Southsure Assurance Limited

Annual Financial Statements

for the year ended 31 March 2013

southsure insurance

Contents

Directors' Statement

The Board of Directors present the Annual Financial Statements of the Company for the twelve month period ended 31 March 2013.

The shareholders of the Company have exercised their right under section 211(3) of the Companies Act 1993 and unanimously agreed that these Annual Financial Statements need not comply with any of paragraphs (a), and (e) to (j) of section 211(1) of the Act.

For and on behalf of the Board on 28 June 2013:

Frank Spencer
Chairman

Warren Conway
Deputy Chairman

Financial Statements

Income Statement

for the year ended 31 March 2013

	Note	**2013** **$**	2012 $
Gross Premium Revenue	7	**6,910,694**	7,044,634
Reinsurance Premiums	8	**(835,895)**	(800,530)
Net Premiums		**6,074,799**	**6,244,104**
Commission Income	9	**640,855**	496,554
Investment Income	10	**452,703**	376,004
Realised Gains/(Losses)	11	**(10,038)**	(37,193)
Fair Value Gains/(Losses)	12	**(24,097)**	(20,923)
Subvention Receipt		**-**	19,452
Other Operating Revenue		**45,010**	122,109
Other Revenue		**1,104,433**	**956,003**
TOTAL REVENUE		**7,179,232**	**7,200,107**
Claims Expense	13	**1,367,089**	1,177,661
Reinsurance Recoveries	8	**(720,185)**	(378,341)
Net Change in Insurance Policy Liabilities	15	**233,840**	501,691
Commission Expenses	14	**2,410,416**	2,598,731
Direct Expenses		**3,291,160**	**3,899,742**
Other Operating and Administrative Expenses	14	**2,300,892**	2,074,662
Other Expenses		**2,300,892**	**2,074,662**
Total Direct and Other Expenses		**5,592,052**	**5,974,404**
NET SURPLUS BEFORE TAX		**1,587,180**	**1,225,703**
Taxation Expense/(Benefit)	16	**137,286**	(35,674)
NET SURPLUS FOR THE YEAR	6	**1,449,894**	**1,261,377**

Statement of Comprehensive Income

for the year ended 31 March 2013

	Note	**2013** **$**	2012 $
NET SURPLUS FOR THE YEAR		**1,449,894**	1,261,377
Other Comprehensive Income			
Net change in available for sale asset reserve, net of tax	24	**103,840**	(23,674)
Other comprehensive income for the year, net of tax		**103,840**	(23,674)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,553,734**	1,237,703

The accompanying notes form part of and should be read in conjunction with these financial statements.

Financial Statements

Statement of Changes in Equity

for the year ended 31 March 2013

	Note	**2013 $**	2012 $
Share Capital			
Balance at beginning of year	23	**1,000,000**	1,000,000
Balance at end of year		**1,000,000**	**1,000,000**
Revaluation Reserve - available for sale assets	24		
Balance at beginning of year		**(74,615)**	(50,941)
Other comprehensive income for the year		**103,840**	(23,674)
Balance at end of year		**29,225**	**(74,615)**
Retained Earnings	24		
Balance at beginning of year		**3,512,675**	2,851,298
Net surplus for the year		**1,449,894**	1,261,377
Dividends		**-**	(600,000)
Balance at end of year		**4,962,569**	**3,512,675**
TOTAL EQUITY		**5,991,794**	**4,438,060**
Represented by:			
Equity at beginning of the year		**4,438,060**	3,800,357
Net surplus for the year		**1,449,894**	1,261,377
Other comprehensive income for the year		**103,840**	(23,674)
Total comprehensive income for the year		**1,553,734**	**1,237,703**
Dividends	25	**-**	(600,000)
		-	**(600,000)**
TOTAL EQUITY AT END OF THE YEAR		**5,991,794**	**4,438,060**

The accompanying notes form part of and should be read in conjunction with these financial statements.

Financial Statements

Statement of Financial Position

as at 31 March 2013

	Note	2013 $	2012 $
EQUITY			
Share Capital	23	**1,000,000**	1,000,000
Retained Earnings	24	**4,962,569**	3,512,675
Revaluation Reserve	24	**29,225**	(74,615)
TOTAL EQUITY		**5,991,794**	**4,438,060**
LIABILITIES			
Payables	22	**438,755**	392,212
Current Tax	16	**109,793**	-
Deferred Tax	16	**787,315**	769,441
Policy Liabilities	15	**3,404,804**	4,657,934
Policy Liabilities - reinsurance	15	**1,410,728**	(76,242)
TOTAL LIABILITIES		**6,151,395**	**5,743,345**
TOTAL EQUITY AND LIABILITIES		**12,143,189**	**10,181,405**
ASSETS			
Cash and Cash Equivalents	17	**3,678,712**	2,517,185
Receivables	18	**301,611**	371,894
Investments	19	**7,928,609**	6,988,565
Plant and Equipment	20	**171,084**	177,873
Intangible Assets	21	**63,173**	125,888
TOTAL ASSETS		**12,143,189**	**10,181,405**

Approved for issue for and on behalf of the Board on 28 June 2013:

Frank Spencer
Chairman

Warren Conway
Deputy Chairman

The accompanying notes form part of and should be read in conjunction with these financial statements.

Financial Statements

Statement of Cash Flows

for the year ended 31 March 2013

	Note	2013 $	2012 $
CASH FLOWS FROM OPERATING ACTIVITIES	26		
Premiums received		**6,966,329**	7,118,057
Commission received		**634,507**	484,371
Interest received		**358,203**	285,018
Dividends received		**66,613**	49,517
Other income		**45,099**	44,104
Reinsurance received		**720,185**	439,802
Claims paid		**(1,340,648)**	(1,275,376)
Reinsurance paid		**(835,462)**	(794,556)
Commission paid		**(2,408,096)**	(2,846,926)
Payments to suppliers and employees		**(2,240,262)**	(1,904,192)
Subvention receipt		**-**	444,066
Insurance proceeds		**77,494**	-
Net Cash Flows from Operating Activities		**2,043,962**	**2,043,885**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchases of intangible assets, property, plant and equipment		**(73,391)**	(158,113)
Purchases of financial assets		**(3,140,623)**	(1,940,430)
Proceeds from sale of financial assets		**2,331,579**	1,539,907
Proceeds from sale of property, plant and equipment		**-**	14,500
Net Cash Flows from Investing Activities		**(882,435)**	**(544,136)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**-**	(600,000)
Net Cash Flows from Financing Activities		**-**	**(600,000)**
NET INCREASE/(DECREASE) IN CASH HELD		**1,161,527**	899,749
Opening cash balance brought forward		**2,517,185**	1,617,436
CASH AND CASH EQUIVALENTS CARRIED FORWARD		**3,678,712**	**2,517,185**
CASH AND CASH EQUIVALENTS COMPRISE			
Bank accounts		**3,754,497**	2,529,796
Parent current account		**(75,785)**	(12,611)
		3,678,712	**2,517,185**

The accompanying notes form part of and should be read in conjunction with these financial statements.

