
Cash and cash equivalents	-	65,757	-	65,757
Receivables and other assets	-	673,570	-	673,570
Investment securities	1,014,411	-	-	1,014,411
	1,014,411	739,327	-	1,753,738
Payables and other liabilities*	-	-	(310,278)	(310,278)

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

Company

2020	Financial Assets at Fair Value $'000	Financial Assets at Amortised Cost $'000	Financial Liabilities at Amortised Cost $'000	Carrying amount $'000
Cash and cash equivalents	-	36,126	-	36,126
Receivables and other assets	-	489,534	-	489,534
Investment securities	605,481	-	-	605,481
	605,481	525,660	-	1,131,141
Payables and other liabilities*	-	-	(239,373)	(239,373)
2019				
Cash and cash equivalents	-	51,858	-	51,858
Receivables and other assets	-	452,323	-	452,323
Investment securities	600,344	-	-	600,344
	600,344	504,181	-	1,104,525
Payables and other liabilities*	-	-	(248,040)	(248,040)

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

Notes to the financial statements (continued)

26. Risk management

26.1 Risk management overview

The Company's Board has ultimate responsibility for risk management and is assisted by the Board Audit and Risk Committee (**BARC**) in its oversight of material risk categories and adherence to Board approved risk appetite and risk policies. The Company's subsidiaries who are licensed insurers, Vero Liability Insurance Limited and AA Insurance Limited, have their own respective BARC's which also perform this role. The Company's management apply the three lines of defence model for risk management as follows:

Line of Defence	Responsibility of	Accountable for
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 to earnings and capital from mismatches between assets and liabilities with varying maturity and repricing profiles and from mismatches in term.
Insurance risk	The risk that for any class of risk insured, the present value of actual claims payable will exceed the present value of actual premium revenues generated (net of reinsurance). This includes product design, pricing, reinsurance, underwriting, claims and reserving risks.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes legal risk, but excludes strategic and reputational risks. This includes consideration of matters relating to external clients and business practices, including regulatory, statutory, fiduciary, and suitability requirements.
Compliance risk	The risk of legal or regulatory sanctions, financial loss, or loss to reputation which the Group may suffer as a result of its failure to comply with all applicable regulations, codes of conduct and good practice standards. This includes consideration of the creation and promotion of a culture of ethical conduct.

Notes to the financial statements (continued)

26.1 Risk management overview (continued)

Conduct risk is considered in the Enterprise Risk Management Framework in the context of the organisation's risk culture, and relates to risk of inappropriate, unethical or unlawful behaviour on the part of Suncorp's employees and partners. Suncorp recognises that a strong organisational culture deriving from a clear and unambiguous tone from the top is a key enabler to managing conduct risk and maximising the outcomes for our customers, shareholders and employees. The Company has implemented a Conduct Risk Management Programme to provide a structured approach to conduct related matters.

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

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

The primary role of the ALCO is to oversee the management of selected financial risks arising from business activities within the Board approved risk parameters: Insurance Risk (including the following economic aspects – Pricing, Reserving, Concentration and Reinsurance); Credit Risk; Market Risk; Asset and Liability Risk; and Liquidity Risk. The ALCO provides governance over aspects of the risk framework related to Finance Risk.

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

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

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

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

Notes to the financial statements (continued)

26.2 Insurance risk management

a) Policies and practices for mitigating insurance risk

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

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

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

b) Terms and conditions of insurance business

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

Notes to the financial statements (continued)

26.3 Credit risk

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

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

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

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

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

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

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Notes to the financial statements (continued)

