The National Mutual Life Association of Australasia Limited (New Zealand Branch)

ABN: 72 004 020 437

Financial Report for the year ended 31 December 2014

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The National Mutual Life Association of Australasia Limited (New Zealand Branch)

Financial Report
for the year ended 31 December 2014

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Registered Office:
33 Alfred Street, Sydney NSW 2000

The National Mutual Life Association of Australasia Limited, a company limited by shares, is incorporated and domiciled in Australia.

The National Mutual Life Association of Australasia Limited
(New Zealand Branch)

Statement of comprehensive income

for the year ended 31 December 2014

	Note	Consolidated		Parent	
		2014 $NZm	2013 $NZm	2014 $NZm	2013 $NZm
Income and expenses of the shareholders, policyholders, external unitholders and non-controlling interests[1]					
Life insurance premium and related revenue	14(a)	198	189	198	189
Investment management and investment contract fees		4	4	4	4
Other revenue		10	2	10	-
Investment gains	5	269	62	269	64
Insurance claims and related expenses	14(b)	(182)	(177)	(182)	(177)
Operating expenses	6	(64)	(63)	(64)	(63)
Finance costs		(1)	-	(1)	-
Change in policyholder liabilities					
- life insurance contracts	14(e)	(90)	37	(90)	37
- investment contracts		(24)	(28)	(24)	(28)
Profit for the year before income tax		**120**	**26**	**120**	**26**
Income tax (expense) / credit	7(a)	(60)	20	(60)	20
Total comprehensive income for the year		**60**	**46**	**60**	**46**

Footnote:

(1) Income and expenses include amounts attributable to the shareholder's interests, policyholders' interests in the life statutory funds, external unitholders' interests and non-controlling interests. Amounts included in respect of the life statutory funds have a substantial impact on most of the consolidated Income statement lines, especially investment gains and losses. In general, policyholders' interests in the transactions for the period are attributed to them in the lines 'Change in policyholder liabilities'.

The National Mutual Life Association of Australasia Limited
(New Zealand Branch)

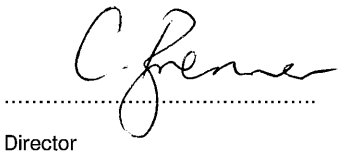
Statement of financial position

as at 31 December 2014

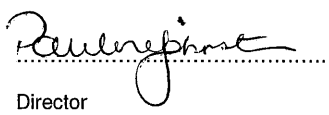
	Note	Consolidated 2014 $NZm	Consolidated 2013 $NZm	Parent 2014 $NZm	Parent 2013 $NZm
Assets					
Cash and cash equivalents		155	55	111	45
Receivables	8	57	54	57	54
Current tax assets		-	23	-	23
Investments in financial assets	9	1,930	1,772	1,973	1,781
Deferred tax assets	7(c)	-	24	-	24
Intangibles	10	2	4	2	4
Total assets of policyholders and shareholders		**2,144**	**1,932**	**2,143**	**1,931**
Liabilities					
Payables	11	132	43	132	43
Current tax liabilities		9	-	9	-
Provisions	12	-	10	-	10
Derivative financial liabilities		4	7	4	7
Deferred tax liabilities	7(d)	43	40	43	40
Life insurance contract liabilities	14(d)	1,411	1,317	1,411	1,317
Investment contract liabilities		239	237	239	237
Total liabilities of policyholders and shareholders		**1,838**	**1,654**	**1,838**	**1,654**
Net assets of shareholders		**306**	**278**	**305**	**277**
Equity[1]					
Contributed equity	13	-	-	-	-
Retained earnings		306	278	305	277
Total equity attributable to shareholders		**306**	**278**	**305**	**277**

Footnote:
(1) Further information on Equity is provided on the Statement of changes in equity on the following page.

For and on behalf of the Board who authorised these financial statements for issue on 24 March 2015:



Director



Director

The National Mutual Life Association of Australasia Limited
(New Zealand Branch)

Statement of changes in equity

as at 31 December 2014

Consolidated

	Equity attributable to the shareholder		
	Contributed equity $NZm	Retained earnings $NZm	Total equity $NZm
2014			
Balance at the beginning of the year	-	278	278
Profit	-	60	60
Total comprehensive income	-	60	60
Transfers to other statutory funds		(32)	(32)
Balance at the end of the year	**-**	**306**	**306**
2013			
Balance at the beginning of the year	15	236	251
Profit	-	46	46
Total comprehensive income	-	46	46
Transfers to other statutory funds	(15)	(4)	(19)
Balance at the end of the year	**-**	**278**	**278**

Parent

	Equity attributable to the shareholder		
	Contributed equity $NZm	Retained earnings $NZm	Total equity $NZm
2014			
Balance at the beginning of the year	-	277	277
Profit	-	60	60
Total comprehensive income	-	60	60
Transfers to other statutory funds		(32)	(32)
Balance at the end of the year	**-**	**305**	**305**
2013			
Balance at the beginning of the year	15	235	250
Profit	-	46	46
Total comprehensive income	-	46	46
Transfers to other statutory funds	(15)	(4)	(19)
Balance at the end of the year	**-**	**277**	**277**

The National Mutual Life Association of Australasia Limited
(New Zealand Branch)

Statement of cash flows

as at 31 December 2014

	Note	Consolidated 2014 $NZm	Consolidated 2013 $NZm	Parent 2014 $NZm	Parent 2013 $NZm
Cash flows from operating activities					
Cash receipts in the course of operations		226	215	226	213
Interest and other items of a similar nature received		57	67	50	59
Dividends and distributions received		15	23	21	37
Cash payments in the course of operations		(273)	(405)	(273)	(405)
Finance costs		(1)	-	(1)	-
Income tax paid		(1)	(25)	(1)	(25)
Cash flows from / (used in) operating activities	19(a)	**23**	**(125)**	**22**	**(121)**
Cash flows from investing activities					
Net proceeds from sale of / (payments to acquire):					
- investments in financial assets		97	(175)	89	13
- operating assets and intangible assets		-	-	-	-
Net cash acquired in business combinations		-	-	-	-
Cash flows from / (used in) investing activities		**97**	**(175)**	**89**	**13**
Cash flows from financing activities					
Transfers of capital / profit between funds		(32)	(19)	(32)	(19)
Cash flows used in financing activities		**(32)**	**(19)**	**(32)**	**(19)**
Net increase / (decrease) in cash and cash equivalents		88	(319)	79	(127)
Cash and cash equivalents at the beginning of the year		152	471	47	174
Cash and cash equivalents at the end of the year	19(b)	**240**	**152**	**126**	**47**

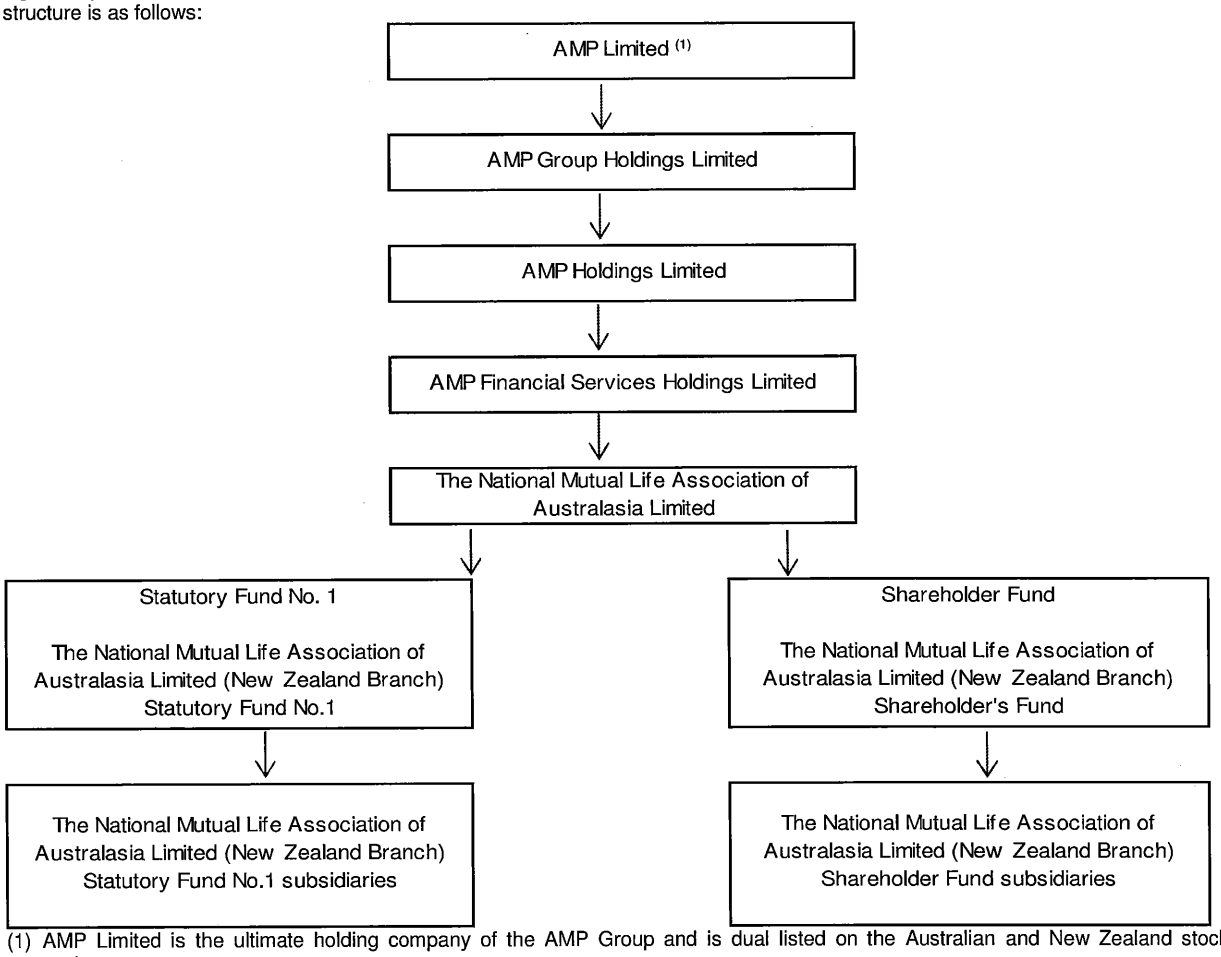
Notes to the financial statements

for the year ended 31 December 2014

1. CORPORATE INFORMATION

Reporting entity

In September 2013, the Reserve Bank of New Zealand ("RBNZ") granted The National Mutual Life Association of Australasia Limited ("NMLA") a licence to carry on insurance business under the Insurance (Prudential Supervision) Act 2010 ("Insurance Act"). NMLA is incorporated in New South Wales, and registered under Australia's Life Insurance Act 1995 ("Life Act"). NMLA carries on its life insurance business in New Zealand through a branch establishment and offers securities for sale as part of its business and as such is deemed to be an "issuer" as defined under the New Zealand Financial Reporting Act 1993. NMLA is not a self-contained legal entity in New Zealand except to the extent that New Zealand incorporated subsidiaries carry out its business. A summarised group structure is as follows:



(1) AMP Limited is the ultimate holding company of the AMP Group and is dual listed on the Australian and New Zealand stock exchanges.

The life insurance operations of the NMLA New Zealand branch (hereafter referred to as the 'Branch' or 'Parent') are conducted within a separate statutory fund as required by the Life Act, and are reported in aggregate in the Statement of comprehensive income, Statement of financial position, Statement of changes in equity and the Statement of cash flows. Further information on the Statutory Fund and Shareholder's Fund is provided in Note 15.

For the purpose of these financial statements the parent entity comprises NMLA (New Zealand Branch) No.1 Statutory Fund ("NZ SF1") and NMLA (New Zealand Branch) Shareholder Fund ("NZ SHF"). The consolidated entity comprises the parent entity and the subsidiaries of each of SF1 and SHF. These financial statements have been prepared as if this were a group formed and registered in New Zealand. In line with this approach the NMLA interest in the Branch and its consolidated entities has been disclosed as equity in these financial statements. The financial statements are prepared in this way to comply with Sections 8 and 9 of the New Zealand Financial Reporting Act 1993.

Notes to the financial statements

for the year ended 31 December 2014

1. CORPORATE INFORMATION (CONTINUED)

NMLA is the registered issuer of life insurance policies in New Zealand. The liability under New Zealand policies is limited to NZ SF1. NZ SF1 forms part of NMLA.

As the assets included and policies issued in the Branch are a component of the NMLA No.1 Statutory Fund, New Zealand life insurance policyholders should refer to the financial statements of NMLA No.1 Statutory Fund to gain an understanding of the financial affairs of that Fund.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the Financial Report are set out below. These policies have been consistently applied to the current year and comparative period unless otherwise stated. Where necessary comparative information has been reclassified to be consistent with current period disclosures. The financial statements include separate financial statements for the Parent, and for the consolidated entity, which consists of the parent and all entities controlled by the Parent during the year and at balance sheet date ('consolidated').

(a) Basis of preparation

These financial statements for the year ended 31 December 2014 were authorised by the Directors of NMLA on 24 March 2015. They have been prepared on a going concern basis and in accordance with generally accepted accounting practice in New Zealand, the requirements of the Companies Act 1993 and the Financial Reporting Act 1993.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest million dollars ($NZm), unless otherwise stated.

The financial statements are also prepared in a manner consistent with the financial reporting requirements of:

- The Insurance (Prudential Supervision) Act 2010;
- The Australian Life Insurance Act 1995; and
- Prudential Standards issued by Australian Prudential Regulation Authority (APRA).

The Branch is predominately a life insurance and wealth management business. Where permitted under accounting standards, the assets and liabilities associated with life insurance and investment contracts are generally measured on a fair value basis and other assets and liabilities are generally measured on a historical cost basis.

Assets and liabilities have been presented on the face of the Statement of financial position in decreasing order of liquidity and do not distinguish between current and non-current items. The majority of the assets of the Branch are investment assets held to back investment contract and life insurance contract liabilities. Although the amount of those assets which may be realised and those liabilities which may be settled within 12 months of the reporting date are not always known, estimates have been provided in Note 15(f) (for life statutory funds). Details of other amounts expected to be recovered or settled (a) no more than 12 months after the reporting date, and (b) more than 12 months after the reporting date, have been provided in footnotes to the relevant notes.