Notes to the Financial Statements

for the year ended 31 March 2013

1 CORPORATE INFORMATION

Southsure Assurance Limited (the Company) is a limited liability company incorporated and domiciled in New Zealand. The principal activities of the Company are the provision of life assurance and accident insurance.

The registered office of the Company is Level 1, 11 Don Street, Invercargill, New Zealand.

The financial statements for the Company for the year ended 31 March 2013 were authorised for issue by the Board of Directors on 28 June 2013.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) BASIS OF PREPARATION

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply fully with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), and comply with International Financial Reporting Standards (IFRS), as appropriate for profit oriented entities.

Statutory base

The Company is registered under the Companies Act 1993 and became an issuer under the Financial Reporting Act 1993 on 1 April 2012. The financial statements have been prepared in accordance with the requirements of the Companies Act 1993, Financial Reporting Act 1993, and the Insurance (Prudential Supervision) Act 2010.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 31 March 2013, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Company, except for NZ IFRS 9 Financial Instruments, which becomes mandatory for the Company's 2014 financial statements and could change the classification and measurement of financial assets. The Company does not plan to adopt this standard early and the extent of the impact has not been determined.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets and liabilities as stated in specific accounting policies below.

Functional and presentation currency

The financial statements values are presented in New Zealand Dollars (NZD) and all values are rounded to the nearest dollar ($), unless otherwise stated.

B) PRINCIPLES UNDERLYING CONDUCT OF LIFE INSURANCE BUSINESS

The life insurance operations consist of insurance contract business. The Company has no investment contract business.

Insurance contract business are those contracts that the Company has accepted significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. The compensation, referred to as insured benefits, are payable on death, or on the occurrence of a contingency dependent on the termination or continuation of human life, or on the occurrence of injury or disability caused by accident or illness, and the financial risk of the occurrence of the event, which crystallises the payment of the insured benefit, is borne by the Company.

C) ASSET MEASUREMENT

Cash and Cash Equivalents

Cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks, term deposits and other short–term highly liquid investments with an original term to maturity of less than three months.

Receivables

Receivables include insurance premiums billed but not yet collected and other business related receivables. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less any allowances for impairment.

Investments and Other Financial Assets

Financial assets in the scope of NZ IAS 39 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments or available-for-sale financial assets. The Company determines the classification of its financial assets at initial recognition and that classification will depend on the purpose for which the investments were acquired or originated.

Financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

(i) <u>Financial assets at fair value through profit or loss</u>

This category has two sub categories; financial assets held for trading, and those designated at fair value through profit or loss on initial recognition. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term with the intention of making a profit. Gains or losses on investments held for trading are recognised in profit or loss. Financial assets designated at fair value through profit or loss on initial recognition are subsequently remeasured at fair value. Fair value adjustments and realised gains and losses are recognised in the income statement. Assets included in this category are held to back policy liabilities.

(ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held to maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process. The Company has not classified any financial assets as held-to-maturity.

(iii) Loans and receivables

Loans and receivables including loan notes and loans to key management personnel are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains or losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(iv) Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for-sale investments are measured at fair value, with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair values are determined using valuation techniques. Such techniques include using recent arm’s length market transactions; reference to the current market value of another instrument that is substantially the same; and discounted cash flow analysis.

Plant and Equipment

Plant and equipment are initially measured at cost less accumulated depreciation and any accumulated impairment losses.

The Company’s plant and equipment comprise Computer Equipment, Office Equipment and Motor Vehicles.

Intangible Assets

Intangible assets represent Computer Software and are initially measured at cost. Following initial recognition, computer software is carried at cost less accumulated amortisation and any accumulated impairment losses.

Depreciation

Depreciation on plant and equipment and intangible assets is provided in the financial statements on a basis which will write down the value of the assets over their useful lives to their estimated realisable value.

The primary annual rates used for assets are:

Office Equipment	- 13% on diminishing value
Motor Vehicles	- 30% on diminishing value
Computer Equipment	- 50% on diminishing value
Computer Software	- 50% on diminishing value

D) LIABILITY MEASUREMENT

Payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Payables are stated at cost.

Determination of Policy Liabilities

Life insurance liabilities (policyholder liabilities) in the statement of financial position and the increase or decrease in policyholder liabilities in the income statement have been calculated in accordance with the Actuarial Professional Standard No 3 – Determination of Life Insurance Policy Liabilities (PS3), which prescribes the Margin on Services (‘MoS’) basis.

Overview of MoS Methodology

MoS is designed to recognise profits on life insurance policies as services are provided to policyholders and income is received. Profits are deferred and amortised over the life of the policy, whereas losses are recognised immediately as they arise. Services used to determine profit recognition as applied to the Company include the cost of expected claims.

The Company’s policy liabilities are generally determined as the present value of all future expected payments, expenses, taxes and profit margins reduced by the present value of all future expected premiums.

MoS Profit
MoS profit comprises the following components:

Planned margins of revenues over expenses
At the time of writing a policy and at each balance date, best estimate assumptions are used to determine all expected future payments and premiums.

The difference between actual and assumed experience
Where actual experience replicates best estimate assumptions, the expected profit margin will be released to profit over the life of the policy. Experience profits or losses are realised where actual experience differs from best estimate assumptions. Instances giving rise to experience profits or losses include variations in claims, expenses, mortality, discontinuance, and investment returns. For example, an experience profit will emerge when the expenses of maintaining all in–force business in a year are lower than the best estimate assumption in respect of those expenses.

Changes to underlying assumptions
Assumptions used for measuring policy liabilities are reviewed each year. Where the review leads to a change in assumptions, the change is deemed to have occurred from the reporting date. The financial effects of changes to the assumptions underlying the measurement of policy liabilities made at the reporting date are recognised in the income statement over the future reporting periods during which services are provided to policyholders, however if, based on best estimate assumptions, written business is expected to be unprofitable, the total expected loss is recognised in the income statement immediately. When loss making business becomes profitable previously recognised losses are reversed.

Investment earnings on assets in excess of policy liabilities
Profits are generated from investment assets which are in excess of those required to meet policy liabilities. Investment earnings are directly influenced by market conditions and as such this component of MoS profit will vary from year to year.

E) INCOME RECOGNITION

Premium Income
All premiums are recognised as revenues in the income statement. Separation of premiums into risk and savings components is not required for any of the Company’s business. Premium income is recognised when premiums become due and payable.