26.3 Credit risk (continued)

Consolidated	Credit Rating						
	AAA	AA	A	BBB	Non-investment grade	Not Rated	Total
2020	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	-	44,838	566	-	-	-	45,404
Investment securities	54,162	614,681	261,020	29,800	-	-	959,663
Reinsurance and other recoveries	-	78,320	90,747	169	-	112,338	281,574
Accrued income	-	-	-	-	-	5,178	5,178
Investment receivables	-	-	-	-	-	262	262
Premiums due	-	-	-	-	-	632,560	632,560
Amounts due from related parties	-	-	255	-	-	-	255
Amounts due from reinsurers	-	49,516	35,271	-	-	-	84,787
	54,162	787,355	387,859	29,969	-	750,338	2,009,683
2019							
Cash and cash equivalents	-	45,740	20,017	-	-	-	65,757
Investment securities	75,196	521,299	270,513	23,359	-	-	890,367
Reinsurance and other recoveries net of recoveries received in advance	-	191,490	202,015	-	-	95,998	489,503
Accrued income	-	-	-	-	-	6,275	6,275
Premiums due	-	-	-	-	-	599,465	599,465
Amounts due from related parties	-	-	706	-	-	-	706
Amounts due from reinsurers	-	12,317	50,204	-	-	-	62,521
	75,196	770,846	543,455	23,359	-	701,738	2,114,594

KPMG

Notes to the financial statements (continued)

26.3 Credit risk (continued)

Company

	Credit Rating						
	AAA	AA	A	BBB	Non-investment grade	Not Rated	Total
2020	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	-	35,718	408	-	-	-	36,126
Investment securities	31,465	392,670	157,945	23,073	-	-	605,153
Reinsurance and other recoveries	-	59,150	69,861	116	-	73,339	202,466
Accrued income	-	-	-	-	-	3,351	3,351
Investment receivables	-	-	-	-	-	37	37
Premiums due	-	-	-	-	-	399,041	399,041
Amounts due from related parties	-	-	1,557	-	-	-	1,557
Amounts due from reinsurers	-	47,083	34,814	-	-	-	81,897
	31,465	534,621	264,585	23,189	-	475,768	1,329,628
2019							
Cash and cash equivalents	-	36,495	15,363	-	-	-	51,858
Investment securities	52,250	353,662	180,633	13,354	-	-	599,899
Reinsurance and other recoveries	-	180,092	177,248	-	-	63,143	420,483
Accrued income	-	-	-	-	-	4,476	4,476
Premiums due	-	-	-	-	-	388,188	388,188
Amounts due from related parties	-	-	2,043	-	-	-	2,043
Amounts due from reinsurers	-	5,941	47,228	-	-	-	53,169
	52,250	576,190	422,515	13,354	-	455,807	1,520,116

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

Consolidated

		Past due but not impaired					
	Neither past due nor impaired	0-3 mths	3-6 mths	6-12 mths	>12 mths	Impaired	Total
2020	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Premiums due	601,337	29,722	754	710	-	37	632,560
2019							
Premiums due	572,876	22,842	3,736	4	-	7	599,465

KPMG

Notes to the financial statements (continued)

26.3 Credit risk (continued)

Company

2020	Neither past due nor impaired $'000	Past due but not impaired 0-3 mths $'000	3-6 mths $'000	6-12 mths $'000	>12 mths $'000	Impaired $'000	Total $'000
Premiums due	369,188	28,458	728	637	-	30	399,041
2019							
Premiums due	363,021	21,547	3,620	-	-	-	388,188

26.4 Liquidity risk

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

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

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

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

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

Consolidated

2020	Carrying amount $'000	1 year or less $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
Amounts due to reinsurers	176,914	176,914	-	-	176,914
Trade creditors and accruals	106,677	106,677	-	-	106,677
Lease liability	44,939	5,906	22,998	21,303	50,207
Outstanding claims liabilities	621,119	420,470	181,767	18,882	621,119
Amounts due to related parties	16,203	16,203	-	-	16,203
	965,852	726,170	204,765	40,185	971,120
2019					
Amounts due to reinsurers	163,963	163,963	-	-	163,963
Trade creditors and accruals	118,748	110,336	4,389	4,023	118,748
Outstanding claims liabilities	804,841	423,851	368,837	12,153	804,841
Amounts due to related parties	26,533	26,533	-	-	26,533
	1,114,085	724,683	373,226	16,176	1,114,085