Changes in accounting policy

Since 1 January 2014, the Branch has adopted all New Zealand equivalents to International Financial Reporting Standards and Interpretations which have become effective for annual periods beginning on or after 1 January 2014:

- NZ IAS 32 Amendments to New Zealand Accounting Standards – Offsetting Financial Assets and Financial Liabilities. These amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'. Where financial assets and financial liabilities meet the criteria to offset, the net amount is presented in the Statement of financial position. This standard is applied retrospectively.
- *NZ IAS 36 Amendments to NZ IFRS 13 – Recoverable Amount Disclosures for Non-Financial Assets.* This standard makes amendments to NZ IAS 36 Impairment of Assets to address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. This standard is applied retrospectively.
- *NZ IAS 39 Amendments to New Zealand Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting.* These amendments to NZ IAS 39 Financial Instruments: Recognition and Measurement permit the continuation of hedge accounting in circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws and regulations. This standard is applied retrospectively.
- *Amendments to Appendix C of NZ IFRS 4 arising from NZ IFRS 10 in relation to Consolidation and Interests of Policyholders.* These amendments remove the specific consolidation requirements from NZ IFRS 4 Insurance Contracts, and thereby NZ IFRS 10 Consolidated Financial Statements becomes the sole source for consolidation requirements applicable to life insurer entities. This standard is applied retrospectively.

Adoption of these Standards and Interpretations has not had any material effect on the financial position or performance of the Branch.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

Issued standards that are not yet effective

A number of new accounting standards have been issued but are not yet effective. The Branch has not elected to early adopt any new standards and amendments in these financial statements. These new standards and amendments when applied to future periods are not expected to have a material impact on the financial position or performance of the Branch other than as set out below:

> *NZ IFRS 9 Financial Instruments.* This standard makes significant changes to the way financial assets are classified for the purpose of determining their measurement basis and also to the amounts relating to fair value changes which are to be taken directly to equity. This standard also makes significant changes to hedge accounting requirements and disclosures. This standard is mandatory for adoption by for the year ending 31 December 2018, however early application is permitted in certain circumstances. The financial impact to the Branch of adopting NZ IFRS 9 has not yet been quantified.

(b) Statement of compliance

The financial statements comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS'). The financial statements also comply with International Financial Reporting Standards ('IFRS').

(c) Principles of consolidation

These financial statements consolidate the financial information of controlled entities. Effective 1 January 2013, the adoption of NZ IFRS 10 and revised NZ IFRS 127 has changed the criteria for determining control. Previously, control was assessed based on when the Branch had the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities. Since 1 January 2013, an entity is controlled when the Branch is exposed, 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 investee.

The financial information for controlled entities is prepared for the same reporting date as the parent entity, using consistent accounting policies. Where dissimilar accounting policies may exist, adjustments are made to ensure conformity with the group's accounting policies.

Consolidation principles require the total amounts of each underlying asset, liability, income and expense of the controlled entities to be recognised in the consolidated financial statements. When a controlled management investment scheme is consolidated, the share of the unitholder liability attributable to the Branch is eliminated but amounts due to external unitholders remain as liabilities in the consolidated Statement of financial position. The share of the net assets of controlled companies attributable to non-controlling interests is disclosed as a separate line item on the Statement of financial position. In the Statement of comprehensive income, the profit or loss of the Branch is allocated between profit or loss attributable to non-controlling interests and profit or loss attributable to the parent entity.

Controlled entities acquired are accounted for using the acquisition method of accounting. Information from the financial statements of controlled entities is included from the date the parent entity obtains control until such time as control ceases. Where the Branch ceases to control an entity, the consolidated financial statements includes the results for the part of the reporting period during which the parent entity had control.

Most other acquisitions and disposals of controlled entities are in relation to managed investment schemes with underlying net assets typically comprising investment assets and cash. The consideration for acquisitions or disposals reflects the fair value of the investment assets at the date of the transactions after taking into account non-controlling interests.

All inter-company balances and transactions within the consolidated group are eliminated in full, including unrealised profits arising from intra-group transactions.

Consolidation impact of investments of the Branch

The Branch conducts its life insurance business through NZ SF1. Income, expenses, assets and liabilities attributable to policyholder activities within this life statutory fund are consolidated into the Branch financial statements, along with those attributable to shareholders of the parent entity.

The majority of the Branch's statutory fund's investments are held through controlling interests in a number of managed investment schemes and companies. These investment assets are held on behalf of policyholders and the Branch's statutory fund recognises a liability to the policyholders valued as described in Note 2(p) for Life insurance contract liabilities and Note 2(q) for Investment contract liabilities.

Certain controlled entities of the Branch's statutory fund may be operating companies which carry out business operations unrelated to the core wealth management operations of the Branch.

(d) Accounting for wealth management and insurance business

The accounting treatment of certain transactions in this Financial Report varies depending on the nature of the contract underlying the transactions. The two major contract classifications relevant to the wealth-management and insurance business of the Branch are investment contracts and life insurance contracts.

For the purposes of this Financial Report, holders of investment contracts or life insurance contracts are collectively and individually referred to as *policyholders.*

Life insurance contracts

NZ SF1 issues contracts that transfer significant insurance risk from the policyholder, covering death, disability or longevity of the insured. In addition, there are some policies known as discretionary participating contracts, that are similar to investment contracts, but the timing of the vesting of the profit attributable to the policyholders is at the discretion of the Branch.
Under accounting standards, such contracts are defined as *life insurance contracts.*

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Accounting for wealth management and insurance business (continued)

Investment contracts

The Branch issues wealth-management products such as savings, investment-linked and retirement income policies. The nature of this business is that the Branch receives deposits from policyholders and those funds are invested on behalf of the policyholders. With the exception of fixed retirement income policies, the resulting liability to policyholders is linked to the performance and value of the assets that back those liabilities. For fixed retirement income policies, the resulting liability is linked to the fair value of the fixed retirement income payments and associated management services.

Under accounting standards such contracts are defined as *life investment contracts* and described as *investment contracts* throughout this Financial Report.

Assets measurement basis

Investment contract liabilities are measured at fair value as described in Note 2(q) and life insurance contract liabilities are measured as described in Note 2(p). Assets backing such liabilities are measured at fair value, to the extent permitted under accounting standards. Realised and unrealised gains and losses arising from changes in the fair value are recognised in the Statement of comprehensive income, to the extent permitted under accounting standards. The accounting policies for individual asset classes, and any restrictions on application of fair value, are described later in Note 2.

All assets that back investment contract and life insurance contract liabilities are included within NZ SF1 and, as such, are separately identifiable.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand that is available on demand and deposits that are held at call with financial institutions. Cash and cash equivalents are measured at fair value, being the principal amount. For the purpose of the Statement of cash flows, cash also includes other highly liquid investments not subject to significant risk of change in value, with short periods to maturity, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in the Statement of financial position.

(f) Receivables

Receivables that back investment contract and life insurance contract liabilities are designated as financial assets and are measured at fair value through profit or loss. Reinsurance and other recoveries are discounted to present value. Receivables that do not back investment contract and life insurance contract liabilities are measured at nominal amounts due, less any allowance for doubtful debts. An allowance for doubtful debts is recognised when collection of the full amount is no longer probable. Bad debts are written off as incurred. Given the short-term nature of most receivables, the recoverable amount approximates fair value.

(g) Investments in financial assets

Investments in financial assets measured at fair value through profit or loss

Investments in financial assets designated on initial recognition as financial assets measured at fair value through profit or loss are initially recognised at fair value determined as the purchase cost of the asset, exclusive of any transaction costs. Transaction costs are expensed as incurred in profit or loss. Any realised and unrealised gains or losses arising from subsequent measurement at fair value are recognised in the Statement of comprehensive income in the period in which they arise.

Subsequent to initial recognition, fair value of investments measured at fair value through profit or loss is determined as follows:

- the fair value of equity securities in an active market and listed managed investment schemes reflects the quoted bid price at the reporting date. In the case of equity securities and listed managed investment schemes where there is no active market, a fair value is established by using valuation techniques including the use of recent arm's length transactions, references to other instruments that are substantially the same, discounted cash flow analysis and option pricing models.
- the fair value of listed debt securities reflects the bid price at the reporting date. Listed debt securities that are not frequently traded are valued by discounting estimated recoverable amounts. The fair value of unlisted debt securities are valued using interest rate yields obtainable on comparable listed investments. The fair value of loans is determined by discounting the estimated recoverable amount using prevailing interest rates.
- the fair value of investments in unlisted managed investment schemes is determined on the basis of published redemption prices of those managed investment scheme at the reporting date.
- there is no reduction for realisation costs in determining the fair value.
- the fair value of derivative financial assets is determined in accordance with the policy set out in Note 2(n).

Investments in controlled entities

Investments by the Branch in controlled entities (excluding managed investment schemes) are treated as financial assets and are valued in the same manner as equity securities described in this note.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Associates

Associated entities are defined as those entities over which the Branch has significant influence but there is no capacity to control.

Investments in associates held to back investment contract liabilities and life insurance contract liabilities are designated on initial recognition as financial assets measured at fair value through profit or loss.

(i) Intangible assets

Capitalised costs

Costs are capitalised and carried forward only where the costs relate to the creation of an asset with expected future economic benefits which are capable of reliable measurement. Otherwise, all costs are recognised as expenses in the period in which they are incurred. Capitalised costs are amortised on a straight-line basis over the estimated useful life of the asset, commencing at the time the asset is first put into use or held ready for use (whichever is the earlier). The useful lives of such assets generally do not exceed five years, however a useful life of up to 10 years has been applied to some capitalised costs relating to IT systems development projects where NMLA expects benefits to flow over a longer period.

Other intangible assets

Other intangible assets are initially measured at cost and are subsequently amortised over their estimated useful life of each asset.

Reassessment of useful life

The useful life of each intangible asset is reviewed at the end of the period and, where necessary, adjusted to reflect current assessments.

(j) Impairment of assets

Assets measured at fair value, where changes in value are reflected in the Statement of comprehensive income, are not subject to impairment testing. As a result, all financial assets measured at fair value through profit or loss are not subject to impairment testing.

Other assets such as property, plant and equipment and intangibles are subject to impairment testing.

Impairment is recognised in the Statement of comprehensive income, measured as the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use.

(k) Taxes

Income Tax expense

Income tax expense/credit is the tax payable on taxable income for the current period based on the income tax rate and adjusted for changes in deferred tax assets and liabilities attributable to:

- temporary differences between the tax bases of assets and liabilities and their carrying amounts in the Statement of financial position;
- unused tax losses; and
- the impact of changes in the amounts of deferred tax assets and liabilities arising from changes in tax rates or in the manner in which these balances are arranged to be realised.

Adjustments to income tax expense are also made for any differences between the amounts paid or expected to be paid in relation to prior periods and the amounts provided for these periods at the start of the current period.

Any tax impact on income and expense items that are recognised directly in equity is also recognised directly in equity.

Income tax for investment contracts and life insurance contracts business

The income tax expense recognised in the Statement of comprehensive income arising in the Branch reflects tax imposed on shareholder as well as policyholders.

Investment contracts and life insurance contracts liabilities are established gross of the policyholders' share of any current tax payable and deferred tax balances of the Branch.

The policy liabilities (being the sum of the life insurance contract and investment contract liabilities, including any asset or liability arising in respect of the management services element of an investment contract) and solvency reserves are determined at the reporting date in accordance with the Life Act. Risk business policy liabilities for Life Act purposes is calculated on a before tax basis.

Deferred tax

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates which are expected to apply when the assets are recovered or liabilities are settled, based on those tax rates and tax laws which are enacted or substantively enacted at the reporting date.

In New Zealand, the tax regime recognises a deduction for acquisition expenses as they are incurred rather than over the life of the policy. This results in a difference in the tax and accounting recognition and creates a deferred tax liability.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Taxes (continued)

Deferred tax (continued)

The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future. Deferred tax, including amounts in respect of investment contracts and life insurance contracts, is not discounted to present value.

(l) Payables

Payables that back investment contract and life insurance contract liabilities are financial liabilities and are measured at fair value. Other payables are measured at the nominal amount payable. Given the short-term nature of most payables, the nominal amount approximates fair value.

(m) Provisions

Provisions are recognised when:

- the Branch has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation

Where the Branch expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of comprehensive income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. For provisions other than employee entitlements the discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

(n) Derivative financial assets and derivative financial liabilities

The Branch is exposed to changes in interest and foreign exchange rates as well as movements in the fair value of investment guarantees it has issued in respect of its products. To mitigate the risks arising from these exposures, the Branch uses derivative financial instruments such as cross-currency and interest-rate swaps, forward rate agreements, futures, options and foreign currency contracts. Derivative financial instruments are also used to gain exposure to various markets for asset and liability management purposes.

Derivatives are initially recognised at fair value exclusive of any transactions costs on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value at the end of each reporting period. All derivatives are recognised as assets when their fair value is positive and as liabilities when their fair value is negative.

Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices at the reporting date. The quoted market price for financial assets is the current bid price; the quoted market price for financial liabilities is the current offer price.

The fair value of financial instruments not traded in an active market (for example over-the-counter derivatives) is determined using valuation techniques. Valuation techniques include net present value techniques, option pricing models, discounted cash-flow methods and comparison to quoted market prices or dealer quotes for similar instruments.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Recognition and derecognition of financial assets and financial liabilities

Financial assets and financial liabilities are recognised at the date the Branch becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire, or are transferred. A transfer occurs when substantially all the risks and rewards of ownership of the financial asset are passed to an unrelated third party. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

(p) Life insurance contract liabilities

The financial reporting methodology used to determine the fair value of life insurance contract liabilities is referred to as *Margin on Services* (MoS).

Under MoS, the excess of premium received over claims and expenses (the *margin)* is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder (the *service*). The planned release of this margin is included in the movement in life insurance contract liabilities recognised in the Statement of comprehensive income.

Life insurance contract liabilities are usually determined using a projection method, whereby estimates of policy cash flows (premiums, benefits, expenses and profit margins to be released in future periods) are projected using best-estimate assumptions about the future. The liability is calculated as the net present value of these projected cash flows. When the benefits under a life insurance contract are linked to the assets backing it, the discount rate applied is based on the expected future earnings rate of those assets. Where the benefits are not linked to the performance of the backing assets, a risk-free discount rate is used. The risk-free discount rate is based on the zero coupon government bond rate and a liquidity margin, which depends on the nature, structure and terms of the contract liabilities.

An accumulation method may be used if it produces results that are not materially different from those produced by a projection method. A modified accumulation method is used for some discretionary participating business, where the life insurance liability is the accumulation of amounts invested by policyholders, less fees specified in the policy, plus investment earnings and vested benefits, adjusted to allow for the fact that crediting rates are determined by reference to investment income over a period of greater than one year. The accumulation method may be adjusted to the extent that acquisition expenses are to be recovered from future margins between fees and expenses.

Allocation of operating profit and unvested policyholder benefits

The operating profit arising from discretionary participating contracts is allocated between shareholders and participating policyholders by applying the MoS principles in accordance with the *Australian Life Insurance Act 1995 (Cth)* (Life Act) and the Memorandum of Demutualisation.

