Southsure Assurance Limited

Annual Report 2014



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Company Directory

Board of Directors
Frank Spencer (Chair)
Warren Conway (Deputy Chair)
Ross Smith
Kerrie Wales
Timothy Loan

Chief Executive Officer
David Newman

Company Secretary
Ann-Marie Lawton

Bankers
Westpac Banking Corporation
Cnr Kelvin and Spey Streets
Invercargill

SBS Bank
Cnr Kelvin and Don Streets
Invercargill

Auditor
KPMG
10 Customhouse Quay
Wellington

Solicitor
Buddle Findlay
245 St Asaph Street
Christchurch

Actuary
Davies Financial & Actuarial Limited
Level 1, 3 Shea Terrace
Takapuna
Auckland

Registered Office
Level 1, 11 Don Street
Invercargill

Directors' Statement

The Board of Directors present their Annual Report including the financial statements of the Company for the twelve month period ended 31 March 2014.

The shareholders of the Company have exercised their right under section 211(3) of the Companies Act 1993 and unanimously agreed that this Annual Report 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 27 June 2014:

Frank Spencer
Chairman

W. H. Conway

Warren Conway
Deputy Chairman

Chairman's Report

The Reserve Bank's granting of a full license under the Insurance (Prudential Supervision) Act 2010 was a milestone achievement for Southsure this year.

The year in review

Southsure has again risen above a confluence of market factors that continues to subdue core business lines to post a net trading result of $1.97 million, a 36% increase over the 2013 pre-tax surplus of $1.45 million.

For several years, Southsure has focussed on building a diversified portfolio to buffer against adverse effects in one market. It's testament to Southsure's strategic vision and its commitment to implementing that vision that Southsure has continued to grow its market presence in challenging times.

The fallout from the Canterbury earthquakes and other significant weather events continues to impact the domestic fire and general insurance market. The move to Sum Insured policies for house insurance over the past 12 months is the most significant change in the market in 20 years. Not only have New Zealanders had to grapple with the confusion of how to evaluate their insurance cover, they have had to stump up with more money from already pressured household budgets to meet the higher premium payments.

The impact on life and disability insurance is marked. At a time when, arguably, people need more protection than ever, the life and disability insurance market is under continued pressure and competition is fierce.

Southsure is committed to offering some of the best rates in the market for annually renewable term life insurance and funeral cover, but we've still witnessed a falling away in business volume, again, largely due to pressured household budgets.

The stellar performer for the year-end has been the significant growth in consumer protection insurance. Wholesale and consumer insurances have become a significant part of the business mix and continue to provide positive returns.

Highlight post balance date

The investment in a corner-stone shareholding of Abbott Insurance Brokers Limited, a commercial insurance brokerage with offices in Christchurch, Nelson and Wellington, demonstrates Southsure's commitment to building relationships with key insurance partners.

It is the first investment of its kind by Southsure and brings with it significant opportunities to partner with a complementary business which is also in growth mode.

Regulation

The most fundamentally significant achievement for the year-end was the granting of a license by the Reserve Bank, without which we would cease to operate.

The Insurance (Prudential Supervision) Act 2010 established a new regulatory regime for insurance providers, with the Reserve Bank as the supervisor. All providers had until September 2013 to seek and obtain a full license. The process was intense and every provider had to meet strict governance and operational criteria.

While the granting of Southsure's license was comparatively straightforward, the $5 million capital adequacy threshold effectively ring-fences mature providers and has protected New Zealanders from less stable players.

Pursuant to the Act, Southsure has also successfully established a Statutory Fund, further strengthening our policyholder protection.

Outlook

Consumer confidence remains relatively strong but the impact of the Auckland and Christchurch housing 'bubbles' and the slower than forecast progress on the Christchurch rebuild means economic activity overall has not been as buoyant as predicted.

It's unlikely we'll see significant changes to business and consumer confidence in the lead-up to the general election in September and, post-election, the result may determine the speed of any change in sentiment.

Southsure will continue its focus on strengthening its diversified portfolio, with several strategies in place to extend distribution opportunities.

Work is underway with our new investment partner, Abbott Insurance Brokers Limited, to explore growth opportunities for mutual benefit.

Southsure will refocus in 2014 on its traditional channel partner, SBS Bank, developing new incentives and measures to attract SBS customers.

The team is also working behind the scenes to develop a web-based insurance offer that meets the needs of New Zealanders.

All in all, it's another busy year for Southsure with significant growth strategies in place.

Acknowledgements

On behalf of the Board, I would like to thank our policyholders first and foremost for the trust they place in Southsure. We recognise and value your continued support.

I would also like to thank our CEO David Newman, his executive team and our frontline – the sales and administration teams.

Southsure is a small, dynamic team of people with a depth of experience and expertise. The benefit of a relatively small team is that we can be flexible and creative when it comes to business challenges. On the other hand, it does make for a sometimes intense environment when so few are doing so much, and for that dedication and commitment, we thank you all.