26.4 Liquidity risk (continued)

Company

2020	Carrying amount $'000	1 year or less $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
Amounts due to reinsurers	139,267	139,267	-	-	139,267
Trade creditors and accruals	85,252	85,252	-	-	85,252
Lease liability	2,432	537	1,757	307	2,601
Outstanding claims liabilities	407,466	308,310	93,085	6,071	407,466
Amounts due to related parties	12,405	12,405	-	-	12,405
	646,822	545,771	94,842	6,378	646,991
2019					
Amounts due to reinsurers	132,238	132,238	-	-	132,238
Trade creditors and accruals	91,955	91,955	-	-	91,955
Outstanding claims liabilities	617,268	332,634	280,992	3,642	617,268
Amounts due to related parties	22,817	22,817	-	-	22,817
	864,278	579,644	280,992	3,642	864,278

26.5 Market risk

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

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

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

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

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

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

Notes to the financial statements (continued)

a) Interest rate risk

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

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

The valuation of the outstanding claims liabilities includes the discounting to present value at balance date of expected future claim payments. Any assessment of the impact of changes in interest rates on investment income must include the offsetting adjustment to claims expense for changes in discount rates adopted in outstanding claims valuations. A movement of 100 basis points (2019:100 basis points) is considered reasonably possible and has been applied to the sensitivity analysis. This is disclosed in Note 19.4(b), represented by the impact of change in discount rate.

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

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

The sensitivity of profit or loss after tax to movements in interest rates in relation to interest-bearing financial assets held at the balance date is shown in the table below. There is no impact on equity reserves. It is assumed that all residual exposures for the shareholder after tax are included in the sensitivity analysis, that the percentage point change occurs at the balance date and there are concurrent movements in interest rates and parallel shifts in the yield curves. A movement of 100 basis points (2019:100 basis points) is considered reasonably possible and has been applied to the sensitivity analysis.

Consolidated	2020			2019		
	Exposure $'000	Change in variable %	Profit (loss) after tax & equity $'000	Exposure $'000	Change in variable %	Profit (loss) after tax & equity $'000
Fixed interest bearing investment securities	505,971	+1	(9,756)	410,004	+1	(7,822)
		-1	8,886		-1	8,156
	505,971			410,004		

Company	2020			2019		
	Exposure $'000	Change in variable %	Profit (loss) after tax & equity $'000	Exposure $'000	Change in variable %	Profit (loss) after tax & equity $'000
Fixed interest bearing investment securities	313,924	+1	(5,928)	283,910	+1	(5,258)
		-1	5,384		-1	5,475
	313,924			283,910		

Notes to the financial statements (continued)

a) Interest rate risk (continued)

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

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

b) Foreign exchange risk

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

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

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

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

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

c) Credit spread risk

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

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

Sensitivity of the Group and Company's credit exposure to a +/- 100 basis point (2019: 100 basis points) change in yield is as follows:

Consolidated	2020			2019		
	Exposure	Change in variable	Loss after tax & equity	Exposure	Change in variable	Profit after tax & equity
	$'000	%	$'000	$'000	%	$'000
Interest bearing securities	959,663	+1	(10,249)	890,367	+1	(7,822)
		-1	10,248		-1	8,155
	959,663			890,367		

Company	2020			2019		
	Exposure	Change in variable	Loss after tax & equity	Exposure	Change in variable	Profit after tax & equity
	$'000	%	$'000	$'000	%	$'000
Interest bearing securities	605,153	+1	(6,115)	599,899	+1	(5,257)
		-1	6,114		-1	5,475
	605,153			599,899		

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Notes to the financial statements (continued)

d) Equity price risks

The Group and Company hold investments that expose the Group to equity price risk. The profit or loss impact on equity price movement is determined by multiplying market value by the variable of +/- 500 basis points (2019: 500 basis points):

Consolidated	2020			2019		
	Exposure	Change in variable	Profit (loss) after tax & equity	Exposure	Change in variable	Profit (loss) after tax & equity
	$'000	%	$'000	$'000	%	$'000
Domestic equities in unit trusts	16,499	+5	594	15,658	+5	564
		-5	(594)		-5	(564)
Domestic fixed interest in unit trusts	58,237	+5	2,097	56,210	+5	2,024
		-5	(2,097)		-5	(2,024)
International equities in unit trusts	23,502	+5	846	22,227	+5	800
		-5	(846)		-5	(800)
International fixed interest in unit trusts	30,525	+5	1,099	29,504	+5	1,062
		-5	(1,099)		-5	(1,062)
Domestic equities	328	+5	12	445	+5	16
		-5	(12)		-5	(16)
	129,091			124,044		

Company	2020			2019		
	Exposure	Change in variable	Profit (loss) after tax & equity	Exposure	Change in variable	Profit (loss) after tax & equity
	$'000	%	$'000	$'000	%	$'000
Domestic equities	328	+5	12	445	+5	16
		-5	(12)		-5	(16)
	328			445		

26.6 Capital management

The Group and Company's capital management policies and objectives together with details of the amount of equity retained for the purpose of financial soundness are described in Note 22.