Once profit is allocated to participating policyholders it can only be distributed to these policyholders. Any distribution of this profit to shareholders is only allowed for overseas business with specific approval of the regulators.

Profit allocated to participating policyholders is recognised in the Statement of comprehensive income as an increase in policy liabilities. Both the element of this profit that has not yet been allocated to specific policyholders (i.e. unvested) and that which has been allocated to specific policyholders by way of bonus distributions (i.e. vested) are included within life insurance contract liabilities.

Bonus distributions to participating policyholders are merely a change in the nature of the liability from unvested to vested and, as such, do not alter the amount of profit attributable to shareholders.

The principles of allocation of the profit arising from discretionary participating business are as follows:

(i) Investment income (net of tax and investment expenses) on retained earnings in respect of discretionary participating business is allocated between policyholders and shareholders in proportion to the balances of policyholders' and shareholders' retained earnings. This proportion is mostly 80% policyholders and 20% shareholders.

(ii) Other MoS profits arising from discretionary participating business are allocated 80% to policyholders and 20% to shareholders, with the following exceptions:
- the profits arising from discretionary participating investment account business where 100% of investment profit is allocated to policyholders and 100% of any other profit or loss is allocated to shareholders, with the over-riding provision being that at least 80% of any profit and not more than 80% of any loss be allocated to policyholders' retained profits of the relevant statutory fund.

(iii) All profits arising from non-participating business, including net investment returns on shareholder capital and retained earnings in life entities' statutory funds (excluding retained earnings dealt with in (i) above) are allocated to shareholders

Allocation of expenses within the life statutory funds

All operating expenses relating to the life insurance contract and investment contract activities are apportioned between acquisition, maintenance and investment management expenses. Expenses which are directly attributable to an individual life insurance contract or investment contract or product are allocated directly to a particular expense category, fund, class of business and product line as appropriate.

Where expenses are not directly attributable, they are appropriately apportioned, according to detailed expense analysis, with due regard for the objective in incurring that expense and the outcome achieved. The apportionment basis has been made in accordance with Actuarial Standards and on an equitable basis to the different classes of business in accordance with the Life Act.

The costs apportioned to life insurance contracts are included in the determination of margin described above. Investment management expenses of the statutory funds are classified as operating expenses. See Note 2(x).

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Investment contract liabilities

An investment contract consists of a financial instrument and an investment management services element, both of which are measured at fair value. With the exception of fixed retirement-income policies, the resulting liability to policyholders is closely linked to the performance and value of the assets (after tax) that back those liabilities. The fair value of such liabilities is therefore the same as the fair value of those assets (after tax charged to the policyholders) except where accounting standards prevent those assets from being measured at fair value.

For fixed retirement-income policies, the financial instrument element of the liability is the fair value of the fixed retirement-income payments, being their net present value using a fair value discount rate. The fair value of the associated management services element is the net present value, using a fair value discount rate, of all expenses associated with the provision of services and any profit margins thereon.

(r) Contributed equity

Issued capital

Issued capital in respect of ordinary shares is recognised as the fair value of consideration received by the parent entity. Incremental costs directly attributable to the issue of certain new shares are recognised in equity as a deduction, net of tax, from the proceeds.

(s) Foreign currency transactions

Functional and presentation currency

Both the functional and presentation currency of the Branch is New Zealand dollars ($NZm).

Transactions and balances

Income and expense items denominated in a currency other than the functional currency are translated at the spot exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date with exchange gains and losses recognised in the Income statement.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(t) Insurance premium and related revenue

Life insurance contracts

Life insurance contract premiums are separated into their revenue and deposit components. Premium amounts earned by bearing insurance risks are recognised as revenue. Other premium amounts received, which are in the nature of deposits, are recognised as an increase in life insurance contract liabilities.

Premiums with no due date or fixed amount are recognised on a cash-received basis. Premiums with a regular due date are recognised on an accruals basis. Unpaid premiums are only recognised during the days of grace or where secured by the surrender value of the life insurance contract and are reported as outstanding premiums and classified as receivables in the Statement of financial position.

Investment contracts

There is no premium revenue in respect of investment contracts. Amounts received from policyholders in respect of investment contracts comprise:

- Origination fees and ongoing investment management fees. See Note 2(u).
- Amounts credited directly to investment contract liabilities. See Note 2(q).

(u) Fee and other revenue

Fees are charged to customers in connection with investment contracts and other financial services contracts. Revenue is recognised as services are provided. In some cases services are provided at the inception of the contract, while other services are performed over the life of the contract.

Investment contracts consist of a financial instrument and an investment-management services element. The payment by the policyholder includes the amount to fund the financial instrument and a fee for the origination of the contract. In many cases, that origination fee is based on commission paid to financial planners for providing initial advice. The financial instrument is classified as an investment contract and is measured at fair value. See Note 2(q).

The revenue that can be attributed to the origination service is recognised at inception. Any amount paid to financial planners is also recognised as an expense at that time. See Note 2(x).

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Fee and other revenue (continued)

Fees for ongoing investment management services and other services provided are charged on a regular basis, usually daily, and are recognised as the service is provided.

Fees charged for performing a significant act in relation to funds managed by the Branch are recognised as revenue when that act has been completed.

(v) Investment gains or losses

Dividend and interest income are recognised in the Statement of comprehensive income on an accruals basis when the Branch obtains control of the right to receive the revenue.

Net realised and unrealised gains and losses include realised gains and losses being the change in value between the previously reported value and the amount received on derecognition of the asset or liability, and unrealised gains and losses being changes in the fair value of financial assets and investment property recognised in the period.

(w) Insurance claims and related expense

Life insurance contracts

Life insurance contract claims are separated into their expense and withdrawal components. The component that relates to the bearing of risks is treated as an expense. Other claim amounts, which are in the nature of withdrawals, are recognised as a decrease in life insurance contract liabilities.

Claims are recognised when the liability to the policyholder under the life insurance contract has been established or upon notification of the insured event, depending on the type of claim.

Investment contracts

There is no claims expense in respect of investment contracts. Amounts paid to policyholders in respect of investment contracts are withdrawals and are recognised as a decrease in investment contract liabilities. See Note 2(q).

(x) Operating expenses

All operating expenses, other than those allocated to life insurance contracts, see Note 2(p), are expensed as incurred.

The majority of investment contracts issued result in payments to external service and advice providers. Where the amount paid equates to a fee charged to policyholders for the provision of advice, the amount is expensed either at inception or over the period of the contract consistent with the basis for recognising the fee revenue on the respective contracts. See Note 2(u).

(y) Finance costs

Finance costs include:

(i) Borrowing costs:
- interest on bank overdrafts and borrowings; and
- amortisation of discounts or premiums related to borrowings;

(ii) Exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

(iii) Foreign exchange gains and losses and other financing related amounts.

Borrowing costs are recognised as expenses when incurred.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The making of judgements, estimates and assumptions is a necessary part of the financial reporting process and these judgements, estimates and assumptions can have a significant effect on the reported amounts in the financial statements. Estimates and assumptions are determined based on information available to management at the time of preparing the financial report and actual results may differ from these estimates and assumptions. Had different estimates and assumptions been adopted, this may have had a significant impact on the financial statements. Significant accounting judgements, estimates and assumptions are re-evaluated at each reporting period in the light of historical experience and changes to reasonable expectations of future events. Significant accounting judgements, estimates and assumptions include but are not limited to:

(a) Consolidation

Entities are included within the consolidated financial statements of the Branch where the Branch has control of these entities. Control arises from exposure, or rights, to variable returns from involvement with an entity, the Branch has the ability to affect those returns through its power over the entity. Judgement is applied by management in assessing whether control exists.

Judgement is applied in determining the relevant activities of each entity and determining whether the Branch has power over these activities. This involves assessment of the purpose and design of the entity, identification of the activities that significantly affect that entity's returns and how decisions are made about those activities. In assessing how decisions are made, management considers voting and veto rights, contractual arrangements with the entity or other parties and any rights or ability to appoint, remove or direct key management personnel or entities that have the ability to direct the relevant activities of the entity. Consideration is also given to the practical ability of other parties to exercise their rights.

Judgement is also applied in identifying the variable returns of each entity and assessing the Branch's exposure to these returns. Variable returns include distributions, exposure to gains or losses and fees that may vary with the performance of an entity.

(b) Fair value of investments in financial assets

The Branch measures investments in financial assets at fair value through profit or loss. Where available, quoted market prices for the same or similar instruments are used to determine fair value. Where there is no market price available for an instrument, a valuation technique is used. Management applies judgement in selecting valuation techniques and setting valuation assumptions and inputs. Further detail on the determination of fair value of financial instruments is set out in Note 17.

(c) Tax

The Branch is subject to taxes in New Zealand. The application of tax law to the specific circumstances and transactions of the Branch requires the exercise of judgement by management. The tax treatments adopted by management in preparing the financial statements may be impacted by changes in legislation and interpretations or be subject to challenge by tax authorities.

Judgement is also applied by management in determining the extent to which the recovery of carried forward tax losses is probable for the purpose of meeting the criteria for recognition as deferred tax assets.

(d) Provisions

A provision is recognised for items where the Branch has a present obligation arising from a past event, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The provision is measured as the best estimate of the expenditure required to settle the present obligation. Management apply judgement in assessing whether a particular item satisfies the above criteria and in determining the best estimate. Note 12 sets out further information on provisions and Note 22 provides information on contingent liabilities.

(e) Life insurance contract liabilities

The measurement of insurance contract liabilities is determined using the MoS methodology. The determination of the liability amounts involves judgement in selecting the valuation methods and profit carriers for each type of business and setting valuation assumptions. The determination is subjective and relatively small changes in assumptions may have a significant impact on the reported profit. The Board of NMLA is responsible for these judgements and assumptions, after taking advice from the Appointed Actuary. Further detail on the determination of insurance contract liabilities is set out in Note 14.

(f) Investment contract liabilities

Investment contract liabilities are measured at fair value. For the majority of contracts, the fair value is determined based on published unit prices and the fair value of backing assets, and does not generally require the exercise of judgement. For fixed income products, fair value is determined using valuation models. Judgement is applied in selecting the valuation model and setting the valuation assumptions. Further detail on the determination of the fair value of investment contract liabilities is set out in Note 17.

(g) Intangible assets

Accounting standards require management to assess, at each reporting period, whether there are any indicators of impairment in relation to the carrying value in intangible assets. Where an impairment indicator is identified, and at least annually for assets with indefinite useful lives, the recoverable amount of the asset must be determined and compared to the carrying amount.

Judgement is applied by management in assessing whether there are any impairment indicators and, where required, determining the recoverable amount.

4. SEGMENT INFORMATION

The Branch is not required to present segment reporting under NZ IFRS 8.

Notes to the financial statements

for the year ended 31 December 2014

5. REVENUE AND INVESTMENT INCOME

	Consolidated		Parent	
	2014 $NZm	2013 $NZm	2014 $NZm	2013 $NZm
Investment gains and (losses)				
Interest[1]	57	67	50	59
Dividends and distributions	8	5	14	18
Net realised and unrealised gains and (losses) [2]	204	(12)	205	(14)
Other investment income	-	2	-	2
Total investment gains	**269**	**62**	**269**	**64**

Footnote:

(1) Interest includes interest income from financial assets designated at fair value through profit or loss upon initial recognition.

(2) Net realised and unrealised gains and (losses) include net gains and (losses) on financial assets and financial liabilities designated at fair value through profit or loss upon initial recognition.

6. EXPENSES

	Consolidated		Parent	
	2014 $NZm	2013 $NZm	2014 $NZm	2013 $NZm
Operating expenses				
Commission and advisory fee-for-service expense	(21)	(20)	(21)	(20)
Investment management expenses	(5)	(6)	(5)	(6)
Fee and commission expenses	**(26)**	**(26)**	**(26)**	**(26)**
Service fee expense	(33)	(34)	(33)	(34)
Amortisation of intangibles	(2)	(1)	(2)	(1)
Other expenses	(3)	(2)	(3)	(2)
Other operating expenses	**(38)**	**(37)**	**(38)**	**(37)**
Total operating expenses	**(64)**	**(63)**	**(64)**	**(63)**

Notes to the financial statements

for the year ended 31 December 2014

7. INCOME TAX

	Consolidated		Parent	
	2014 $NZm	2013 $NZm	2014 $NZm	2013 $NZm
(a) Analysis of income tax (expense) credit				
Current tax	(54)	25	(54)	25
Decrease in deferred tax assets	(3)	-	(3)	-
Decrease / (increase) in deferred tax liabilities	1	(6)	1	(6)
(Under) / over provided in previous years including amounts attributable to policyholders	(4)	1	(4)	1
Income tax (expense) credit	**(60)**	**20**	**(60)**	**20**

(b) Relationship between income tax expense and accounting profit

The following table below provides a reconciliation of the differences between prima facie tax, calculated as 28 per cent (2013: 28 per cent) of the profit before income tax for the period and the actual income tax expense recognised in the Statement of comprehensive income for the period. The income tax expense amount reflects the impact of both income tax attributable to the shareholders as well as income tax attributable to policyholders.

Income tax attributable to policyholders is based on investment income allocated to policyholders less expenses deductible against that investment income. The impact of the tax is charged against policyholder liabilities. The rate applicable to New Zealand life insurance business during the period was 28 per cent (2013: 28 per cent).

	Consolidated		Parent	
	2014 $NZm	2013 $NZm	2014 $NZm	2013 $NZm
Profit before income tax per Statement of comprehensive income	120	26	120	26
Policyholder tax (expense) / credit recognised as a change in policy liabilities in determining profit before income tax	(39)	18	(39)	18
Profit before income tax excluding policyholder tax	**81**	**44**	**81**	**44**
Prima facie shareholder tax at the rate of 28%	(23)	(12)	(23)	(12)
Tax effect of differences between recognition of Statement of comprehensive income items for accounting and those deductible/assessable in calculating taxable income:				
Shareholder impact of life tax treatment	3	9	3	9
Non-taxable income	2	5	2	5
Under provided in previous years after excluding amounts attributable to policyholders	(3)	-	(3)	-
Income tax (expense) / credit attributable to shareholders	(21)	2	(21)	2
Income tax (expense) / credit attributable to policyholders	(39)	18	(39)	18
Income tax (expense) / credit	**(60)**	**20**	**(60)**	**20**

Notes to the financial statements

for the year ended 31 December 2014

7. INCOME TAX (CONTINUED)

	Consolidated		Parent	
	2014	2013	2014	2013
	$NZm	$NZm	$NZm	$NZm
(c) Analysis of deferred tax asset				
Expenditure deductible and income recognisable in future years	-	3	-	3
Other	-	21	-	21
Total deferred tax assets	**-**	**24**	**-**	**24**
(d) Analysis of deferred tax liability				
Unrealised investment gains	1	2	1	2
Other	42	38	42	38
Total deferred tax liability	**43**	**40**	**43**	**40**

(e) Unused tax losses and deductible temporary differences not recognised
There are no unused tax losses or deductible temporary differences not recognised (2013: $nil) in either the Branch or the consolidated group.