Investment Income
Interest income
Interest income is recognised in the income statement as it accrues and is calculated by using the effective interest rate method.

Dividend and distributions
Revenue is recognised when the right to receive payment is established. Dividends from equity securities are recorded as revenue on the ex–dividend date.

Fair value gains and losses
Fair value gains and losses on financial assets at fair value are recognised through the income statement.

Other Income
Commission Income
Commission revenue for which no future service is required is recognised on trade date.

F) EXPENSES

Claims Expense
All claims are recognised as expenses in the income statement. Separation of claims into risk and savings components is not required for any of the Company’s business.

Death and all other claims are recognised when the liability to the policyholder under the policy contract has been established.

Other Expenses
Other expenses incorporate all other expenditure involved in running the Company’s business including costs of new business and depreciation. These are recognised in the income statement as follows:

Life assurance
For the purpose of determining Policy Liabilities, Other Expenses are categorised into acquisition, or maintenance costs on the basis of a detailed functional analysis of activities carried out by the Company.

Acquisition costs are the fixed and variable costs of acquiring new business for the current reporting period. For Southsure, acquisition costs include the fixed and variable costs incurred in relation to developing new business, marketing, product design and development, and fixed and variable operating and management costs that do not relate to maintaining Southsure’s operations at the level required to service in-force policies.

Under MoS, where overall product profitability of new business written during the year is expected to support the recovery of acquisition costs incurred in that year, these costs are effectively deferred as an element of policy liabilities and amortised over the life of the policies written. Unamortised acquisition costs are a component of the MoS policy liabilities.

Acquisition costs are recognised in the income statement as a component of “increase in policy liabilities” at the same time as policy margins are released.

Acquisition costs are allowed for when determining expected profit margins by setting cost allowances for the year in question. Actual acquisition costs may vary from year to year for a number of reasons including new business volume, product mix, distribution mix, cost efficiency and new strategic initiatives.

The profit margin component of the policy liability is determined so that neither a profit nor a loss arises on acquisition, subject only to the overriding constraint that the present value of future profit margins on total new business written in the year is not negative.

Investment management costs are borne by the Company.

Maintenance costs are the fixed and variable costs of administering policies subsequent to sale and the fixed and variable operating and management costs of maintaining the Company's operations such that they are sufficient to service in-force policies. Maintenance costs include all operating costs other than acquisition and investment management costs. The total of maintenance costs allowed for in Policy Liabilities is consistent with the costs expected to be required to fully support the administration of in-force business as a going concern.

Maintenance costs are recognised in the income statement in the period they become due and payable.

Consistent expense categorisation is used in deriving the assumptions used for reserving and solvency measurement.

G) REINSURANCE

As the reinsurance agreements provide for indemnification of the Company against loss or liability, reinsurance income and expense are recognised separately in the income statement when they become due and payable in accordance with the reinsurance agreements.

Reinsurance recoveries on claims are recognised in the income statement as "Reinsurance Recoveries". Reinsurance premiums are recognised separately as "Reinsurance Premiums".

H) TAXATION

Income Tax

The income tax expense comprises both current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to the tax payable in respect of previous years. Deferred tax is recognised using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities in a transaction that is not a business combination and that affects neither accounting or taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

Deferred tax assets are set-off against deferred tax liabilities to the extent they relate to income taxes which are legally able to be set-off against each other.

Life insurance tax

From 1 July 2010 taxation is payable on investment income allocated to policyholders and on shareholder cash flows (investment income, premiums less claims, less expenses). For the first five years of the new tax regime (1 July 2010 – 30 June 2015) there are concessions which allow certain policies to continue being taxed similar to that incurred under the old regime as explained below.

Prior to 1 July 2010 Life Insurers were subject to a special tax regime. Two tax bases were maintained; the life insurer base where tax is calculated on investment income less expenses plus underwriting income, and the policyholder base which seeks to tax benefits as they accrue to policyholders under the policies in the form of claim, surrender and maturity payments, and increments in the value of policies. The life insurer paid tax on the higher of the two bases at the company tax rate of 30%. As the life insurer was taxed as proxy for the policyholder, returns to policyholders were tax exempt.

Goods and Services Tax (GST)

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

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the IRD is included as 'other assets' or 'other liabilities' in the statement of financial position.

Cash flows are included in the statement of cash flows on a net basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the IRD are classified as operating cash flows.

I) STATEMENT OF CASH FLOWS

The following are the definitions of the terms used in the statement of cash flows:

(i) Operating activities include all transactions and other events that are not investing or financing activities.

(ii) Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of investments.

(iii) Financing activities are those activities relating to changes in the equity and debt structure of the Company.

J) PROVISIONS

A provision is recognised in the statement of financial position when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow or resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

K) CONTINGENT LIABILITY

The Company discloses a contingent liability when it has a possible obligation arising from past events that will be confirmed by the occurrence or non–occurrence of one or more uncertain future events not wholly within the Company's control. A contingent liability is disclosed when a present obligation is not recognised because it is not probable that an outflow of resources will be required to settle an obligation, or the amount of the obligation cannot be measured with sufficient reliability.

L) EMPLOYEE BENEFITS

The amounts expected to be paid in respect of employee's entitlements to annual leave are accrued at expected salary rates.

M) SHARE CAPITAL

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

N) CHANGES IN ACCOUNTING POLICIES

The accounting policies set out above have been applied consistently to all periods presented in the financial statements.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities and profit within the next financial year are discussed below.

A) INSURANCE LIABILITIES – EFFECT OF CHANGES AND ASSUMPTIONS

Policy liabilities arising from life insurance contracts are calculated at each reporting date using mathematical and statistical models. The valuations are prepared by appropriately qualified and experienced members of the New Zealand Society of Actuaries on the basis of internationally recognised actuarial methods set out in Professional Standards issued by the New Zealand Society of Actuaries, a full member of the International Actuarial Association. The methodology takes into account the risks and uncertainties of the particular classes of business written.

The key factors that affect the estimation of these liabilities are:

- The cost of providing benefits and administering these contracts;
- Mortality and morbidity experience on life insurance products;
- Persistency experience, which affects the entity's ability to recover the cost of acquiring new business over the lives of the contracts;
- Other factors such as regulation, competitors, interest rates, the performance of the capital markets and general economic conditions affect the level of these liabilities.

The uncertainties surrounding these assumptions means that it is likely that the actual observed claims incidence and planned profit margins will vary from the liability estimated and future profit margins at the reporting date.

Refer to note 4 for more detail on the valuation of the policy liabilities and the assumptions applied.