To my fellow Directors, thank you for your valuable contributions, your sound judgement and considerations, and your support. It is a pleasure to work with you and provide the governance base from which Southsure can continue to flourish.

Frank Spencer
Chairman

Statement of Corporate Governance

Board of Directors

Southsure Assurance Limited is governed by a Board of Directors who are elected by the shareholders and are accountable for the performance of the Company and compliance by the Company with laws and standards.

All current directors have been assessed by the Board in accordance with the Company's Fit and Proper Policy and have been certified as meeting the Reserve Bank of New Zealand's Fit and Proper Standard for directors of licenced insurers.

Board Role and Charter

The Board's role is one of governance, rather than management. To facilitate performance of this role the Company has in place a comprehensive governance framework for which the Board Charter is the cornerstone document. The Board Charter describes the Board's governance role, procedures and responsibilities.

The Board is required to fulfil a number of statutory obligations, most notable under the Companies Act 1993 and the Insurance (Prudential Supervision) Act 2010. In addition the Board's activities are guided by the Company's Constitution and Shareholders Agreement.

The governance framework provides the structure by which the Board promotes and protects the Company's interests for the benefit of its respective stakeholders including shareholders, policyholders and employees.

The Board's ultimate objective is to ensure the Company has a sustainable future and to deliver maximum value to shareholders.

In performing their role the Board's broad areas of focus are:

- Regulatory and policy compliance
- Strategy development and direction
- Policy development
- Operational oversight

Specifically the Board:

- ensures long and short term business objectives and appropriate business strategies are in place and provides guidance and direction in the formation of the same
- approves and monitors financial and other reporting, ensuring the financial statements accurately reflect the Company's position and conform with legislative requirements
- monitor senior management's performance and implementation of strategy, ensuring appropriate resources are available
- ensures that business is carried out in accordance with all statutory, and legal requirements and the terms of the Constitution
- ensures that appropriate internal controls, policies and processes are in place to manage potential and relevant risks. To this end the Company has established a comprehensive Risk Management Programme.

The Board meets formally at least four times per year. At each normal meeting the agenda will include the Company's Register of Directors Interests, a report from management covering operational and financial performance, specific proposals for capital expenditure and acquisitions and major issues and opportunities.

The Board will at least annually review the goals and strategies, approve budgets and financial statements and undertake other activities outlined in the Board Charter.

The Board reviews its own performance annually.

Board Membership

The Company's Constitution sets the size of the Board at a minimum of 5 directors. The Board currently comprises three independent and two non-independent directors. Their qualifications and experience are set out on page 5 of this report.

The Board Charter sets out policies and procedures covering the appointment and removal, proceedings, powers and duties, remunerations and expenses of directors.

Delegational Framework

The Board has delegated responsibility for the overall management and profit performance of Southsure Assurance Limited including all the day-to-day operations and administration, to the Chief Executive Officer (CEO).

The CEO manages the business in accordance with the Policies, Budget, Annual Plan, and Strategies approved by the Board. The CEO has the power to manage the business, subject to the limits set out in the "CEO Delegated Authority Limits" schedule contained within the Board Charter.

Committees

The Board has formally constituted one Board committee; the Audit Committee. The Audit Committee is governed by its own terms of reference.

The primary objectives of the Audit Committee are:

- to set the principles and standards with respect to internal controls, accounting policies and the nature, scope, objectives and functions of external and internal audit.
- ensures the efficient and effective management of all business risk, and the efficient and effective compliance with relevant legal and company policy requirements
- to assist and advise the Board on the appointment, remunerations, development and performance management of Directors and the CEO.

The current composition of the Audit Committee is Mr Timothy Loan (Chairman), Mr Frank Spencer and Mr Warren Conway.

Director's Profiles

F E [Frank] Spencer

Frank was appointed a Southsure Director in August 2011 and was concurrently appointed as Chairman.

A Registered Valuer and the Managing Director of Logan Stone Limited, Frank's expertise includes valuation, property management, land economics investment advice and strategic property planning, including negotiation and transaction advisory. Frank is active in the business community, and has a strong interest in service and governance. Frank is a Fellow of both the New Zealand Institute of Valuers and the Property Institute of New Zealand, an Associate of the Real Estate Institute of New Zealand and a member of the Institute of Directors.

R L [Ross] Smith

Ross was an incumbent Southsure Director when the company was established as an independent trading subsidiary of SBS in 2002.

Ross has been the Chief Executive Officer of SBS Bank (Southland Building Society) since 1992 and has a financial accounting background. Ross has held various executive positions in the banking and travel industries, both in New Zealand and overseas. Ross attended the prestigious Harvard Business School, sits on the NZ Bankers Association Council and is a past member of the Executive of the Financial Services Federation.