Notes to the financial statements (continued)

27. Property, plant and equipment and leases

	Consolidated		Company	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Right of use asset	33,627	-	2,352	-
Other plant and equipment	4,988	6,388	1,749	2,909
Property, plant and equipment and leases	38,615	6,388	4,101	2,909

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

	Consolidated		Company	
	2020	2020	2020	2020
	Real Estate	Total	Real Estate	Total
	$'000	$'000	$'000	$'000
Right of use asset at 1 July 2019	37,358	37,358	2,926	2,926
Depreciation charge for the year	(4,737)	(4,737)	(559)	(559)
Additions to right of use assets	1,021	1,021	-	-
Derecognition of right of use assets	(15)	(15)	(15)	(15)
Right of use asset at 30 June 2020	33,627	33,627	2,352	2,352
Lease liability at 30 June 2020	44,939	44,939	2,432	2,432
Current	4,864	4,864	497	497
Non-current	40,076	40,076	1,935	1,935
Lease liability at 30 June 2020	44,939	44,939	2,432	2,432

Interest expense on the lease liabilities for the Group and Company of $1,161,000 and $68,000 respectively was recognised as Finance Costs in the consolidated statements of comprehensive income.

Total cash outflow for lease liabilities presented in the consolidated statements of cash flows for the Group and Company respectively was $4,816,000 and $539,000.

28. Related parties

28.1 Controlling entities

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

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

Notes to the financial statements (continued)

28.2 Transactions and balances

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

	Consolidated		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Premiums received				
Fellow subsidiaries of the ultimate parent	120	102	83	85
Premiums paid				
Fellow subsidiaries of the ultimate parent	150	140	-	-
Claims repair services				
Fellow subsidiaries of the ultimate parent	7,894	18,720	1,395	4,490
Reinsurance recoveries paid				
Subsidiaries	-	-	16,884	26,813
Fellow subsidiaries of the ultimate parent	-	7	-	7
Service and administration fees received				
Parent	4	-	4	-
Subsidiaries	-	-	1,799	6,921
Fellow subsidiaries of the ultimate parent	4,037	1,316	4,001	1,275
Other related parties	297	209	-	-
Service and administration fees paid				
Subsidiaries	-	-	851	282
Fellow subsidiaries of the ultimate parent	166,402	156,480	148,297	141,117
Management services and profit shares paid				
Other related parties (Rasal)	2,582	2,802	-	-
Reinsurance premiums paid				
Fellow subsidiaries of the ultimate parent	14,715	14,634	12,325	12,732
Forward foreign exchange contract settlement payment				
Fellow subsidiaries of the ultimate parent	29,774	35,386	29,774	35,386
Group tax loss offsets/tax transfers paid				
Parent	30	55	30	55
Subsidiaries	-	-	50	-
Fellow subsidiaries of the ultimate parent	5,223	-	5,223	-
GST transfers received				
Fellow subsidiaries of the ultimate parent	446	-	446	-
Share based paid				
Fellow subsidiaries of the ultimate parent	30	29	-	-
Dividends received				
Subsidiaries	-	-	52,400	42,300
Dividend paid				
Parent	176,456	155,804	176,456	155,804

Notes to the financial statements (continued)

28.2 Transactions and balances (continued)

Aggregate amounts receivable from or payable to related parties as at 30 June 2020 and 30 June 2019 are as follows:

	Consolidated		Company	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Amounts receivable from:				
Parent	4	-	4	-
Subsidiaries	-	-	1,292	1,337
Fellow subsidiaries of the ultimate parent	251	706	261	706
Total amounts receivable from related parties	255	706	1,557	2,043
Amounts payable to:				
Subsidiaries	-	-	647	-
Fellow subsidiaries of the ultimate parent	14,528	24,630	11,758	22,817
Joint venture	123	109	-	-
Other related parties	1,552	1,794	-	-
Total amounts payable to related parties	16,203	26,533	12,405	22,817

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

The balance of $376,000 for the Group and $388,000 for the Company was payable at 30 June 2019 to Capital S.M.A.R.T Repairs Australia Pty Limited (Capital S.M.A.R.T), which was a fellow subsidiary of the ultimate parent at that date. The amounts were reported as part of the gross outstanding claims liabilities in Note 19. Capital S.M.A.R.T was disposed by the ultimate parent of the Group during the year ended 30 June 2020. Although the Group and the Company continue to trade with Capital S.M.A.R.T it is on an arms length basis and is no longer a related party of the Group at 30 June 2020.

28.3 Key management personnel

The Key Management Personnel (**KMP**) compensation is provided by Suncorp Group Limited or by a related party of the ultimate parent entity. Remuneration provided other than by a Suncorp Group entity located in New Zealand is not included in this disclosure. This applies to S B Johnston for the year ended 30 June 2020 and Dr D F McTaggart for the years ended 30 June 2020 and 30 June 2019. They were remunerated by a related party of the ultimate parent outside of New Zealand and did not receive any compensation specifically related to their activities as a KMP of the Company. The KMP compensation is as follows:

	Consolidated		Company	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Short-term employee benefits	11,145	12,305	5,692	6,739
Post employment benefits	182	328	182	328
Long-term benefits	601	531	601	531
Share based payment	1,369	1,341	1,369	1,341
Total Compensation	13,297	14,505	7,844	8,939

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

Notes to the financial statements (continued)

29. Auditor's remuneration

	Consolidated		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
During the year the auditor of the Company was paid for the following services:				
Audit fees				
Audit of annual accounts of the Company	560	588	560	588
Audit of annual accounts of the Company's subsidiaries	240	250	-	-
Non-audit fees				
Assurance engagements on RBNZ solvency returns of the Company	161	169	161	169
Assurance engagements on RBNZ solvency returns of the Company's subsidiaries	146	153	-	-
Agreed upon procedure engagements over profit share calculations	15	15	15	15
Forensic audit procedures over sensitive expenditure	45	-	45	-
Total auditor's remuneration	1,167	1,175	781	772

30. Provisions and contingent liabilities

a) Provisions

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

Consolidated

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

Company

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

Annual leave and other employee benefits

The provision is determined based on expected payments.

Notes to the financial statements (continued)

a) Provisions (continued)

Customer remediation

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

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

Customer hardship and rebates

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

The provision for customer hardship and rebates represents management's best estimate of the amount required to discharge the Group's obligations as at 30 June 2020 in respect of premium rebates, premium waivers, claims excess waivers and other relief measures that the Group expects to provide to customers.

b) Contingent Liabilities

There are outstanding legal and other claims and possible claims against the Group (other than claims under contracts of insurance), the aggregate amount of which cannot be readily quantified. Where considered appropriate, legal advice has been obtained. The Group does not consider the outcome of any such claims known to exist at the date of this report, either individually or in aggregate, is likely to have a material effect on its operations or financial position except where recognised in note 30(a). The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

31. Significant accounting policies

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

31.1 Basis of consolidation

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

a) Subsidiaries

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

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

b) Non-controlling interests

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

Notes to the financial statements (continued)

31.2 Business combinations

The acquisition method of accounting is used to account for business combinations by the Group. The cost of an acquisition is measured as the fair value of the assets transferred, liabilities incurred, and equity instruments issued by the Group at the acquisition date. Acquisition-related costs are expensed in the period in which they are incurred. Where equity instruments are issued in an acquisition, their value is the published market price at the acquisition date. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

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

31.3 Transactions eliminated on consolidation

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

31.4 Foreign currency

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

31.5 Revenue and expense recognition

a) Premium revenue

Premium revenue comprises amounts charged to policyholders. Premiums exclude applicable levies and charges such as fire service levies collected on behalf of third parties, and 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 consolidated financial statements.