4 ACTUARIAL METHODS AND POLICIES

The effective date of the actuarial reports on Policy Liabilities is 31 March 2013. The actuarial reports were prepared by Peter Davies, Fellow of the New Zealand Society of Actuaries and signed on 07 June 2013. (2012: Prepared by Peter Davies, Fellow of the New Zealand Society of Actuaries signed 11 June 2012).

The Actuary certified that the amount of Policy Liabilities has been determined in accordance with methods and assumptions disclosed in this financial report and with the standards of the New Zealand Society of Actuaries.

The Actuary certified that he was satisfied as to the accuracy of the data upon which the amount of the Policy Liabilities has been determined.

Disclosure of Assumptions

Policy Liabilities are measured as net present values of estimated future cash flows. The key assumptions used in determining the Policy Liabilities were:

Discount Rates and Inflation Rates: The discount rates assumed are based on risk-free rates of return on fixed interest securities of an equivalent average term to the future policy cash-flows.

The discount rate assumed for short-term single premium business (Payment Protection Insurance, and two related contracts) is 2.10% net of tax based on swap rates (2012: 2.19%).

The discount rate assumed for other business (predominantly term life and regular premium disability business) is 3.10% net of tax based on swap rates (2012: 3.59%).

The assumed inflation rate was 2.0% p.a. (2012: 2.0%).

Profit Carriers

Group Life and Total Permanent Disability (TPD) cover, Longevity cover, and Bond insurance, were valued using an accumulation method, therefore no profit carrier was used.

The profit carrier for the reviewable disability business was claims plus administration costs plus renewal commission (2012: no change).

The profit carrier for all other product groups, which were valued using a projection method, was claims plus renewal commission plus administration costs (2012: no change).

Future Expenses and Indexation

Maintenance expenses per policy in the year ended 31 March 2013 were assumed to be:

Payment protection insurances	-$20 per policy per annum (2012: $24 p.a.)
Regular premium term insurances	-$49 per policy per annum (2012: $96 p.a.)
Single premium term insurances	-$15 per policy per annum (2012: $48 p.a.)
Reviewable disability insurances	-$49 per policy per annum (2012: $96 p.a.)

Expenses are assumed to escalate at 2.0% per annum (2012: 2.0% p.a.)
There are no indexation options on the Company's business.

Rates of Taxation

The future rate of taxation was assumed to be 28% (2012: 28%).

Mortality and Morbidity

Future mortality for term insurances was assumed in aggregate to be 75% of NZ04 (2012: 75% of NZ04), based on the Company's own experience. The assumption was adjusted for the smoking status of lives insured, based on the relative experience of other companies.

Future mortality, disability, redundancy and chattel claim rates for Payment Protection Insurances were based on aggregate rates derived from the Company's experience. Future disability and redundancy claim continuance rates were based on the Company's experience (no change to 2012 assumptions).

Claim frequencies and claim continuance rates for reviewable disability policies were based on the Company's experience (no changes from 2012 assumptions).

Group Life and TPD covers, Longevity cover and Bond Protection cover were valued on an accumulation basis.

Discontinuances

Future rates of discontinuance are assumed to be between 0% and 40% p.a. (2012: 0% and 40% p.a.), according to product and duration in-force, based on the Company's recent and expected future experience.

Surrender Values

Surrender values are assumed to be paid according to current formulae.

Unit Prices

The Company has no unit-linked business.

Participating Benefits - rate of future supportable additions

The Company has no participating business.

Participating Benefits - future crediting policy

The Company has no participating business.

5 RISK MANAGEMENT

Risk management programme

The Board of Directors (the "Board") has established a risk management programme that is designed to ensure the effective identification, management, monitoring and reporting of risk in a timely manner across all areas of the business and to meet compliance obligations under the Insurance (Prudential Supervision) Act 2010.

The Risk Management Programme embodies a number of existing formal and documented processes and systems to manage specific types of risk.

The Risk Management Programme details the specific roles and responsibilities, risk assessment and management processes, delegated risk authorities and management actions required to ensure its significant risks are managed appropriately.

The risk identification process is carried out annually as part of the annual planning process, and as required on a formal structured basis and continually on an ad hoc basis.

The Company is exposed to the following key risks:

- Insurance
- Credit
- Liquidity
- Market
- Operational
- Strategic
- Capital

Notes to the Financial Statements

for the year ended 31 March 2013

A) INSURANCE RISK

Insurance risk is the risk that either inadequate or inappropriate product design, pricing, underwriting, reserving, claims management or reinsurance management will expose the Company to financial loss, and, in the worst case, a consequent inability to meet its liabilities when they fall due.

There are a number of key strategies in place which mitigate insurance risk, including:

- the use of approved and documented underwriting policies and procedures to determine the acceptance and appropriate pricing of risk
- the use of actuarial models to calculate premiums and to monitor claim patterns
- reinsurance arrangements that limit the Company's exposure to individual and catastrophic risks
- the diversification of insurance business over different risk types and distribution channels.

Sensitivity analysis

The analysis assumes that the value of liabilities will not be affected by changes in demographic assumptions.

The following table shows the changes in the value of future planned margins (assuming no compensation changes in future premiums) and policy liability (including future profit margins) at 31 March if actuarial assumptions change as follows:

		2013		2012	
		Future Margins	**Policy Liability**	**Future Margins**	**Policy Liability**
Discount rate	Increase by 1%	(228,000)	(268,000)	(82,000)	(228,000)
	Decrease by 1%	250,000	294,000	90,000	247,000
Mortality/Morbidity	Increase by 10%	(663,000)		(676,000)	
	Decrease by 10%	641,000		654,000	
Surrenders/Lapses	Increase by 10%	86,000		81,000	
	Decrease by 10%	(81,000)		(86,000)	
Expenses	Increase by 10%	(495,000)		(686,000)	
	Decrease by 10%	495,000		686,000	

B) CREDIT RISK

Credit risk is the possibility of a financial loss occurring due to the unwillingness or inability of a counterparty to fully meet their contractual debts and obligations, or due to a change in the credit rating of a counterparty.

The Company manages credit risk by:

- diversifying investment exposures across a range of counterparties
- limiting exposure to high credit quality and individual counterparties
- the annual monitoring of the reinsurer credit risk rating
- limiting of business partnerships to high reputation, high credit quality counterparties where possible.

(i) Investment counterparty credit risk

The Company's Investment Policy ensures that credit concentration is managed appropriately. This is achieved by:

- setting maximum asset allocation limits
- limiting the asset class allocations to a maximum of 25% of total assets to be held with one bank.

The table below provides information on the credit risk exposure on the Company's financial assets with external credit ratings of financial assets that are classified within the range of AAA to BBB, with AAA being the highest possible rating. The "Not Rated' column discloses those assets not rated by external rating agencies.