(f) Dividend withholding payment account
The Branch does not maintain a dividend withholding payment account.

(g) Imputation credit account
Under the imputation system, the Branch may allocate or impute the tax it pays on its income attributable to its shareholders on the distributions it makes to its shareholders.

Consolidated & Parent

	2014	2013
	$NZm	$NZm
Imputation credit balance	**1**	**14**

8. RECEIVABLES

	Consolidated		Parent	
	2014	2013	2014	2013
	$NZm	$NZm	$NZm	$NZm
Investment income receivable	1	1	1	1
Investment sales and margin accounts receivable	-	7	-	7
Life insurance contract premiums receivable	23	22	23	22
Reinsurance and other recoveries receivable	1	1	1	1
Reinsurers' share of life insurance contract liabilities	28	17	28	17
Other receivables	4	6	4	6
Total receivables [1]	**57**	**54**	**57**	**54**

Footnote:
(1) $24m (2013: $16m) of parent and consolidated receivables is expected to be recovered more than 12 months from the reporting date.

9. INVESTMENT IN FINANCIAL ASSETS AND OTHER FINANCIAL LIABILITIES

	Consolidated		Parent	
	2014 $NZm	2013 $NZm	2014 $NZm	2013 $NZm
Investments in financial assets measured at fair value through profit or loss				
Equity securities and listed managed investment schemes	13	12	13	12
Debt securities	926	949	789	760
Investments in unlisted managed investment schemes	904	800	1,084	998
Derivative financial assets	87	11	87	11
Total investments in financial assets measured at fair value through profit or loss	**1,930**	**1,772**	**1,973**	**1,781**

10. INTANGIBLE ASSETS

	Consolidated		Parent	
Consolidated and Parent	2014 $NZm	2013 $NZm	2014 $NZm	2013 $NZm
Intangibles				
Gross carrying amount	7	8	7	8
Less: accumulated amortisation and / or impairment losses	(5)	(4)	(5)	(4)
Intangibles at written down value	**2**	**4**	**2**	**4**
Movements in intangibles				
Balance at the beginning of the year	4	5	4	5
Amortisation expense for the year	(2)	(1)	(2)	(1)
Balance at the end of the year	**2**	**4**	**2**	**4**

11. PAYABLES

	Consolidated		Parent	
	2014 $NZm	2013 $NZm	2014 $NZm	2013 $NZm
Investment purchases and margin accounts payable	83	17	83	17
Life insurance and investment contracts in process of settlemen	17	12	17	12
Accrued expenses	2	-	2	-
Trade creditors	4	2	4	2
Other payables	26	12	26	12
Total payables[1]	**132**	**43**	**132**	**43**

Footnote:
(1) $nil (2013: $nil) payables are expected to be settled more than 12 months from reporting date.

Notes to the financial statements

for the year ended 31 December 2014

12. PROVISIONS

	Consolidated and parent	
	2014	2013
	$NZm	$NZm
Provisions		
Other	-	10

	Consolidated and parent
31 December 2014	**$NZm**
Movements in provisions	
Balance at the beginning of the year	10
Unused amounts reversed / transferred during the year	(10)
Balance at the end of the year	**-**

13. CONTRIBUTED EQUITY

	Consolidated and Parent	
	2014	2013
	$NZm	$NZm
Movements in contributed equity		
Balance at the beginning of the year	-	15
Less: contributed equity transferred to Australian shareholder's fund via profit transfer	-	(15)
Balance of contributed equity at the end of the year	**-**	**-**

Holders of ordinary shares have the right to receive dividends as declared and in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Fully paid ordinary shares carry the right to one vote per share. Ordinary shares have no par value.

Notes to the financial statements

for the year ended 31 December 2014

14. LIFE INSURANCE CONTRACTS

	Consolidated and Parent	
	2014	2013
	$NZm	$NZm
(a) Analysis of life insurance contract premium and related revenue		
Total life insurance contract premiums received and receivable	197	190
Less: component recognised as a change in life insurance contract liabilities	(3)	(3)
Life insurance contract premium revenue[1]	194	186
Reinsurance recoveries	4	3
Total life insurance contract premium and related revenue	**198**	**189**
(b) Analysis of life insurance contract claims and related expenses		
Total life insurance contract claims paid and payable	(184)	(182)
Less: component recognised as a change in life insurance contract liabilities	10	11
Life insurance contract claims expense	(174)	(171)
Outwards reinsurance expense	(8)	(5)
Total life insurance contract claims and related expenses	**(182)**	**(177)**
(c) Analysis of life insurance contract operating expenses		
Life insurance contract acquisition expenses		
- Commission	(6)	(7)
- Other	(17)	(15)
Life insurance contract maintenance expenses		
- Commission	(13)	(12)
- Other	(21)	(21)
Investment management expenses	(4)	(5)

Footnote:

(1) Life insurance contract premium revenue consists entirely of direct insurance premiums, there is no inward reinsurance component.

14. LIFE INSURANCE CONTRACTS (CONTINUED)

	Consolidated and Parent	
	2014 $NZm	2013 $NZm
(d) Life insurance contract liabilities		
Life insurance contract liabilities determined using projection method		
Best estimate liability		
- value of future life insurance contract benefits	1,706	1,623
- value of future expenses	330	332
- value of future premiums	(1,620)	(1,398)
Value of future profits		
- life insurance contract holder bonuses	251	229
- shareholders' profit margins	308	181
Total life insurance contract liabilities determined using the projection method	**975**	**967**
Life insurance contract liabilities determined using the accumulation method		
Best estimate liability		
- Value of future life insurance contract benefits	147	98
Total life insurance contract liabilities determined using the accumulation method	**147**	**98**
Value of declared bonus	14	13
Unvested policyholder benefits liabilities[1]	247	222
Total life insurance contract liabilities before reinsurance	**1,383**	**1,300**
Add: Reinsurers' share of life insurance contract liabilities	28	17
Total life insurance contract liabilities per the Statement of financial position	**1,411**	**1,317**

Footnote:
(1) For participating business in the statutory funds, part of the assets in excess of the life insurance contract and other liabilities calculated under MoS are attributed to policyholders. Under the Life Act, this is referred to as policyholder retained profits. For the purpose of reporting under accounting standards, this amount is referred to as unvested policyholder benefits liabilities and is included within life insurance contract liabilities even though it is yet to be vested as specific policyholder entitlements.

	Note	Consolidated and Parent	
		2014 $NZm	2013 $NZm
(e) Reconciliation of changes in life insurance contract liabilities			
Total life insurance contract liabilities at the beginning of the period		1,317	1,355
Change in life insurance contract liabilities recognised in the income statement		90	(37)
Premiums recognised as an increase in life insurance contract liabilities	14(a)	3	3
Claims recognised as a decrease in life insurance contract liabilities	14(b)	(10)	(11)
Change in reinsurers' share of life insurance contract liabilities		11	7
Total life insurance contract liabilities at the end of the period	14(d)	**1,411**	**1,317**

14. LIFE INSURANCE CONTRACTS (CONTINUED)

(f) Assumptions and methodology applied in the valuation of life insurance contract liabilities
Life insurance contract liabilities, and hence the net profit from life insurance contracts, are calculated by applying the principles of Margin on Services (MoS). Refer to Note 2(p) for a description of MoS and the methods for calculating life insurance contract liabilities.

The methods and profit carriers used to calculate life insurance contract liabilities for particular policy types are as follows:

Business type	Method	Profit carriers (for business valued using projection method)
Conventional	Projection	Bonuses
Investment account	Modified accumulation	n/a
Retail risk (lump sum)	Projection	Expected premiums
Retail risk (income protection)	Projection	Expected claims
Group risk (lump sum)	Accumulation	n/a
Group risk (income benefits)	Accumulation	n/a
Life annuities	Projection	Annuity payments

Key assumptions used in the calculation of life insurance contract liabilities are as follows:

(i) Risk free discount rates
Except where benefits are contractually linked to the performance of the assets held, a risk-free discount rate based on current observable, objective rates that relate to the nature, structure and term of the future obligations is used. The rates are determined as shown in the following table.

Business type	Basis[1]	2014	2013
Retail risk (other than income benefit open claims)	Zero coupon government bond yield curve	3.6% - 4.1%	3.2% - 5.4%
Retail risk and group risk (income benefit open claims)	Zero coupon government bond yield curve (including liquidity premium)	3.8% - 4.3%	3.5% - 5.7%
Life annuities	Zero coupon government bond yield curve (including liquidity premium)	3.9% - 4.4%	3.6% - 5.7%

Footnote:
(1) The discount rates vary by duration in the range shown above.

(ii) Participating business discount rates
Where benefits are contractually linked to the performance of the assets held, as is the case for participating business, a discount rate based on the expected market return on backing assets is used. The assumed earning rates for backing assets for participating business are largely driven by long-term (e.g.10 year) government bond yields. The 10 year government bond yields used at the relevant valuation dates are as shown below.

Assumed earning rates for each asset sector are determined by adding to the bond yield various risk premiums which reflect the relative differences in expected future earning rates for different asset sectors. For products backed by mixed portfolio assets, the assumption varies with the proportion of each asset sector backing the product. The risk premiums applicable at the valuation date are shown in the table below.

	10 year government bonds	Risk premiums				
		Local equities	International equities	Property & infrastructure [1]	Fixed interest	Cash
2014	3.7%	4.5%	3.5%	2.5%	0.0%	(0.5%)
	10 year government bonds	**Risk premiums**				
		Local equities	**International equities**	**Property**	**Fixed interest**	**Cash**
2013	4.8%	4.5%	3.5%	2.5%	0.0%	(0.5%)

(1) The change in asset classes between 2014 and 2013 reflects a new approach to managing asset allocations for participating business. In 2013, Infrastructure was included in Equities.

The risk premiums for local equities includes allowance for imputation credits. The risk premiums for fixed interest reflects credit ratings of the portfolio held.

The averages of the asset mixes assumed for the purpose of setting future investment assumptions for participating business at the valuation date are as shown in the table below. These asset mixes are not necessarily the same as the actual asset mix at the valuation date as they reflect long term assumptions.

14. LIFE INSURANCE CONTRACTS (CONTINUED)

(f) Assumptions and methodology applied in the valuation of life insurance contract liabilities (continued)

Average asset mix[1]	Equities [2]	Property & Infrastructure[2]	Fixed Interest	Cash
31 December 2014	38%	19%	34%	9%

Average asset mix[1]	Equities [2]	Property	Fixed Interest	Cash
31 December 2013	48%	2%	40%	10%

Footnote:
(1) The asset mix in the table above includes both conventional and investment account business for the Branch, but only conventional business for NZ SF1. As described in Note 1(q), 100% of investment profits on NZ SF1 investment account business are allocated to policyholders.
(2) The change in asset classes between 2014 and 2013 reflects a new approach to managing asset allocations for participating business. In 2013, Infrastructure was included in Equities.

Where an assumption used is net of tax, the tax on investment income is allowed for at rates appropriate to the class of business and asset sector, including any allowance for imputation credits on equity income. For this purpose, the total return for each asset sector is split between income and capital gains.The actual split has varied at each valuation date as the total return has varied.

(iii) Future participating benefits
For participating business, the total value of future bonuses (and the associated shareholder profit margin) included in life insurance contract liabilities is the amount supported by the value of the supporting assets, after allowing for the assumed future experience. The pattern of bonuses and shareholder profit margin assumed to emerge in each future year depends on the assumed relationship between reversionary bonuses (or interest credits) and terminal bonuses. This relationship is set to reflect the philosophy underlying actual bonus declarations.

Actual bonus declarations are determined to reflect, over time, the investment returns of the particular fund and other factors in the emerging experience and management of the business. These factors include:
- allowance for an appropriate degree of benefit smoothing;
- reasonable expectations of policyholders;
- equity between generations of policyholders applied across different classes and types of business; and
- ongoing capital adequacy.

Given the many factors involved, the range of bonus structures and rates for participating business is extremely diverse.

Typical supportable bonus rates on major product lines are as follows (31 December 2013 in parentheses):

Reversionary bonus [1]	Bonus on sum insured	Bonus on existing bonuses
New Zealand	0.7% (0.8%)	1.0% (1.1%)

Footnote:
(1) The 2013 ranges have been updated to be consistent with the approach used to calculate the 2014 ranges.

The terminal bonus scales are complex and vary by duration, product line, class of business and country.

Crediting rates (investment account)	
New Zealand	5.1% - 7.3% (3.0% - 6.8%)

(iv) Future maintenance and investment expenses
Unit maintenance costs are based on budgeted expenses in the year following the reporting date (including GST, as appropriate, and excluding one-off expenses). For future years, these are increased for inflation as described in (v) below. These expenses include fees charged to the life statutory funds by service companies in the AMP group. Unit costs vary by product line and class of business based on an apportionment that is supported by expense analyses.

Future investment expenses are based on the fees currently charged by the asset managers.

(v) Inflation and indexation
Benefits and premiums under many regular premium policies are automatically indexed by the published consumer price index (CPI). Assumed future take-up of these indexation options is based on NMLA's own experience with the annual CPI rates derived from the difference between long-term government bonds and indexed government bonds.

The assumptions for expense inflation have regard to these rates, recent expense performance, NMLA's current plans and the terms of the relevant service company agreement, as appropriate.

The assumed annual inflation and indexation rates at the valuation date are:

	New Zealand	
31 December 2014	2.5% CPI	3.0% Expense
31 December 2013	2.5% CPI	3.0% Expense

14. LIFE INSURANCE CONTRACTS (CONTINUED)

(vi) Bases of taxation
The bases of taxation (including deductibility of expenses) are assumed to continue in accordance with legislation current at the valuation date.

(f) Assumptions and methodology applied in the valuation of life insurance contract liabilities (continued)

(vii) Voluntary discontinuance
Assumptions for the incidence of withdrawals, paid ups and premium dormancy are primarily based on investigations of the Branch's own historical experience. These rates are based upon the assessed global rate for each of the individual products (or product groups) and then, where appropriate, further adjusted for duration, premium structure, smoker status, age attained or short-term market and business effects. Given the variety of influences affecting discontinuance for different product groups, the range of voluntary discontinuance rates across the Branch are extremely diverse.