b) Claims expense

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

Notes to the financial statements (continued)

c) Reinsurance

Reinsurance commission revenue

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

Reinsurance and other recoveries revenue

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

Outwards reinsurance expense

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

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

d) Investment revenue

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

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

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

31.6 Income tax

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

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

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

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

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

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

Notes to the financial statements (continued)

a) Goods and services tax

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

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

31.7 Cash and cash equivalents

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

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

31.8 Receivables and other assets

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

31.9 Payables and other liabilities

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

31.10 Financial assets

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

a) Financial assets at fair value through profit or loss

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

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

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

Notes to the financial statements (continued)

a) Financial assets at fair value through profit or loss (continued)

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

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

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

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

b) Financial assets at amortised cost

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

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

c) Derecognition of financial assets

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

d) General insurance activities

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

Financial assets backing general insurance liabilities

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

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

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

Financial assets not backing general insurance liabilities

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

Notes to the financial statements (continued)

31.11 Financial liabilities

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

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

a) Financial liabilities at fair value through profit or loss

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

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

b) Financial liabilities at amortised cost

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

31.12 Impairment

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

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

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

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

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

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

Notes to the financial statements (continued)

a) Calculation of recoverable amount

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

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

b) Reversal of impairment

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

31.13 Leases

a) Lease liabilities

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

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

b) Right-of-use asset

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

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

31.14 Property, plant and Equipment

a) Recognition and initial measurement

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

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

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

Notes to the financial statements (continued)

b) Subsequent measurement

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

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

c) Depreciation

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

The following depreciation rates have been used:

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

d) Retirement

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

31.15 Intangibles

a) Initial recognition and measurement

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

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

b) Subsequent expenditure

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

c) Amortisation

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

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

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

d) Goodwill

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

31.16 Employee benefit obligations

a) Short term employee benefits

Annual leave

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

Sick leave

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

Short term bonus plans

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

Other leave and non-monetary benefits

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

Notes to the financial statements (continued)

b) Post-employment benefits (superannuation)

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

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

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

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

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

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

c) Other long term employee benefits

Long service leave

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

Annual Leave

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

d) Termination benefits

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

Notes to the financial statements (continued)

31.17 Deferred insurance activities

a) Deferred acquisition costs (DAC)

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

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

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

b) Deferred reinsurance premiums

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

31.18 Outstanding claims liabilities

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

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

31.19 Unearned premium liabilities

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

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

31.20 Contributed capital

a) Ordinary shares

Ordinary shares are recognised as equity.

b) Capital notes

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

c) Transaction costs

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

d) Capital contributions to subsidiaries

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

e) Dividends

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

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

31.21 Interest in joint venture

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

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

31.22 Contingent liabilities and contingent assets

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

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

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

31.23 Changes in accounting estimates and errors

a) Estimates

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

b) Errors

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

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

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

Notes to the financial statements (continued)

31.24 New accounting standards and interpretations not yet adopted

NZ IFRS 17 Insurance Contracts (**NZ IFRS 17**) is a new accounting standard for all types of insurance contracts and replaces NZ IFRS 4 Insurance Contracts. NZ IFRS 17 was issued in August 2017 by the New Zealand External Reporting Board and incorporates International Financial Reporting Standard 17 Insurance Contracts (**IFRS 17**) issued by the International Accounting Standards Board (**IASB**). Amendments to IFRS 17 were approved by the IASB in June 2020 to address implementation issues identified and the effective date of IFRS 17 was revised to be applicable for reporting periods beginning on or after 1 January 2023. These amendments are expected to be adopted in NZ IFRS 17 in due course, which means this new standard is expected to be mandatory for the Group's financial statements for periods starting from 1 July 2023.

NZ IFRS 17 introduces new measurement models and significant changes to the presentation and disclosure of insurance contracts. Under the general model, a group of insurance contracts are measured based on the fulfilment cashflows (present value of estimated future cash flows with a provision for risk) and the contractual service margin (the unearned profit that will be recognised over the coverage period). NZ IFRS 17 also permits the use of a simplified model in certain circumstances, which is similar to the current measurement model for general insurance contracts.

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

32. Subsequent events

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