	AAA+ to A-	**BBB+ to BBB -**	**Not rated**	**Carrying value $**
31 March 2013				
Call and Current Accounts	32%	-1%	3%	3,678,712
Bank Paper	38%	6%	-	5,321,097
Government	9%	-	-	1,101,935
New Zealand Top 50 listed equities	-	-	8%	982,777
Listed Debt Products	5%	-	-	522,800
31 March 2012				
Call and Current Accounts	27%	-	-	2,517,185
Bank Paper	43%	8%	-	4,803,731
Government	12%	-	-	1,185,073
New Zealand Top 50 listed equities	-	-	7%	687,161
Listed Debt Products	3%	-	-	312,600

C) LIQUIDITY RISK

Liquidity risk is the risk that an organisation will not be able to meet its financial obligations as and when they fall due and at a reasonable cost.

The Company manages its liquidity risk on an on-ongoing basis by:

- maintaining a significant portion of its investment portfolio in short term interest bearing securities which can be liquidated at short notice
- holding longer dated investments to support insurance liabilities held in highly liquid issues of tradable securities
- maintaining sufficient liquid assets to meet both its expected and unexpected cash flows
- adhering to the primary objective of the Company's Investment Policy of liquidity preceding return.

Maturity analysis

The below table shows the maturity of the Company's financial assets and liabilities. Where the counterparty has discretion in requesting payment, liabilities have been classified according to the earliest time period in which the Company may be required to pay.

	On Demand	1-6 Month	6-12 Months	12-24 Months	> 24 Months
2013					
Financial assets:					
Cash and cash equivalents	3,678,712	-	-	-	-
Receivables	301,611	-	-	-	-
Investments	983,564	4,195,094	2,012,710	-	737,241
	4,963,887	**4,195,094**	**2,012,710**	**-**	**737,241**
Financial liabilities:					
Payables and other financial liabilities	438,755	-	-	-	-
	438,755	**-**	**-**	**-**	**-**
2012					
Financial assets:					
Cash and cash equivalents	2,517,185	-	-	-	-
Receivables	371,894	-	-	-	-
Investments	687,160	3,809,371	752,771	100,770	1,638,493
	3,576,239	**3,809,371**	**752,771**	**100,770**	**1,638,493**
Financial liabilities:					
Payables and other financial liabilities	392,212	-	-	-	-
	392,212	**-**	**-**	**-**	**-**

D) MARKET RISK

Market risk is the risk of changes in the fair value of financial instruments from adverse movements in market prices or rates (including interest rates, exchange rates, equity and property prices), whether such a change in price/rate is caused by factors specific to an individual financial instrument or to its issuer, or to factors affecting all financial instruments traded in a market.

The Company manages its market risk by:

- where possible, matching asset durations against its liabilities
- investing defensively where assets not required to meet liabilities
- maintaining no off-balance sheet exposures.

Interest Rate Risk

For the year ended 31 March 2013 if interest rates on cash deposits and interest bearing investments had been 100 bpts higher or lower with all other variables held constant the impact on post tax profits and net assets would have been as follows:

	2013		**2012**	
	+100 bpts	**-100 bpts**	**+100 bpts**	**-100 bpts**
Cash and cash equivalents	34,162	(34,162)	10,570	(10,570)
Financial assets at fair value through profit or loss	60,583	(60,583)	56,845	(56,845)

E) OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss, including damage to reputation, resulting from inadequate or failed internal processes, people and systems, or from external events.

The Company manages its operational risk by:

- the utilisation of established and documented policies and procedures that are subject to internal and external audit
- maintaining an appropriate organisational and management structure with clearly defined responsibilities and accountabilities including the division of duties where appropriate
- appropriate training and development of all staff together with maintenance of key person backup capability
- the maintenance of multiple office sites and an established and proven Business Continuity and Disaster Recovery Plan.

F) STRATEGIC RISK

Strategic risk is the risk of a strategic event that could materially disrupt the Company's business operations or result in significant financial loss that could result in the Company's inability to continue as an independent going concern under current ownership arrangements or could result in the Company being placed in Statutory Management.

The Company manages its strategic risk by:

- diversification of income streams across different classes of business and to include non-underwriting sources of profit
- diversification of income streams through the use of multiple distribution channels and including retail and wholesale insurance offerings
- established Business Continuity, Pandemic and IT Disaster Recovery Plans
- identified contingency strategies for all significant risks
- ongoing monitoring of competitor and legislative developments.

G) CAPITAL MANAGEMENT

Capital risk is managed by the Board and is measured using a risk based capital model including any regulatory requirements. Capital requirements are also determined depending on the type, quality and concentration of investments held. Capital and Solvency "buffers" are maintained over statutory minimum requirements.

Solvency

Up until 31 December 2011 the solvency position of the Company was determined in accordance with New Zealand Society of Actuaries Professional Standard no 5.01 – solvency reserving for life insurance business. From 1 January 2012 provisionally licensed insurers were required to comply with Sections 55-59 of the Insurance (Prudential Supervision) Act 2010 - Solvency Standard for Life Insurance Business. The solvency margin condition for the Company commenced on 31 March 2013.

As at 31 March 2012 there were no externally imposed regulatory capital requirements.

	2013	2012
Equity of shareholder	5,991,794	4,438,060
Deductions:		
Software	63,173	125,888
ACTUAL SOLVENCY CAPITAL	**5,928,621**	**4,312,172**
MINIMUM FIXED CAPITAL REQUIREMENT (as per Solvency Standard)	5,000,000	NA
SOLVENCY MARGIN	**928,621**	-
SOLVENCY RATIO	**119%**	-
Minimum solvency capital recommended under PS5.01	1,157,992	2,518,144
SOLVENCY SURPLUS	**4,770,629**	**1,794,028**

6 PROFIT AFTER TAXATION

	2013	2012
Profit after taxation arose from:		
Planned margins of revenues over expenses	385,151	828,872
Other revenue	639,911	638,114
Difference between actual and assumed experience	396,465	(133,311)
Effects of changes in underlying assumptions	(157,060)	(184,915)
Investment earnings on assets in excess of life insurance liabilities	185,427	112,617
PROFIT AFTER TAXATION	**1,449,894**	**1,261,377**

Notes to the Financial Statements

for the year ended 31 March 2013

7 GROSS PREMIUM REVENUE

	2013	2012
Single premium	3,973,836	4,101,200
Regular premium	2,936,858	2,943,434
GROSS PREMIUM REVENUE	**6,910,694**	**7,044,634**

8 REINSURANCE

	2013	2012
Reinsurance risk premiums	835,895	800,530
TOTAL REINSURANCE PREMIUMS	**835,895**	**800,530**
Reinsurance recoveries on claim payments	720,185	378,341
TOTAL REINSURANCE RECOVERIES	**720,185**	**378,341**