The assumptions for future rates of discontinuance for the major classes of life insurance contracts are shown in the table below:

Business type	31 December 2014	31 December 2013
Conventional	4.1% - 4.7%	4.1% - 4.7%
Retail risk (lump sum)	11.6%	12.1%
Retail risk (income benefit)	9.5%	9.2% - 13.4%
Investment account	n/a	n/a

(viii) Surrender values
The surrender bases assumed for calculating surrender values are those current at the reporting date. There have been no changes to the bases during the year (or the prior year) that would materially affect the valuation results.

(ix) Mortality and morbidity
Standard mortality tables, based on national or industry wide data are used. These are then adjusted by factors that take account of the Branch's own experience.

Rates of mortality assumed at 31 December 2014 are as follows:

- Conventional in New Zealand are unchanged from those assumed at 31 December 2013. The rates are based on IA90-92.
- New Zealand annuitant mortality rates have been changed to 95% for male / 80% for female.
- New Zealand Retail Risk mortality rates have changed to be based on the new Industry standard IA04-08 Death Without Riders table modified based on aggregated experience with overall product specific adjustment factors.

For TPD and Trauma business, the New Zealand NMLA Retail Risk products assumptions have been changed to use the latest industry table IA04-08 modified based on aggregated experience with overall product specific adjustment factors.

For Income Protection business the assumptions are based on the IAD89-93 standard table modified for NZ SF1 with overall product specific adjustment factors. The adjustment factors include age, gender, occupation, waiting period, duration on claim, benefit band and benefit period. There have been no changes made to the New Zealand assumptions

Typical mortality assumptions, in aggregate, are as follows:

	Conventional - % of IA90-92	
Conventional	**Male**	**Female**
New Zealand	81%	95%

	Retail Lump Sum - % of table	
Risk Products	**Male**	**Female**
New Zealand (1)	120%	98%

(1) Base IA04-08 Death Without Riders table modified based on aggregated experience but with overall product specific adjustment factors .

Annuities	Male - % of IML00*	Female - % of IFL00*
New Zealand (2)	95%	80%

(2) Annuities tables modified for future mortality improvements.

Typical morbidity assumptions, in aggregate, are as follows:

Income protection	Incidence rates - % of IAD 89-93	Termination rates (ultimate) - % of IAD 89-93
New Zealand	41% - 80%	33% - 46%

Retail Lump Sum	Male % of IA04-08	Female % of IA04-08
New Zealand TPD (1)	194%	194%
New Zealand Trauma (2)	101%	101%

(1) Base IA04-08 TPD table modified based on our aggregated experience with overall product specific adjustment factors .

(2) Base IA04-08 Trauma table modified based on our aggregated experience with overall product specific adjustment factors .

14. LIFE INSURANCE CONTRACTS (CONTINUED)

(f) Assumptions and methodology applied in the valuation of life insurance contract liabilities (continued)

(ix) Mortality and morbidity(continued)

The actuarial tables used were as follows:

IA90-92	A mortality table developed by the Institute of Actuaries of Australia based on Australian insured lives experience from 1990-1992.
IA04-08 DTH	This was published by the Institute of Actuaries of Australia under the name "A graduation of the 2004-2008 Lump Sum Investigation Data". We refer to this table as IA04-08. The table contains separate graduations for Smokers, Non Smokers, Males and Females and Death With and Without Riders
IA04-08 TPD	This is the TPD graduation published in the same paper as above.
IA04-08 Trauma	This is the Trauma graduation published in the same paper as above.
IAD 89-93	A disability table developed by the Institute of Actuaries of Australia based on the Australian disability income experience for the period 1989-1993. This table has been extensively modified based on our aggregate experience.

(x) Impact of changes in assumptions

Under MoS, for life insurance contracts valuations using the projection method, changes in assumptions are recognised by adjusting the value of future profit margins in life insurance contract liabilities. Future profit margins are released over future periods.

Changes in assumptions do not include market related changes in discount rates such as changes in benchmark market yields caused by changes in investment markets and economic conditions. These are reflected in both life insurance contract liabilities and asset values at the reporting date.

The impact on future profit margins of changes in assumptions from 31 December 2013 to 31 December 2014 in respect of life insurance contracts (excluding new business contracts which are measured using assumptions at reporting date) is as shown in the table below.

Assumption change	Change in future profit margins $NZm	Change in life insurance contract liabilities $NZm	Change in shareholders' profit & equity (after tax) $NZm
Non-market related changes to discount rates	(2)	-	-
Mortality and morbidity	(3)	-	-
Discontinuance rates	-	-	-
Maintenance expenses	(13)	-	-
Other assumptions[1]	44	-	-

(1) Other assumption changes include the impact of modelling, product and premium changes.

In most cases, the overall amount of life insurance contract liabilities and the current period profit are not affected by changes in assumptions. However, where in the case of a particular related product group, the changes in assumptions at the end of a period eliminate any future profit margins for the related product group, and results in negative future profit margins, this negative balance is recognised as a loss in the current period. If the changes in assumptions in a period are favourable for a product group currently in loss recognition, then the previously recognised losses are reversed in the period.

(g) Insurance risk sensitivity analysis – life insurance contracts
For life insurance contracts that are accounted for under MoS, amounts of liabilities, income or expense recognised in the period are unlikely to be sensitive to changes in variables even if those changes may have an impact on future profit margins.

This table shows information about the sensitivity of life insurance contract liabilities, current shareholder period profit after income tax, and equity, to a number of possible changes in assumptions relating to insurance risk.

14. LIFE INSURANCE CONTRACTS (CONTINUED)

(g) Insurance risk sensitivity analysis – life insurance contracts (continued)

		Change in life insurance contract liabilities		Change in shareholders' profit after income tax and equity	
Variable	**Change in variable**	**Gross of reinsurance $NZm**	**Net of reinsurance $NZm**	**Gross of reinsurance $NZm**	**Net of reinsurance $NZm**
Mortality	10% increase in mortality rates	-	-	-	-
Annuitant mortality	50% increase in the rate of mortality improvement	-	-	-	-
Morbidity - lump sum disablement	20% increase in lump sum disablement rates	-	-	-	-
Morbidity - disability income	10% increase in incidence rates	4	3	(3)	(2)
Morbidity - disability income	10% decrease in recovery rates	3	2	(2)	(1)
Discontinuance rates	10% increase in discontinuance rates	-	-	-	-
Maintenance expenses	10% increase in maintenance expenses	-	-	-	-

(h) Life insurance risk

The life insurance activities of NZ SF1involve a number of non-financial risks concerned with the pricing, acceptance and management of the mortality, morbidity and longevity risks accepted from policyholders, often in conjunction with the provision of wealth-management products.

The design of products carrying insurance risk is managed to ensure that policy wording and promotional materials are clear, unambiguous and do not leave NZ SF1 open to claims from causes that were not anticipated. Product prices are set through a process of financial analysis, including review of previous NZ SF1 and industry experience and specific product design features. The variability inherent in insurance risk, including concentration risk, is managed by having a large geographically diverse portfolio of individual risks, underwriting and the use of reinsurance.

Underwriting is managed through a dedicated underwriting department, with formal underwriting limits and appropriate training and development of underwriting staff. Individual policies carrying insurance risk are underwritten on their merits and are generally not issued without having been examined and underwritten individually. Individual policies which are transferred from a group scheme are generally issued without underwriting. Group risk insurance policies meeting certain criteria are underwritten on the merits of the employee group as a whole.

Claims are managed through a dedicated claims management team, with formal claims acceptance limits and appropriate training and development of staff to ensure payment of all genuine claims. Claims experience is assessed regularly and appropriate actuarial reserves are established to reflect up-to-date experience and any anticipated future events. This includes reserves for claims incurred but not yet reported.

The Branch reinsures (cedes) to specialist reinsurance companies a proportion of its portfolio or certain types of insurance risk, including catastrophe. This serves primarily to:

- reduce the net liability on large individual risks;
- obtain greater diversification of insurance risks; and
- provide protection against large losses.

The specialist reinsurance companies are regulated by APRA or industry regulators in other jurisdictions and have strong credit ratings from *AA-* to *AA+*.

Terms and conditions of life insurance contracts

The nature of the terms of the life insurance contracts written by NMLA is such that certain external variables can be identified on which related cash flows for claim payments depend. The table below provides an overview of the key variables upon which the timing and uncertainty of future cash flows of the various life insurance contracts issued by NZ SF1 depend.

14. LIFE INSURANCE CONTRACTS (CONTINUED)

(h) Life insurance risk (continued)

Type of contract	Detail of contract workings	Nature of compensation for claims	Key variables affecting future cash flows
Non-participating life insurance contracts with fixed and guaranteed terms (term life and disability)	These policies provide guaranteed benefits, which are paid on death or ill-health, that are fixed and not at the discretion of the Life Company. Premium rates for yearly renewable business are not guaranteed and may be changed at the Life Company's discretion for the portfolio as a whole.	Benefits, defined by the insurance contract, are not directly affected by the performance of any underlying assets or the performance of any associated investment contracts as a whole.	Mortality, morbidity, lapses, expenses and market earning rates on assets backing the liabilities.
Life annuity contracts	In exchange for an initial single premium, these policies provide a guaranteed regular income for the life of the insured.	The amount of the guaranteed regular income is set at inception of the policy including any indexation.	Longevity, expenses, inflation and market earning rates on assets backing the liabilities.
Conventional life insurance contracts with discretionary participating benefits (endowment and whole of life)	These policies combine life insurance and savings. The policyholder pays a regular premium and receives the specified sum insured plus any accruing bonuses on death or maturity. The sum insured is specified at inception and guaranteed. Reversionary bonuses are added annually, which once added (vested) are guaranteed. A further terminal bonus may be added on surrender, death or maturity.	Benefits arising from the discretionary bonuses are based on the performance of a specified pool of contracts and the assets supporting these contracts.	Market earning rates on assets backing the liabilities, lapses, expenses and mortality.
Investment account contracts with discretionary participating features	The gross value of premiums received is invested in the investment account with fees and premiums for any associated insurance cover being deducted from the account balance when due. Interest is credited regularly.	Payment of the account balance is generally guaranteed, although it may be subject to certain penalties on early surrender or limited adjustment in adverse markets. Operating profit arising from these contracts is allocated between the policyholders and shareholders with not less than 80% allocated to policyholders. Distribution of policyholder profit is through an interest rate mechanism.	Fees, lapses, expenses and market earning rates on the assets backing the liabilities.

(i) Liquidity risk and future net cash outflows

The table below shows the estimated timing of future net cash outflows resulting from insurance contract liabilities. This includes estimated future surrenders, death/disability claims and maturity benefits, offset by expected future premiums or contributions and reinsurance recoveries. All values are discounted to the reporting date using the assumed future investment earning rate for each product.

	Up to 1 Year	1 to 5 Years	Over 5 Years	Total
	$NZm	$NZm	$NZm	$NZm
2014	42	69	395	506
2013	46	106	430	582

15. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES

	Consolidated and Parent	
	2014	2013
	$NZm	$NZm
(a) Analysis of life insurance and investment contract profit		
Components of profit related to life insurance and investment contract liabilities:		
- Planned margins of revenues over expenses released	33	28
- Losses (profits) arising from difference between actual and assumed experience	(2)	7
- Losses (profits) arising from change in assumptions	(1)	2
Profit related to life insurance and investment contract liabilities	**30**	**37**
Attributable to:		
- Life insurance contracts	29	36
- Investment contracts	2	1
Investment earnings on assets in excess of life insurance and investment contract liabilities	**23**	**9**

(b) Restrictions on assets

NZ SF1 conducts investment linked and non-investment linked business. For investment linked business, deposits are received from policyholders, the funds are invested on behalf of the policyholders and the resulting liability to policyholders is linked to the performance and value of the assets that back those liabilities.

The Life Act requires the life insurance business to be conducted within life statutory funds.

NMLA has six statutory funds. All of the business of the Branch is held in NZ SF1.The business includes whole of life, endowment, investment account, retail and group risk, retail end group, and investment linked and immediate annuities.

Investments held in NZ SF1 can only be used in accordance with the relevant regulatory restrictions imposed under the Life Act and associated rules and regulations. The main restrictions are that the assets in a life statutory fund can only be used to meet the liabilities and expenses of that life statutory fund, to acquire investments to further the business of the life statutory fund or as distributions provided solvency, capital adequacy and other regulatory requirements are met. See further details about solvency and capital adequacy in Note 15(d).

	Consolidated and Parent	
	2014	2013
	$NZm	$NZm
(c) Capital guarantees		
Life insurance contracts with a discretionary participating feature		
- Amount of the liabilities that relate to guarantees	774	1,128

15. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)

(d) Capital requirements (continued)

Registered life insurance entities are required to hold prudential reserves, over and above their life insurance contract and investment contract liabilities, as a buffer against adverse experience and poor investment returns. These reserving requirements are specified by the APRA prudential capital standards. The standards are intended to take account of the full range of risks to which a regulated institution is exposed and introduces the Prescribed Capital Amount (PCA) requirement. The PCA is the minimum level of capital that the regulator deems must be held to meet policyholder obligations.

In addition to the PCA, NMLA maintains a target surplus providing an additional capital buffer against adverse events. NMLA uses internal capital models to determine its target surplus, with the models reflecting the risks of the business, principally the risk of adverse asset movements relative to the liabilities and of worse than expected claims costs.

The excess of NMLA SF1 & SHF's capital base over the PCA as at 31 December 2014 was $A380m (2013: $A251m).

The Appointed Actuary of NMLA has confirmed that the capital base of each life statutory fund and shareholders' fund have exceeded PCA at all times during 2014 and 2013.

Notes to the financial statements

for the year ended 31 December 2014

15. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)

(d) Capital requirements (continued)

The capital requirements and ratios in respect of the capital requirements shown below are therefore those calculated for the consolidated NMLA Statutory Fund No. 1 and Shareholder's Fund (NMLA SF1 & SHF) and are stated in Australian dollars.

2014		No 1 Statutory Fund $Am	Shareholders' Funds $Am	Total $Am
Capital Base				
Net assets as per Life Insurance Act		908	182	1,090
Total regulatory adjustments to net assets		(446)	(5)	(451)
Common equity Tier 1 Capital		462	177	639
Total regulatory adjustments to Tier 1 Capital		-	-	-
Tier 2 Capital		57	-	57
Total regulatory adjustments to Tier 2 Capital		-	-	-
Total capital base	**A**	519	177	696
Prescribed capital				
Insurance risk charge		100	-	100
Asset risk charge		140	3	143
Asset concentration risk charge		-	-	-
Operational risk charge		35	-	35
Less aggregation benefit		(52)	-	(52)
Combined stress scenario adjustment		89	1	90
Total Prescribed Capital Amount (PCA)	**B**	312	4	316
Capital adequacy multiple	**A/B**	167%	4425%	220%

2013		No 1 Statutory Fund $Am	Shareholders' Funds $Am	Total $Am
Capital Base				
Net assets as per Life Insurance Act		935	111	1,046
Total regulatory adjustments to net assets		(525)	(4)	(529)
Common equity Tier 1 Capital		410	107	517
Total regulatory adjustments to Tier 1 Capital		-	-	-
Tier 2 Capital		57	-	57
Total regulatory adjustments to Tier 2 Capital		-	-	-
Total capital base	**A**	467	107	574
Prescribed capital				
Insurance risk charge		100	-	100
Asset risk charge		149	2	151
Asset concentration risk charge		-	-	-
Operational risk charge		34	-	34
Less aggregation benefit		(53)	-	(53)
Combined stress scenario adjustment		90	1	91
Total Prescribed Capital Amount (PCA)	**B**	320	3	323
Capital adequacy multiple	**A/B**	147%	3033%	178%

15. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)

(e) Actuarial information

Mr Anton Kapel, BEc, MAppFin, FIAA, FSA, FFin, CERA, as the Appointed Actuary of NMLA, is satisfied as to the accuracy of the data used in the valuations in the Financial Report and in the tables in this Note and Note 14.