9 COMMISSION INCOME

	2013	2012
Commission received	640,855	496,554
TOTAL COMMISSION INCOME	**640,855**	**496,554**

10 INVESTMENT INCOME

	2013	2012
Cash and cash equivalents interest income	53,594	43,533
Available for sale financial assets		
Interest income	246,157	206,844
Dividend income	58,086	30,538
Financial assets at fair value through the profit and loss		
Interest income	75,887	76,110
Dividend income	18,979	18,979
	452,703	**376,004**

SUMMARY OF NET INVESTMENT INCOME		
Interest and similar income	375,638	326,487
Dividend income	77,065	49,517
NET INVESTMENT INCOME	**452,703**	**376,004**

Notes to the Financial Statements

for the year ended 31 March 2013

11 REALISED GAINS/(LOSSES)

	2013	2012
Property and Equipment	(3,551)	(37,193)
Debt Securities - designated at fair value through profit and loss		
New Zealand Government	(6,487)	-
TOTAL REALISED GAINS/(LOSSES)	**(10,038)**	**(37,193)**

Realised gains/(losses) for the year ended 31 March 2012 include losses incurred as a result of the Canterbury earthquake on 22 February 2011 of $36,970.

12 FAIR VALUE GAINS/(LOSSES)

	2013	2012
Debt Securities - designated at fair value through profit and loss		
New Zealand Government	(34,297)	(33,523)
Corporate – New Zealand	10,200	12,600
TOTAL FAIR VALUE GAINS/(LOSSES)	**(24,097)**	**(20,923)**

13 CLAIMS EXPENSE

	2013	2012
Accident claims	345,743	467,113
Death claims	1,021,346	710,548
TOTAL CLAIMS	**1,367,089**	**1,177,661**

14 COMMISSION AND OTHER EXPENSES

	2013	2012
Commission Expenses		
Acquisition	2,309,747	2,499,756
Maintenance	100,669	98,975
TOTAL COMMISSION EXPENSES	**2,410,416**	**2,598,731**
Other Expenses		
Acquisition	829,443	348,422
Maintenance	1,040,724	1,493,492
Other	430,725	232,748
TOTAL OTHER EXPENSES	**2,300,892**	**2,074,662**
Other Expenses include:		
Personnel	1,212,016	1,103,280
Audit services		
Audit of financial statements	18,509	23,000
Other assurance services	7,000	-
Directors' fees	41,500	41,500
Depreciation	59,405	62,705
Amortisation	86,368	74,442
Other expenses	876,094	769,736
TOTAL OTHER EXPENSES	**2,300,892**	**2,074,662**

Notes to the Financial Statements

for the year ended 31 March 2013

15 POLICY LIABILITIES

		2013	2012
a)	**Movement in insurance policy liabilities - gross**		
	Opening balance at 1 April	4,657,934	2,159,667
	Increase/(decrease) recognised in Income Statement	(1,253,130)	2,498,267
	Closing balance at 31 March	**3,404,804**	**4,657,934**
b)	**Movement in policy liabilities/(assets) - reinsurance**		
	Opening balance at 1 April	(76,242)	1,920,334
	Increase/(decrease) recognised in Income Statement	1,486,970	(1,996,576)
	Closing balance at 31 March	**1,410,728**	**(76,242)**
	Summary of policy liabilities		
	Gross policy liabilities	3,404,804	4,657,934
	Insurance contract liabilities - reinsurance	1,410,728	(76,242)
	Closing balance at 31 March	**4,815,532**	**4,581,692**
Policy liabilities contain the following components:			
	Future policy benefits	11,338,372	12,305,934
	Future expenses	4,945,432	6,856,662
	Business valued on accumulation basis	10,000	10,000
	Future profit margins	5,422,696	2,712,808
	Balance of future premiums	(18,311,696)	(17,227,470)
	Reinsurance	1,410,728	(76,242)
	Closing Net Policy Liabilities	**4,815,532**	**4,581,692**

16 TAXATION

		2013	2012
a)	**Current income tax expense/(benefit)**		
	Current income tax	200,709	-
	Deferred income tax	787,316	769,441
	Prior year losses now recognised	(40,916)	-
	Origination and reversal of temporary differences	(809,823)	(805,115)
	Income tax expense/(benefit) reported in the Income Statement	**137,286**	**(35,674)**
b)	**Amounts charged directly to equity**	**40,382**	**(7,185)**

		2013	2012
c)	**Numeric reconciliation between tax expense and profit before tax**		
	Surplus before taxation per Income Statement	1,587,180	1,225,703
	Prima Facie Taxation @ 28%	444,410	343,197
	Adjusted for tax effect of:		
	Permanent difference	(286,846)	(498,150)
	Timing differences	4,364	(830)
	Provision for Life Insurance Liabilities	65,475	140,473
	Tax credits claimed	(26,694)	(17,572)
	Deferred acquisition costs	(53,888)	15,408
	Other	(1,501)	(18,200)
	Prior period adjustment	(8,034)	-
	Taxation as per Income Statement	**137,286**	**(35,674)**

Notes to the Financial Statements

for the year ended 31 March 2013

		2013	2012
d)	**Net deferred tax benefits/(liabilities)**		
	Balance at beginning of the year	(769,441)	(812,300)
	Deferred tax benefit/(charge) charged to income	22,507	35,674
	Deferred tax benefit/(charge) charged to equity	(40,382)	7,185
	Balance at end of the year	**(787,315)**	**(769,441)**
	The balance of deferred tax benefits/(liabilities) comprises:		
	(i) Deferred tax liabilities		
	Deferred acquisition costs	(795,651)	(849,539)
		(795,651)	**(849,539)**
	(ii) Deferred tax assets		
	Funds with financial institutions – available for sale	(11,365)	29,017
	Staff provisions	19,701	18,200
	Other	-	32,881
		8,336	**80,098**
	Net Deferred Tax Liability	**(787,315)**	**(769,441)**

Deferred tax on insurance contract liabilities

Life insurance contract liabilities represent the net present value of estimated future cash flows and planned profit margins. Using the margin on services methodology, planned after tax profit margins are recognised in the income statement over the period services are provided to policyholders resulting in deferral of acquisition costs for accounting purposes compared to up-front deductibility for tax purposes. A deferred tax liability of $795,651 has been separately disclosed and included in the deferred tax liabilites balance representing taxable temporary differences which are implicitly embedded within insurance contract liabilities (2012: $849,539).