The liabilities to policyholders (being the sum of the life insurance contract and investment contract liabilities, including any asset or liability arising in respect of the management services element of an investment contract), capital base and prescribed capital amounts have been determined at the reporting date in accordance with the Life Act.

(f) Amounts expected to be recovered or settled within 12 months of the reporting date

Based on assumptions as to likely withdrawal patterns of the various product groups, it is estimated that approximately $NZ150m (2013: $NZ71m) of policy liabilities may be settled within 12 months of the reporting date.

(g) Disaggregated information

Under the Life Act, the life insurance business of the Branch is conducted within a separate life statutory fund that is distinguished from the shareholders' fund. Information for all major components of the financial statements disaggregated between the statutory fund and the shareholders' fund, as well as by investment-linked and non-investment-linked business is provided within this note.

(i) Income statement by statutory fund and shareholders' fund

2014	No.1 Statutory Fund $NZm	Shareholders' Fund $NZm	Total $NZm
Income and expenses of policyholders and shareholders			
Life insurance premium and related revenue	198	-	198
Fee revenue	4	-	4
Other revenue	-	10	10
Investment gains	269	-	269
Life insurance claims and related expenses	(182)	-	(182)
Operating expenses	(64)	-	(64)
Finance costs	(1)	-	(1)
Change in policyholder liabilities			
- life insurance contracts	(90)	-	(90)
- investment contracts	(24)	-	(24)
Profit before income tax	**110**	**10**	**120**
Income tax expense	(57)	(3)	(60)
Net profit for the year	**53**	**7**	**60**

2013	No.1 Statutory Fund $NZm	Shareholders' Fund $NZm	Total $NZm
Income and expenses of policyholders and shareholders			
Life insurance premium and related revenue	189	-	189
Fee revenue	4	-	4
Investment gains and (losses)	64	-	64
Life insurance claims and related expenses	(177)	-	(177)
Operating expenses	(63)	-	(63)
Change in policyholder liabilities			-
- life insurance contracts	37	-	37
- investment contracts	(28)	-	(28)
Profit before income tax	**26**	**-**	**26**
Income tax credit	20	-	20
Net profit for the year	**46**	**-**	**46**

15. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)

(g) Disaggregated information (continued)

(ii) Statement of financial position by statutory fund and shareholders' fund

2014	No. 1 Statutory Fund $NZm	Shareholders' Fund $NZm	Elimination $NZm	Total $NZm
Assets				
Investments in financial assets measured at fair value through profit or loss	1,973	-	-	1,973
Other assets	178	36	(44)	170
Total assets of policyholders and shareholders	**2,151**	**36**	**(44)**	**2,143**
Liabilities				
Life insurance contract liabilities	1,411	-	-	1,411
Investment contract liabilities	239	-	-	239
Other liabilities	207	25	(44)	188
Total liabilities of policyholders and shareholders	**1,857**	**25**	**(44)**	**1,838**
Net assets of the Branch	**294**	**11**	**-**	**305**
Equity				
Contributed equity	-	-	-	-
Retained earnings	294	11	-	305
Total equity of the Branch	**294**	**11**	**-**	**305**

2013	No. 1 Statutory Fund $NZm	Shareholders' Fund $NZm	Elimination $NZm	Total $NZm
Assets				
Investments in financial assets measured at fair value through profit or loss	1,781	-	-	1,781
Other assets	154	30	(34)	150
Total assets of policyholders and shareholders	**1,935**	**30**	**(34)**	**1,931**
Liabilities				
Life insurance contract liabilities	1,317	-	-	1,317
Investment contract liabilities	237	-	-	237
Other liabilities	108	26	(34)	100
Total liabilities of policyholders and shareholders	**1,662**	**26**	**(34)**	**1,654**
Net assets of the Branch	**273**	**4**	**-**	**277**
Equity				
Contributed equity	-	-	-	-
Retained earnings	273	4	-	277
Total equity of the Branch	**273**	**4**	**-**	**277**

15. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)

(g) Disaggregated information (continued)

(iii) Retained earnings by statutory fund and shareholders' fund

2014	No.1 Statutory Fund $NZm	Shareholders' Fund $NZm	Total $NZm
Opening retained earnings	273	4	277
Net profit for the year	53	7	60
Transfer between statutory and shareholders' funds	(32)	-	(32)
Closing retained earnings	**294**	**11**	**305**

2013	No.1 Statutory Fund $NZm	Shareholders' Fund $NZm	Total $NZm
Opening retained earnings / (accumulated losses)	242	(7)	235
Net profit for the year	46	-	46
Transfer between statutory and shareholders' funds	(15)	11	(4)
Closing retained earnings / (accumulated losses)	**273**	**4**	**277**

(iv) Contributed equity by statutory fund and shareholders' fund

2014	No.1 Statutory Fund $NZm	Shareholders' Fund $NZm	Total $NZm
Opening contributed equity	-	-	-
Transfer between statutory and shareholders' funds	-	-	-
Closing contributed equity	**-**	**-**	**-**

2013	No.1 Statutory Fund $NZm	Shareholders' Fund $NZm	Total $NZm
Opening contributed equity	3	12	15
Transfer between statutory and shareholders' funds	(3)	(12)	(15)
Closing contributed equity	**-**	**-**	**-**

15. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)

(g) Disaggregated information (continued)

(v) Income statement by non-investment linked and investment linked

2014	Non-Investment Linked [1] $NZm	Investment Linked $NZm	Total Statutory Funds $NZm	Shareholders' Fund $NZm	Total $NZm
Income and expenses of policyholders and shareholder					
Insurance premium and related revenue	198	-	198	-	198
Fee revenue	4	-	4	-	4
Other revenue	-	-	-	10	10
Investment gains	269	-	269	-	269
Insurance claims and related expenses	(182)	-	(182)	-	(182)
Operating expenses	(64)	-	(64)	-	(64)
Finance costs	(1)	-	(1)	-	(1)
Change in policyholder liabilities					
- life insurance contracts	(90)	-	(90)	-	(90)
- investment contracts	(24)	-	(24)	-	(24)
Profit before income tax	110	-	110	10	120
Income tax expense	(57)	-	(57)	(3)	(60)
Net profit for the year	**53**	**-**	**53**	**7**	**60**

2013	Non-Investment Linked $NZm	Investment Linked $NZm	Total Statutory Funds $NZm	Shareholders' Fund $NZm	Total $NZm
Income and expenses of policyholders and shareholder					
Insurance premium and related revenue	189	-	189	-	189
Fee revenue	4	-	4	-	4
Investment gains and (losses)	64	-	64	-	64
Insurance claims and related expenses	(177)	-	(177)	-	(177)
Operating expenses	(63)	-	(63)	-	(63)
Change in policyholder liabilities					
- life insurance contracts	37	-	37	-	37
- investment contracts	(28)	-	(28)	-	(28)
Profit / (loss) before income tax	26	-	26	-	26
Income tax credit	20	-	20	-	20
Net profit for the year	**46**	**-**	**46**	**-**	**46**

Footnote:
(1) The "investment linked" and "non-investment linked" classifications refer to the primary business of the individual statutory funds. Some investment linked business exists within NZ SF1.

Notes to the financial statements

for the year ended 31 December 2014

15. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)

(g) Disaggregated information (continued)

(vi) Statement of financial position by non-investment linked and investment linked

2014	Non-Investment Linked [1] $NZm	Investment Linked $NZm	Total Statutory Funds $NZm	Share-holders' Fund $NZm	Elim-ination $NZm	Total $NZm
Assets		-				
Investments in financial assets measured at fair value through profit or loss	1,973	-	1,973	-	-	1,973
Other assets	178	-	178	36	(44)	170
Total assets of policyholders and shareholders	**2,151**	**-**	**2,151**	**36**	**(44)**	**2,143**
Liabilities						
Life insurance contract liabilities	1,411	-	1,411	-	-	1,411
Investment contract liabilities	239	-	239	-	-	239
Other liabilities	207	-	207	25	(44)	188
Total liabilities of policyholders and shareholders	**1,857**	**-**	**1,857**	**25**	**(44)**	**1,838**
Net assets of NMLA Limited	**294**	**-**	**294**	**11**	**-**	**305**
Equity						
Contributed equity	-	-	-	-	-	-
Retained earnings	294	-	294	11	-	305
Total equity of NMLA Limited	**294**	**-**	**294**	**11**	**-**	**305**

2013	Non-Investment Linked [1] $NZm	Investment Linked $NZm	Total Statutory Funds $NZm	Share-holders' Fund $NZm	Elim-ination $NZm	Total $NZm
Assets						
Investments in financial assets measured at fair value through profit or loss	1,781	-	1,781	-	-	1,781
Other assets	154	-	154	30	(34)	149
Total assets of policyholders and shareholders	**1,935**	**-**	**1,935**	**30**	**(34)**	**1,930**
Liabilities						
Life insurance contract liabilities	1,317	-	1,317	-	-	1,317
Investment contract liabilities	237	-	237	-	-	237
Other liabilities	108	-	108	26	(34)	100
Total liabilities of policyholders and shareholders	**1,662**	**-**	**1,662**	**26**	**(34)**	**1,654**
Net assets of NMLA Limited	**273**	**-**	**273**	**4**	**-**	**276**
Equity						
Contributed equity	-	-	-	-	-	-
Retained earnings / (Accumulated loss)	273	-	273	4	-	277
Total equity of NMLA Limited	**273**	**-**	**273**	**4**	**-**	**277**

Footnote:
(1) The "investment linked" and "non-investment linked" classifications refer to the primary business of the individual statutory funds. Some investment linked business exists within NZ SF1.

15. OTHER LIFE INSURANCE AND INVESTMENT CONTRACTS DISCLOSURES (CONTINUED)

(g) Disaggregated information (continued)

(vii) Retained earnings by non-investment linked and investment linked

2014	Non-Investment Linked[1] $NZm	Investment Linked $NZm	Total Statutory Funds $NZm	Share-holders' Fund $NZm	Total $NZm
Opening retained earnings	273	-	273	4	277
Net profit for the year	53	-	53	7	60
Transfer between statutory and shareholders' funds	(32)	-	(32)	-	(32)
Closing retained earnings / (accumulated losses)	**294**	**-**	**294**	**11**	**305**

2013	Non-Investment Linked(1) $NZm	Investment Linked $NZm	Total Statutory Funds $NZm	Share-holders' Fund $NZm	Total $NZm
Opening retained earnings	242	-	242	(7)	235
Net profit for the year	46	-	46	-	46
Transfer between statutory and shareholders' funds	(15)	-	(15)	11	(4)
Closing retained earnings / (accumulated losses)	**273**	**-**	**273**	**4**	**277**

Footnote:
(1) The "investment linked" and "non-investment linked" classifications refer to the primary business of the individual statutory funds. Some investment linked business exists within NZ SF1.

(viii) Contributed equity by non-investment linked and investment linked

2014	Non-Investment Linked[1] $NZm	Investment Linked $NZm	Total Statutory Funds $NZm	Share-holders' Fund $NZm	Total $NZm
Opening contributed equity	-	-	-	-	-
Transfer between statutory and shareholders' funds	-	-	-	-	-
Closing contributed equity	**-**	**-**	**-**	**-**	**-**

2013	Non-Investment Linked[1] $NZm	Investment Linked $NZm	Total Statutory Funds $NZm	Share-holders' Fund $NZm	Total $NZm
Opening contributed equity	3	-	3	12	15
Transfer between statutory and shareholders' funds	(3)	-	(3)	(12)	(15)
Closing contributed equity	**-**	**-**	**-**	**-**	**-**

Footnote:
(1) The "investment linked" and "non-investment linked" classifications refer to the primary business of the individual statutory funds. Some investment linked business exists within NZ SF1.

16. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES

Financial risk management
Financial risk management (FRM) in the Branch is conducted as part of AMP group's enterprise risk management framework. The AMP Committee, supported by the Group Asset and Liability Committee (Group ALCO), is responsible for ensuring financial risks are appropriately managed.

(a) Risks and mitigation
Financial risks arising in the Branch include market risk (investment risk, interest rate risk, foreign exchange risk, currency risk, property risk, and equity price risk); liquidity and refinancing risk; and credit risk. These risks are managed according to the Enterprise Risk Management Policy and individual policies for each risk category. This financial risk management includes the use of derivative financial instruments such as cross-currency and interest rate swaps, forward rate agreements, futures, options and foreign currency contracts to hedge risk exposures arising from changes in interest rates and foreign exchange rates.

Financial risk management includes decisions made about the allocation of investment assets across asset classes and/or markets and the management of risks within these asset classes. Financial risk for investments in the AMP group is managed by reference to the probability of loss relative to expected income over a one-year time horizon at a 90% confidence level (profit at risk). In respect of investments held in the shareholder fund and in the life statutory funds, the loss tolerance over the discretionary investments is set at a low level because AMP has equity market exposure in its businesses (for example through fees on assets under management).

Market risk is the risk that the fair value of assets and liabilities, or future cash flows of a financial instrument will fluctuate due to movements in the financial markets. These movements include foreign exchange rates, interest rates, credit spreads, equity prices or property prices. Market risk in the Branch arises from the management of insurance contracts and investment of shareholder capital including investments in equities, property, interest bearing investments.

(b) Market risk sensitivity analysis
The paragraphs below include sensitivity analysis tables showing how the profit after tax and equity would have been impacted by changes in market risk variables including interest rate risk and currency risk as defined in NZ IFSR 7 *Financial Instruments: Disclosures*. They show the direct impact on the profit after tax or equity of a reasonably possible change in factors which affect the carrying value of financial assets and financial liabilities held at the end of the reporting period.

The sensitivity is required to show the impact of a reasonably possible change in market rate (it is not intended to illustrate a remote, worst case, stress test scenario nor does it represent a forecast. In addition it does not include the impact of any mitigating management actions) over the period to the subsequent reporting date. The categories of risks faced and methods used for deriving sensitivity information did not change from previous periods.

(i) Interest rate risk
Interest rate risk is the risk of an impact on the Branch's profit after tax and equity from movements in market interest rates, including changes in the absolute levels of interest rates, the shape of the yield curve, the margin between different yield curves and the volatility of interest rates.

As discussed in Note 2(d), the Branch conducts wealth management and life insurance business through separate life statutory funds. Investment assets of the life statutory funds including interest-bearing financial assets are held to back investment contract liabilities, life insurance contract liabilities, retained profits and capital.

Interest rate risk of the Branch which impacts shareholders arises in respect of financial assets and liabilities held in the shareholders' fund and in the life statutory funds. A risk arises to the extent that there is an economic mismatch between the timing of payments to life policyholders and the duration of the assets held in the life statutory funds to back the policyholder liabilities. Where a liability in respect of investment contracts is directly linked to the value of the assets (where applicable, net of related liabilities) held to back that liability (investment-linked business), there is no residual interest rate exposure which would impact shareholders.

Management of various risks associated with investments undertaken by life statutory funds and the life shareholders' fund, such as interest rate risk, is subject to the relevant regulatory requirements governed by the Life Act. The Branch is required to satisfy solvency requirements, including holding statutory reserves to cater for interest rate risk to the extent that assets are not matched against liabilities.

The Branch manages interest rate and other market risks pursuant to an asset and liability management policy that has regard to policyholder expectations and risks to the NMLA Board's target surplus philosophy for capital as advised by the Appointed Actuary.

Interest rate risk sensitivity analysis
This analysis demonstrates the impact of a 100 basis points change in New Zealand and International interest rates, with all other variables held constant, on profit after tax and equity. It is assumed that all underlying exposures and related hedges are included in the sensitivity analysis, that the 100 basis point change occurs as at the reporting date and that there are concurrent movements in interest rates and parallel shifts in the yield curves. The impact on equity includes both the impact on profit after tax as well as the impact of amounts that would be taken directly to equity in respect of the portion of changes in the fair value of derivatives that qualify as cash flow hedges for hedge accounting.

16. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

(b) Market risk sensitivity analysis (continued)

	31 December 2014		31 December 2013	
Change in variables	Impact on profit after tax $NZm	Impact on equity $NZm	Impact on profit after tax $NZm	Impact on equity $NZm
+100 basis points	(4)	(4)	1	1
-100 basis points	4	4	(1)	(1)

(ii) Currency risk
Currency risk is the risk of an impact on AMP group's profit after tax and equity from movements in foreign exchange rates. Changes in value would occur in respect of translating the Branch's capital invested in overseas operations into Australian dollars at reporting date (translation risk) or from foreign exchange rate movements on specific cash flow transactions (transaction risk).

The Branch does not hedge the capital invested in overseas operations thereby accepting the foreign currency translation risk on invested capital with movements through foreign currency translation reserve.

Currency risk sensitivity analysis
This analysis demonstrates the impact of a 10% movement of currency rates against the Australian dollar, with all other variables held constant, on the profit after tax and equity due to changes in fair value of currency sensitive monetary assets and liabilities at the reporting date. It is assumed that the 10 per cent change occurs as at the reporting date.

	31 December 2014		31 December 2013	
Change in variables	Impact on profit after tax $NZm	Impact on equity $NZm	Impact on profit after tax $NZm	Impact on equity $NZm
10% depreciation of NZD	-	-	(1)	(1)
10% appreciation of NZD	-	-	1	1

(iii) Equity price risk
Equity price risk is the risk of an impact on the Branch's profit after tax and equity from movements in equity prices. The Branch measures equity securities at fair value through profit or loss. Group Treasury may, with Group ALCO approval, use equity exposures or equity futures or options to hedge other enterprise-wide equity exposures.

Equity price risk sensitivity analysis
The analysis demonstrates the impact of a 10% movement in New Zealand and International equities held at the reporting date. This sensitivity analysis has been performed to assess the direct risk of holding equity instruments. Any potential indirect impact on fees from the Branch's investment linked business is not included.

	31 December 2014		31 December 2013	
Change in variables	Impact on profit after tax $NZm	Impact on equity $NZm	Impact on profit after tax $NZm	Impact on equity $NZm
10% increase in New Zealand equities	-	-	1	1
10% increase in International equities	-	-	1	1
10% decrease in New Zealand equities	-	-	(1)	(1)
10% decrease in International equities	-	-	(1)	(1)

16. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

(c) Liquidity and re-financing risk

Liquidity risk is the risk that the branch is not able to meet its debt obligations or other cash outflows as they fall due because of an inability to liquidate assets or obtain adequate funding when required. Refinancing risk is the risk that the Branch is not able to refinance the full quantum of its ongoing debt requirements on appropriate terms and pricing.

The following table summarises the maturity profiles of the Branch's undiscounted financial liabilities and off-balance sheet items at the reporting date. The maturity profiles are based on contractual undiscounted repayment obligations. Repayments that are subject to notice are treated as if notice were to be given immediately.

Maturity profiles of undiscounted financial liabilities (1)

2014 - Consolidated	Up to 1 Year or no term $NZm	1 to 5 Years $NZm	More than 5 Years $NZm	Other (2) $NZm	Total $NZm
Non-derivative financial liabilities					
Payables	132	-	-	-	132
Investment contract liabilities	31	102	252		385
Total undiscounted financial liabilities (3)	163	102	252	-	517

2013 - Consolidated	Up to 1 Year or no term $NZm	1 to 5 Years $NZm	More than 5 Years $NZm	Other (2) $NZm	Total $NZm
Non-derivative financial liabilities					
Payables	43	-	-	-	43
Investment contract liabilities	-	-	-	237	237
Total undiscounted financial liabilities (3)	43	-	-	237	280

2014 - Parent	Up to 1 Year or no term $NZm	1 to 5 Years $NZm	More than 5 Years $NZm	Other $NZm	Total $NZm
Non-derivative financial liabilities					
Payables	132	-	-	-	132
Investment contract liabilities	31	102	252		385
Total undiscounted financial liabilities (3)	163	102	252	-	517

2013 - Parent	Up to 1 Year or no term $NZm	1 to 5 Years $NZm	More than 5 Years $NZm	Other $NZm	Total $NZm
Non-derivative financial liabilities					
Payables	43	-	-	-	43
Investment contract liabilities	-	-	-	237	237
Total undiscounted financial liabilities (3)	43	-	-	237	280

Footnote:

(1) The table provides maturity analysis of the Branch's financial liabilities and non-linked investment contracts including term annuities.

(2) Investment contract liabilities are liabilities to policyholders for non-investment linked business.

(3) Estimated net cash out flow profile of life insurance contract liabilities is disclosed in Note 14(i).

16. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

(c) Credit risk

Credit risk includes both settlement credit exposures and traded credit exposures. Credit default risk is the risk of an adverse impact on results and asset values relative to expectations due to a counterparty failing to meet their contractual commitments in full and on time (obligator's non-payment of a debt). Traded credit risk is the risk of an adverse impact on results and asset values relative to expectations due to changes in value of a traded financial instrument as a result of changes in credit risk on that instrument.

The AMP Concentration Risk Policy sets out the assessment and determination of what constitutes credit risk. The policy has set exposure limits for each counterparty and credit rating. Compliance with this policy is monitored and exposures and breaches are reported to senior management and the AMP Audit Committees through weekly and quarterly FRM reports.

Credit risk management is decentralised in business units within AMP group. However, credit risk directly and indirectly (ie. in the participating business) impacting shareholder capital is measured and managed by Group Treasury on a Group basis, by aggregating risk from credit exposures taken in business units.

(i) Exposure to credit risk

The exposures on the interest bearing securities and cash equivalents which impact NMLA's capital position are managed by AMP Treasury within limits set by AMP Concentration Risk Policy. The following table provides information regarding the credit risk exposures for items monitored by AMP Treasury accordingly to the credit rating of the counterparties.

	2014 $NZm	2013 $NZm
AAA	34	45
AA- to AA+	497	512
A- to A+	244	125
BBB - to BBB+	47	46
BB+ and below	69	9
Total financial assets with credit risk exposure managed by AMP Treasury	**891**	**738**

(ii) Past due but not impaired financial assets of the Branch

The Branch has no financial assets which are past due but not impaired.

(d) Derivative financial instruments

Derivative financial instruments are measured at fair value in the Statement of financial position as assets and liabilities. Asset and liability values on individual transactions are only netted if the transactions are with the same counterparty and the cash flows will be settled on a net basis. Changes in values of derivative financial instruments are recognised in the Statement of comprehensive income.

Derivative transactions undertaken by AMP life insurance entities as part of life insurance operations

The Branch uses derivative financial instruments including financial futures, forward foreign exchange contracts, exchange traded and other options and forward rate agreements to hedge the impact of market movements on the value of assets in the investment portfolios, and to effect a change in the asset mix of investment portfolios.

In respect of the risks associated with the use of derivative financial instruments, price risk is controlled by exposure limits, which are subject to monitoring and review. Foreign exchange hedges are monitored on a regular basis to ensure they are effective in the reduction of price risk.

The market risk of derivatives is managed and controlled as an integral part of the financial risk of NMLA. The credit risk of derivatives is also managed in the context of the NMLA's overall credit risk policies and includes the use of CSA's which facilitate the bi-lateral posting of collateral.

16. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS DISCLOSURES (CONTINUED)

(e) Master netting or similar agreements

(i) Derivative financial assets and liabilities
Certain derivative assets and liabilities are subject to legally enforceable master netting arrangements, such as an International Swaps and Derivatives Association (ISDA) master netting agreement. In certain circumstances, for example, when a credit event such as a default occurs, all outstanding transactions under an ISDA agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

An ISDA agreement does not meet the criteria for offsetting in the Statement of financial position as the Branch does not have any currently legally enforceable right to offset recognised amounts, as the right to offset is enforceable only on the occurrence of future events such as a default.

In 2014, NMLA has nil derivative assets and liabilities which are subject to legally enforceable master netting arrangements.

17. FAIR VALUE INFORMATION

Fair value measures
The Branch's assets and liabilities measured at fair value are categorised under a three level hierarchy, reflecting the availability of observable market inputs when estimating the fair value. If different levels of inputs are used to measure a financial instrument's fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement. The three levels are:

Level 1: Valued by reference to quoted prices in active markets for identical assets or liabilities. These quoted prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2: Valued using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices), including: quoted prices in active markets for similar assets or liabilities, quoted prices in markets in which there are few transactions for identical or similar assets or liabilities, and other inputs that are not quoted prices but are observable for the asset or liability, for example interest rate yield curves observable at commonly quoted intervals, currency rates, option volatilities, credit risks, and default rates.

Level 3: Valued in whole or in part using valuation techniques or models that are based on unobservable inputs that are neither supported by prices from observable current market transactions in the same instrument nor based on available market data. Unobservable inputs are determined based on the best information available, which might include the AMP group's own data, reflecting the AMP group's own estimates about the assumptions that market participants would use in pricing the asset or liability. Valuation techniques are used to the extent that observable inputs are not available, and include estimates about the timing of cash flows, discount rates, earnings multiples and other inputs.

The following table shows an analysis of the Branch's assets and liabilities measured at fair value by each level of the fair value hierarchy:

2014 - Consolidated	Level 1 $NZm	Level 2 $NZm	Level 3 $NZm	Total $NZm
Assets				
Equity securities and listed managed investment schemes	1	12	-	13
Debt securities	-	926	-	926
Investments in unlisted managed investment schemes	-	904	-	904
Derivative financial assets	-	87	-	87
Total financial assets	**1**	**1,929**	**-**	**1,930**
Liabilities				
Derivative financial liabilities	-	4	-	4
Investment contract liabilities	-	-	239	239
Total financial liabilities	**-**	**4**	**239**	**243**

2013 - Consolidated	Level 1 $NZm	Level 2 $NZm	Level 3 $NZm	Total $NZm
Assets				
Equity securities and listed managed investment schemes	12	-	-	12
Debt securities	-	949	-	949
Investments in unlisted managed investment schemes	-	800	-	800
Derivative financial assets	-	11	-	11
Other financial assets	-	-	-	-
Total financial assets	**12**	**1,760**	**-**	**1,772**
Liabilities				
Derivative financial liabilities	-	7	-	7
Investment contract liabilities	-	-	237	237
Total financial liabilities	**-**	**7**	**237**	**244**

17. FAIR VALUE INFORMATION (CONTINUED)

2014 - Parent	Level 1 $NZm	Level 2 $NZm	Level 3 $NZm	Total $NZm
Assets				
Equity securities and listed managed investment schemes	1	12	-	13
Debt securities	-	789	-	789
Investments in unlisted managed investment schemes	-	1,084	-	1,084
Derivative financial assets	-	87	-	87
Total financial assets	**1**	**1,972**	**-**	**1,973**
Liabilities				
Derivative financial liabilities	-	4	-	4
Investment contract liabilities	-	-	239	239
Total financial liabilities	**-**	**4**	**239**	**243**

2013 - Parent	Level 1 $NZm	Level 2 $NZm	Level 3 $NZm	Total $NZm
Assets				
Equity securities and listed managed investment schemes	12	-	-	12
Debt securities	-	760	-	760
Investments in unlisted managed investment schemes	-	998	-	998
Derivative financial assets	-	11	-	11
Total financial assets	**12**	**1,769**	**-**	**1,781**
Liabilities				
Derivative financial liabilities	-	7	-	7
Investment contract liabilities	-	-	237	237
Total financial liabilities	**-**	**7**	**237**	**244**

Notes to the financial statements

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17. FAIR VALUE INFORMATION (CONTINUED)

The following tables show reconciliations of the movements in the fair value of financial instruments categorised within Level 3 between the beginning and the end of the reporting date:

2014 Consolidated & Parent	Balance at the beginning of the period $NZm	Total gains/ losses $NZm	Purchases $NZm	Sales/ with-drawals $NZm	Net transfers in/(out) $NZm	Balance at the end of the period $NZm	Total gains and (losses) on assets held at reporting date $NZm
Liabilities							
Investment contract liabilities	237	19	11	(28)		239	18
Total financial liabilities	**237**	**19**	**11**	**(28)**	**-**	**239**	**18**

2013 - Consolidated	$NZm	$NZm	$NZm	$NZm	$NZm	$NZm	$NZm
Liabilities							
Investment contract liabilities	229	29	12	(33)	-	237	29
Total financial liabilities	**229**	**29**	**12**	**(33)**	**-**	**237**	**29**

17. FAIR VALUE INFORMATION (CONTINUED)

The following table shows the sensitivity of the fair value of level 3 instruments to changes in key assumptions:

2014	Carrying amount (1) & (2) $NZm	Effect of reasonably possible alternative assumptions (3) (+) $NZm	(-) $NZm	Valuation Technique	Key Unobservable Inputs
Liabilities					
Investment contract liabilities	239	-	-	Valuation model based on published unit prices and the fair value of backing assets	Fair value of financial instruments Cash flow forecasts Credit risk

2013	Carrying amount (1) $NZm	Effect of reasonably possible alternative assumptions (3) (+) $NZm	(-) $NZm	Valuation Technique	Key Unobservable Inputs
Liabilities					
Investment contract liabilities	237	-	-	Valuation model based on published unit prices and the fair value of backing assets	Fair value of financial instruments Cash flow forecasts Credit risk

Footnote:

(1) The fair value of the asset or liability would increase/decrease if the discount rate decreases/increases. The fair value of the asset or liability would increase/decrease if the other inputs increase/decrease.