		2013	2012
e)	**Current taxation**		
	Current income tax expense	200,709	-
	Less losses claimed	(40,916)	-
	Less provisional tax paid	(50,000)	-
	Balance at end of the year	**109,793**	**-**

		2013	2012
f)	**Imputation credit account**		
	Balance at beginning of year	58,811	298,381
	Income tax paid during the year	50,000	-
		108,811	298,381
	Less credits attached to dividends paid	-	(257,142)
	Add credits attached to dividends received	26,694	17,572
	Balance at end of year	**135,505**	**58,811**

		2013	2012
g)	**Tax losses**		
	Unrecognised tax losses available to set off against future assessable income		
	Losses brought forward	117,434	-
	Prior period adjustment	28,695	-
	Losses claimed	(146,129)	-
	Current period tax losses	-	117,434
	Balance	**-**	**117,434**
	Tax saving thereon @ 28%	**-**	**32,882**
	Add/(less) prior period adjustment	-	19,452
	Subvention receipt	**-**	**19,452**

Notes to the Financial Statements

for the year ended 31 March 2013

17 CASH AND CASH EQUIVALENTS

	2013	2012
Cash at bank and in hand		
Bank balances	2,490,423	1,860,274
Deposits at call	1,188,289	656,911
Cash and cash equivalents	**3,678,712**	**2,517,185**

18 TRADE AND OTHER RECEIVABLES

	2013	2012
Outstanding premiums	43,979	58,013
Prepayments	59,363	14,955
Sundry receivables	198,269	298,925
Total other receivables	**301,611**	**371,894**
Expected maturity		
Within 12 months	301,611	371,894
Later than 12 months	-	-
	301,611	**371,894**

19 INVESTMENTS

	2013	2012
Financial assets designated at fair value through profit or loss		
Debt securities		
Local Authority	100,500	100,500
New Zealand Government	1,001,435	1,084,573
Corporate – New Zealand	522,800	312,600
	1,624,735	**1,497,673**
Financial assets available for sale		
Equity securities	982,777	687,161
Debt securities		
Bank paper	5,321,097	4,803,731
	6,303,874	**5,490,892**
Total investments	**7,928,609**	**6,988,565**
Expected maturity		
Within 12 months	6,213,032	4,561,776
Later than 12 months	1,715,577	2,426,789
	7,928,609	**6,988,565**

Notes to the Financial Statements

for the year ended 31 March 2013

20 PLANT AND EQUIPMENT

	2013	2012
Computer equipment at cost	150,661	156,797
Accumulated depreciation	(133,815)	(137,792)
Net book amount	**16,846**	**19,005**
Office equipment at cost	105,169	93,037
Accumulated depreciation	(45,341)	(46,505)
Net book amount	**59,828**	**46,532**
Motor vehicles at cost	217,896	195,410
Accumulated depreciation	(123,486)	(83,074)
Net book amount	**94,410**	**112,336**
TOTAL PLANT AND EQUIPMENT	**171,084**	**177,873**
Computer Equipment		
Opening net book amount at 1 April	19,005	34,151
Additions	10,703	3,778
Depreciation	(12,616)	(18,228)
Disposals	(246)	(696)
Closing net book amount as at 31 March	**16,846**	**19,005**
Office Equipment		
Opening net book amount at 1 April	46,532	81,983
Additions	21,881	7,764
Depreciation	(6,377)	(6,773)
Disposals	(2,208)	(36,442)
Closing net book amount as at 31 March	**59,828**	**46,532**
Motor Vehicles		
Opening net book amount at 1 April	112,336	141,252
Additions	22,486	22,453
Depreciation	(40,412)	(37,704)
Disposals	-	(13,665)
Closing net book amount as at 31 March	**94,410**	**112,336**
TOTAL PLANT AND EQUIPMENT	**171,084**	**177,873**

21 INTANGIBLE ASSETS

	2013	2012
Computer software at cost	854,339	835,568
Accumulated amortisation	(791,166)	(709,680)
TOTAL INTANGIBLE ASSETS	**63,173**	**125,888**
Computer Software		
Balance at beginning of year	125,888	117,415
Additions	24,750	82,915
Amortisation	(86,368)	(74,442)
Disposals	(1,097)	-
TOTAL INTANGIBLE ASSETS	**63,173**	**125,888**

Notes to the Financial Statements

for the year ended 31 March 2013

22 PAYABLES AND OTHER FINANCIAL LIABILITIES

	2013	2012
Creditors and accruals	295,920	281,140
Claims approved for settlement	30,000	-
Employee entitlements	112,835	111,072
	438,755	**392,212**
Expected maturity		
Within 12 months	438,755	392,212
Later than 12 months	-	-
	438,755	**392,212**

23 SHARE CAPITAL

	2013		2012	
	No.	$	No.	$
(a) Authorised share capital				
Ordinary shares – fully paid. No par value.	1,000,000	1,000,000	1,000,000	1,000,000
Held:				
Directly	1,000,000		1,000,000	

(b) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

24 RETAINED EARNINGS AND RESERVES

	2013	2012
(a) Revaluation reserve		
Movements in the revaluation reserve were as follows:		
Balance 1 April	(74,615)	(50,941)
Revaluation reserve of AFS assets, net of tax	103,840	(23,674)
Balance 31 March	**29,225**	**(74,615)**

The revaluation reserve is used to record movements in the fair value of available for sale financial assets.

	2013	2012
(b) Retained earnings		
Movements in retained earnings were as follows:		
Balance 1 April	3,512,675	2,851,298
Net surplus for the year	1,449,894	1,261,377
Dividends	-	(600,000)
Balance 31 March	**4,962,569**	**3,512,675**

25 DIVIDENDS

	2013	2012
Dividends paid during the year		
Final dividend of 60 cents per share paid on 20 June 2011	-	600,000
Total dividends paid during the year	**-**	**600,000**

The dividends were fully imputed.

It was unanimously decided that no dividend would be declared for the 2013 financial year (2012: Nil).

Notes to the Financial Statements

for the year ended 31 March 2013

26 RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	2013	2012
Net profit after taxation	1,449,894	1,261,377
Add/(deduct) non-cash items:		
Deprecation	59,405	62,705
Amortisation	86,368	74,442
Net change in policy liabilities	233,840	501,691
Realised (gains)/losses	10,038	37,193
Fair value (gains)/losses on investments	24,097	20,923
Changes in assets and liabilities:		
Payables	115,804	(10,709)
Receivables	81,881	132,769
Accrued interest	(17,365)	(36,506)
NET CASH FLOWS FROM OPERATING ACTIVITIES	**2,043,962**	**2,043,885**

27 FINANCIAL INSTRUMENTS BY CATEGORY

2013

	Fair Value through profit or loss	Available for sale	Loans and receivables	Amortised cost	Total
Financial Assets					
Cash and cash equivalents	-	-	3,678,712	-	3,678,712
Trade and other receivables	-	-	301,611	-	301,611
Investments	1,624,735	6,303,874	-	-	7,928,609
Total Financial Assets	**1,624,735**	**6,303,874**	**3,980,323**	**-**	**11,908,932**
Financial Liabilities					
Trade and other payables	-	-	-	438,755	438,755
Total Financial Liabilities	**-**	**-**	**-**	**438,755**	**438,755**

2012

	Fair Value through profit or loss	Available for sale	Loans and receivables	Amortised cost	Total
Financial Assets					
Cash and cash equivalents	-	-	2,517,185	-	2,517,185
Trade and other receivables	-	-	371,894	-	371,894
Investments	1,497,673	5,490,892	-	-	6,988,565
Total Financial Assets	**1,497,673**	**5,490,892**	**2,889,079**	**-**	**9,877,644**
Financial Liabilities					
Trade and other payables	-	-	-	392,212	392,212
Total Financial Liabilities	**-**	**-**	**-**	**392,212**	**392,212**

Notes to the Financial Statements

for the year ended 31 March 2013

28 RELATED PARTY TRANSACTIONS

(a) Parent entity

The Company is an 80% owned subsidiary of Southland Building Society (SBS).

(b) Southland Building Society

Southsure purchases selected support services from SBS. Southsure remunerates SBS for these services on an arm's length basis.

Southsure has a current account with SBS. Interest is paid between related parties on a monthly basis at the official cash rate applicable at month end.

Southsure holds a number of term investments with SBS. Interest is received from SBS for these investments on an arm's length basis.

(c) Finance Now Limited (FNL)

Finance Now Limited is a 71.5% owned subsidiary of SBS. FNL distributes Southsure products. FNL is remunerated for this service on an arm's length basis. FNL collects and remits premium income owing to Southsure. All balances owing between the parties at balance date are included in Payable and Receivable balances.

(d) Transactions with related parties

The following transactions occurred with related parties:

All transactions are at arm's length.

	2013	2012
SBS		
Net interest received	(33,371)	(47,975)
Subvention receipt	-	(19,452)
Net commission paid	155,016	165,362
Dividends paid	-	480,000
Other sundry items	135,947	120,951
	257,592	**698,886**
FNL		
Net commission paid	2,233,465	2,329,137
	2,233,465	**2,329,137**

(e) Balances with related parties

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	2013	2012
SBS		
Receivables	15,659	13,527
Investments	750,000	750,000
Current account balance	(75,785)	(12,611)
Payables	(115,518)	(112,221)
Net Balance	**574,356**	**638,695**
FNL		
Receivables	163,122	168,980
Payables	(44,339)	(58,424)
Net Balance	**118,783**	**110,556**

(f) Key management personnel compensation

Key management personnel compensation for the year ended 31 March 2013 and the year ended 31 March 2012 is set out below. The key management personnel are all the directors of the Company and the executives with the greatest authority for the strategic direction and management of the Company.

	2013	2012
Short term benefits	553,953	541,347
TOTAL	**553,953**	**541,347**

Notes to the Financial Statements

for the year ended 31 March 2013

29 CONTINGENCIES

As at 31 March 2013 the Company had no contingent liabilities or assets (2012: Nil).

30 COMMITMENTS

(a) Capital commitments

There were no material capital commitments at balance date (2012: Nil).

(b) Operating lease commitments

A nine year lease commitment was entered into on 15 May 2007 on the property at 11 Don Street, Invercargill at an annual rent of $101,000 plus GST.

A five year sub-lease commitment was entered into on 7 March 2011 on the property at Level 1, 23 Humphries Drive, Christchurch at an annual rent of $21,955 plus GST.

Lease commitments payable after balance date

	2013	2012
0 - 12 months	141,398	116,150
12 - 24 months	141,399	116,150
24 - 60 months	154,445	246,938
> 60 months	-	-
	437,242	**479,238**

31 SUBSEQUENT EVENTS

There have been no subsequent events since 31 March 2013 that have a material impact on these financial statements.

32 INSURER FINANCIAL STRENGTH RATING

Southsure Assurance Limited has an Insurer Financial Strength Rating of BBB (Good) Stable by Fitch Ratings (27 November 2012).

33 STATUTORY FUNDS

As part of the licensing process under the Insurance (Prudential Supervision) Act 2010 a life insurer is required to establish at least one Statutory Fund. On 22 February 2013 the Board of Directors resolved to establish Southsure Statutory Fund No 1 effective from 1 April 2013.

Independent Auditor's Report

for the year ended 31 March 2013

KPMG

To the shareholders of Southsure Assurance Limited

Report on the financial statements

We have audited the accompanying financial statements of Southsure Assurance Limited ("the company") on pages 3 to 25. The financial statements comprise the statement of financial position as at 31 March 2013, the income statement and statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand 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 these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with 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 the auditor's 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, the auditor considers internal control relevant to 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 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 presentation of the financial statements.

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

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

Opinion

In our opinion the financial statements on pages 3 to 25:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of the company as at 31 March 2013 and of its financial performance and cash flows for the year then ended.

Report on other legal and regulatory requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by Southsure Assurance Limited as far as appears from our examination of those records.

KPMG

28 June 2013
Wellington

Appointed Actuary's Report

for the year ended 31 March 2013

Davies Financial and Actuarial Limited

5th June 2013

To: The Directors
Southsure Assurance Limited

From: Peter Davies
Appointed Actuary

Re: Southsure Assurance Limited: Report as at 31st March 2013 under Sections 77 and 78 of the Life Assurance (Prudential Supervision) Act 2010

You have asked me to prepare this report in terms of the above sections of the Act, and I would like to comment further as follows:

1. I have reviewed the actuarial information included in the audited accounts for Southsure Assurance Limited as at 31st March 2013. "Actuarial information" includes the following:
    - policy liabilities;
    - solvency calculations in terms of the RBNZ Solvency Standard;
    - balance sheet and other information allowed for in the calculation of the company's solvency position; and
    - disclosures regarding the methodology and assumptions used for calculating policy liabilities, and other disclosures.
2. No limitations have been placed on my work.
3. I am independent with respect to Southsure Assurance Limited as defined under professional standard ISA (NZ) 620 of the New Zealand Institute of Chartered Accountants.
4. I have been provided with all information that I have requested in order to carry out this review.
5. In my view the actuarial information contained in the financial statements has been appropriately included, and the actuarial information used in the preparation of the financial statements has been appropriately used.
6. Southsure Assurance Limited's actual solvency capital exceeds the minimum requirement of the RBNZ solvency standard (being subject to a minimum of $5m) as at 31st March 2013. The company is also projected to exceed the minimum requirement at all times over the next three years.

I would be very happy to answer any queries concerning this report.

Yours sincerely

Peter Davies B.Bus.Sc., FIA, FNZSA,
Appointed Actuary

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