(2) NZ IFRS13 introduced fair value information disclosure requirements for non-financial assets and liabilities. Retrospective application was not required therefore comparatives have not been presented.

(3) Changes to one or more inputs to other reasonably possible alternative assumptions would not result in significant changes to the fair value of the Level 3 assets.

Financial asset valuation process

For financial assets categorised within Level 3 of the fair value hierarchy, the valuation processes applied in valuing such assets is governed by the AMP Capital Asset Valuation Policy. This policy outlines the asset valuation methodologies and processes applied to measure non-exchange traded assets which have no regular market price, including investment property, infrastructure, private equity, alternative assets, and illiquid debt securities. All significant Level 3 assets are referred to the appropriate valuation committee who meet at least every 6 months, or more frequently if required.

18. CAPITAL MANAGEMENT

The Branch and its subsidiaries hold capital to protect customers, creditors and shareholders against unexpected losses to a level that is consistent with its risk appetite approved by the board.

The Branch and its subsidiaries assess the adequacy of its capital requirements against regulatory capital requirements. NMLA is an operating entity within the AMP group and is an APRA regulated company.

The AMP group's capital management strategy forms part of the AMP group's broader strategic planning process. In addition to managing the level of capital resources, the AMP group also aims to optimise the mix of capital resources to minimise the cost of capital and maximise shareholder value.

The Minimum Regulatory Capital Requirement (MRR) is the amount of shareholder capital required by each of the Branch's regulated businesses to meet their capital requirements as set by the appropriate regulator. These requirement is as below:

- Capital adequacy requirements as specified under the Life Act and APRA Life Insurance Prudential Standards. This applies to the company as a whole, and each statutory fund and the shareholders' fund of the company.

The Branch and its subsidiaries have at all times during the current and prior financial year complied with the externally imposed capital requirements to which it is subject.

The Branch has a Board approved minimum capital target above APRA requirements, with additional capital targets held above this amount. The capital target above the Board minimum has been set to a less than 10% probability of capital resources falling below the Board minimum over a 12 month period. In addition, the participating business of the life insurance companies is managed to target a very high level of confidence that the business is self-supporting and that there are sufficient assets to support policyholder liabilities.

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19. NOTES TO THE STATEMENT OF CASH FLOWS

	Consolidated		Parent	
	2014	2013	2014	2013
	$NZm	$NZm	$NZm	$NZm
(a) Reconciliation of the net profit after income tax to cash flows from operating activities				
Net profit for the year	60	46	60	46
Amortisation of intangible assets	2	1	2	1
Investment (losses) gains and movements in external unitholders liabilities	(204)	12	(205)	16
Dividend and distribution income reinvested	7	18	7	18
Decrease / (increase) in receivables	1	4	1	4
Increase / (decreased) in net policy liabilities	96	(30)	96	(30)
Increase / (decreased) in income tax balances	59	(45)	59	(45)
Increase / (decreased) in other payables and provisions	2	(131)	2	(131)
Cash flows (used in) from operating activities	**23**	**(125)**	**22**	**(121)**

	2014	2013	2014	2013
	$m	$m	$m	$m
(b) Reconciliation of cash				
Cash and cash equivalents	155	55	111	45
Short term bills and notes (included in Debt securities)	85	97	15	2
Balance at the end of the period	**240**	**152**	**126**	**47**

20. INVESTMENTS IN CONTROLLED ENTITIES

Details of significant investments of controlled entities in NZ SHF are as follows:

Name of entity	Country of Incorporation	Share type		Ownership interest 2014	Ownership interest 2013
NM New Zealand Nominees Limited	New Zealand	Ord		100	100
Quantum Financial Solutions Limited	New Zealand	Ord	(1)	-	100

Details of significant investments of controlled entities in NZ SF1 are as follows:

Name of trust	Country of Incorporation	Share type	% Holdings 2014	% Holdings 2013
NMLA NZ Cash Management Trust	New Zealand	Ord	100	100
Wholesale Unit Trusts NZ Shares Fund	New Zealand	Ord	100	100

Footnote:

(1) Controlling interest lost in 2014.

21. ASSOCIATES

Investments in associates accounted for at fair value in the Branch are as follows:

Name of entity	Country of incorporation		Ownership interest 2014 %	Ownership interest 2013 %	Carrying amount 2014 $NZm	Carrying amount 2013 $NZm
NMFM Wholesale Global Equity - Index Fund (Unhedged)	Australia	(1)	-	45	-	422
Wholesale Unit Trust Aus Property Shares Fund	Australia	(1)	-	30	-	29
Total investments held by the NMLA NZ SF1 in associated trusts					-	451

Footnote:

(1) Trust ceased an associate during 2014

22. CONTINGENT LIABILITIES

The Branch from time to time may incur obligations arising from litigation or various types of contracts entered into in the normal course of business including guarantees issued for performance obligations to controlled entities of the Branch.

Where it is determined that the disclosure of information in relation to a contingent liability can be expected to prejudice seriously the position of the Branch in a dispute, accounting standards allow the Branch not to disclose such information and it is the Branch's policy that such information is not to be disclosed in this note.

At reporting date there were no other material contingent liabilities where the probability of any outflow in settlement was greater than remote.

23. RELATED PARTY DISCLOSURES

(a) Key management personnel details

The following individuals were the key management personnel (being those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of NMLA for the whole or part of the reporting period as indicated:

Catherine Brenner	Chairman, Non-Executive Director	
Pauline Blight-Johnston	Executive Director	Appointed: 1 March 2014
Craig Meller	Executive Director	
Anthony Coleman	Non-Executive Director	
Diana Eilert	Non-Executive Director	
Andrew Harmos	Non-Executive Director	
Trevor Matthews	Non-Executive Director	Appointed: 11 June 2014
John Palmer	Non-Executive Director	Resigned : 11 June 2014
Peter Shergold	Non-Executive Director	

(b) Remuneration of key management personnel

The following table provides aggregate details of the compensation of key management personnel of NMLA (in Australian dollars).

	Short term benefits	Post-employment benefits	Share based payments	Other long-term benefits [2]	Total [1]
	$A	$A	$A	$A	$A
2014	5,879,994	192,683	2,043,552	154,538	8,270,767
2013	5,697,351	111,637	3,814,800	48,736	9,672,524

Footnote:

(1) The fees paid to non-executive directors of NMLA are the fees for AMP Limited.

(2) Presentation has been enhanced to include long service leave accruals.

(c) Transactions with key management personnel

During the year, key management personnel and their personally related entities have entered into transactions with the disclosing entity or its subsidiaries. All such transactions have occurred within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those that it is reasonable to expect the Branch would have adopted if dealing at arm's length with an unrelated individual. These transactions include:

- Purchase of insurance products available to other employees and policy owners;
- Purchase of superannuation products available to other employees and policy owners;
- Placement of funds on deposit; and
- Acquisition and disposal of units in controlled managed investment scheme and receipts of trust distributions.

Information about such transactions does not have the potential to affect adversely decisions about the allocation of scarce resources made by users of this Financial Report, or the discharge of accountability by the specified executives or specified directors.

No Director or Director-related entities had loans with the Branch in 2014 (2013: nil).

A number of Directors of the company are also Directors of public companies and/or are a Partner of a professional service partnership which have transactions with the Branch. The Directors do not believe that they have the capacity to control or significantly influence the financial or operating policies of either company in their dealings with each other. Those companies are therefore not considered to be Director-related entities.

23. RELATED PARTY DISCLOSURES (CONTINUED)

(d) Transactions with key related parties

Transactions with related parties are made at arms length and on normal commercial terms. Outstanding balances at 31 December 2014 and 31 December 2013 are unsecured, non interest bearing and settlement occurs in cash or through intercompany accounts as necessary.

The Branch purchases administrative services from AMP Services (NZ) Limited on a fee service basis (2014: $33m; 2013: $34m). Services purchased include product distribution, marketing, payroll, personnel, computing and accounting services.

The following table provides the total amount of significant transactions which the parent has entered into with related parties for the relevant financial year:

Fellow subsidiaries of AMP Limited		Service, management and other fees received from related parties $NZm	Service, management and other fees paid to related parties $NZm	Amounts owed by related parties $NZm	Amounts owed to related parties $NZm
AMP Services (NZ) Limited	2014	-	33	-	-
	2013	-	34	-	4
AMP Capital Investors Limited	2014	-	1	-	1
	2013	-	-	-	1
NM Computer Services Pty Ltd	2014	-	-	-	-
	2013	-	-	-	1
AMP Wealth Management New Zealand Limited	2014	-	1	-	1
(formerly AXA Wealth Management Limited)	2013	-	-	-	2
National Mutual Funds Management Limited	2014	-	2	-	-
	2013	-	-	-	-
NMLA Australian Statutory Fund 1	2014	-	-	-	-
	2013	-	-	-	1
NMLA Australian Shareholders' Fund	2014	-	-	-	21
	2013	-	-	-	4
Advice First Limited	2014	-	-	4	-
	2013	-	-	3	-

24. AUDITOR'S REMUNERATION

All auditors' remuneration payable to the auditors of NMLA for the audit of NMLA and the controlled companies within the NMLA group is settled by a related entity

	Consolidation & Parent	
	2014	2013
	$NZm	$NZm
Amounts paid or payable to the auditors of NMLA for:		
Audit or review of the financial report	258	261
Regulatory services (e.g. APRA and licence returns)	51	69
Total amounts received or due and receivable by auditors	309	330

25. EVENTS OCCURRING AFTER REPORTING DATE

At the date of this report, the directors are not aware of any matter or circumstance that has arisen since the reporting date which has significantly affected or may significantly affect the operations of NMLA NZ Branch, the results of its operations or its state of affairs, which is not already reflected in this report.

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Independent Auditor's Report to the Shareholder of The National Mutual Life Association of Australasia Limited

Report on the Financial Statements

We have audited the financial statements of the New Zealand branch of The National Mutual Life Association of Australasia Limited and its subsidiaries on pages 1 to 49, which comprise the statement of financial position of the New Zealand branch of The National Mutual Life Association of Australasia Limited and Group as at 31 December 2014, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholder, as a body, in accordance with Section 19(3) of the Financial Reporting Act 1993. Our audit has been undertaken so that we might state to the company's shareholder those matters we are required to state to them in an 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 New Zealand branch of the company and the company's shareholder as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of the financial statements, in accordance with generally accepted accounting practice in New Zealand, and that give a true and fair view of the matters to which they relate and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected, depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the New Zealand branch of the company's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the New Zealand branch of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Other than in our capacity as auditor we have no relationship with or interest in the New Zealand branch of the company and Group.

Partners and employees of our firm may deal with the New Zealand branch of the company on normal terms within the ordinary course of trading activities of the business of the New Zealand branch of the company.

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Opinion

In our opinion, the financial statements on pages 1 to 49:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of the New Zealand branch of The National Mutual Life Association of Australasia Limited and Group as at 31 December 2014 and its financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the Financial Reporting Act 1993, we report that:

- We have obtained all the information and explanations that we have required.
- In our opinion proper accounting records have been kept by the New Zealand branch of The National Mutual Life Association of Australasia Limited as far as appears from our examination of those records.

Ernst + Young

Ernst & Young
Melbourne
24 March 2015

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Appointed Actuary's Report for The National Mutual Life Association of Australasia Limited ("NMLA") (New Zealand Branch)

To the Directors of NMLA

This report has been prepared for NMLA in accordance with Section 78 of the Insurance (Prudential Supervision) Act 2010 ("the Act").

In terms of Section 77(1) of the Act, I have reviewed the actuarial information contained in, or used in the preparation of the Financial Statements for NMLA (New Zealand Branch) for the year ended 31 December 2014 ("the Financial Statements").

For the purposes of this report, "actuarial information" is as defined in Section 77(4) of the Act, together with paragraph 4.1.1 of the Attachment to the Section 59 "Exemption from Compliance with Solvency Standard" granted to NMLA by the Reserve Bank of New Zealand under the Act.

I certify that in my opinion**:**

a) The value of the policy liabilities of NMLA and the regulatory capital requirements of NMLA have been determined using methods and assumptions consistent with the actuarial prudential standards issued by the Australian Prudential Regulation Authority ("APRA").

b) The allocation and distribution of the profits of Statutory Fund No 1 of NMLA have been made in accordance with Divisions 5 and 6 of Part 4 of the Australian Life Insurance Act 1995 (Life Act) and the Memorandum of Demutualisation of NMLA.

c) Proper records have been kept by NMLA from which its policy liabilities and regulatory capital requirements have been able to be properly determined.

d) The apportionment of income and outgo used in preparing the NMLA accounts at 31 December 2014, as required under sections 78 and 79 of the Life Act, is appropriate.

e) I have obtained all of the information and explanations that I require from NMLA.

In addition, I certify that in my opinion, and from an actuarial perspective**:**

f) The actuarial information contained in the Financial Statements has been appropriately included in those statements.

g) The actuarial information used in the preparation of the Financial Statements has been used appropriately.

h) NMLA has fully complied with the APRA regulatory capital requirement throughout the year ended 31 December 2014 in relation to the New Zealand Branch. Note that the APRA regulatory capital requirement is the applicable standard that applies under the Section 59 exemption granted by the Reserve Bank of New Zealand.

Other than my relationship as Appointed Actuary of NMLA, I am an employee of the AMP Group, of which NMLA forms part, and a member of the AMP Employees' Superannuation Plan. I hold shares and options in AMP Limited, the ultimate holding company of NMLA. I am a customer of AMP Bank Limited, which is also part of the AMP Group.

This report is provided solely in my capacity as the NMLA Appointed Actuary. To the fullest extent permitted by law, I do not accept responsibility to anyone for the contents of this report other than the Reserve Bank of New Zealand, NMLA and its directors and shareholders.

Anton Kapel FIAA
Appointed Actuary, NMLA
18 March 2015