T D R [Tim] Loan

Tim was appointed a Southsure Director in August 2009.

Tim has been the GM Finance of SBS Bank since 2003. Previous to that he was CFO of Terralink International Limited and has held various other managerial roles in Finance and Information Systems in the corporate sector prior to which he was with Ernst and Young for 10 years in Invercargill and Wellington. Tim is currently a member of the National Council of the New Zealand Institute of Chartered Accountants and holds various company secretary positions with the SBS Bank Group.

W H [Warren] Conway

Warren was an incumbent Southsure Director when the company was established as an independent trading subsidiary of SBS in 2002. He held the role of Chairman from 2002 until 2008. Warren resigned from the Southsure Board in 2008 and was concurrently re-appointed as an independent Director by the minority shareholder.

Warren was the previous Managing Director of the Jones Group, a company involved in the Bluff Oyster and fishing industries and was also a director of Barnes Oysters Ltd and the Bluff Oyster Management Company Ltd. He has also had a strong association with the timber industry for many years and presently serves as a director of Craigpine Timber Limited.

K Y [Kerrie] Wales

Kerrie was appointed as an independent Director to the Southsure Board in July 2008.

Kerrie currently provides business consulting services to the financial services and insurance sectors specialising in: strategy formulation and business planning, strategic and business partnerships, risk management, and product development and marketing.

Kerrie has extensive experience in banking and insurance having held a range of general management positions including General Manager Insurance in the National Bank of New Zealand and Managing Director of NBNZ Life Insurance Limited. Kerrie has a Masters of Business Administration (Victoria University) and Diplomas in Agriculture and Valuation and Farm Management (Lincoln University).

Financial Statements

Statement of Profit or Loss

for the year ended 31 March 2014

	Note	2014 $	2013 $
Gross Premium Revenue	7	**8,025,741**	6,910,694
Reinsurance Premiums	8	**(785,237)**	(835,895)
Net Premiums		**7,240,504**	**6,074,799**
Commission Income	9	**859,380**	640,855
Investment Income	10	**451,572**	452,703
Realised Gains/(Losses)	11	**(68,600)**	(10,038)
Fair Value Gains/(Losses)	12	**(3,000)**	(24,097)
Other Operating Revenue		**41,445**	45,010
Other Revenue		**1,280,797**	**1,104,433**
TOTAL REVENUE		**8,521,301**	**7,179,232**
Claims Expense	13	**1,519,229**	1,367,089
Reinsurance Recoveries	8	**(858,259)**	(720,185)
Net Change in Insurance Policy Liabilities	15	**295,945**	233,840
Commission Expenses	14	**3,102,255**	2,410,416
Direct Expenses		**4,059,170**	**3,291,160**
Other Operating and Administrative Expenses	14	**2,551,700**	2,300,892
Other Expenses		**2,551,700**	**2,300,892**
Total Direct and Other Expenses		**6,610,870**	**5,592,052**
NET SURPLUS BEFORE TAX		**1,910,431**	**1,587,180**
Taxation Expense/(Benefit)	16	**(66,680)**	137,286
NET SURPLUS FOR THE YEAR	6	**1,977,111**	**1,449,894**

Statement of Comprehensive Income

for the Year ended 31 March 2014

	Note	2014 $	2013 $
NET SURPLUS FOR THE YEAR		**1,977,111**	1,449,894
Other comprehensive income			
Change in available for sale asset reserve	25	**85,619**	144,222
Deferred tax on change in available for sale asset reserve		**(23,973)**	(40,382)
Other comprehensive income for the year, net of tax		**61,646**	103,840
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,038,757**	1,553,734

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 2014

	Note	2014 $	2013 $
Share Capital			
Balance at beginning of year	24	1,000,000	1,000,000
Balance at end of year		1,000,000	1,000,000
Revaluation Reserve - available for sale assets	25		
Balance at beginning of year		29,225	(74,615)
Other comprehensive income for the year		61,646	103,840
Balance at end of year		90,871	29,225
Retained Earnings	25		
Balance at beginning of year		4,962,569	3,512,675
Net surplus for the year		1,977,111	1,449,894
Dividends		(780,000)	-
Balance at end of year		6,159,680	4,962,569
TOTAL EQUITY		7,250,551	5,991,794
Represented by:			
Equity at beginning of the year		5,991,794	4,438,060
Net surplus for the year		1,977,111	1,449,894
Other comprehensive income for the year		61,646	103,840
Total comprehensive income for the year		2,038,757	1,553,734
Dividends	26	(780,000)	-
		(780,000)	-
TOTAL EQUITY AT END OF THE YEAR		7,250,551	5,991,794

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 2014

	Note	**2014** $	2013 $
EQUITY			
Share Capital	24	**1,000,000**	1,000,000
Retained Earnings	25	**6,159,680**	4,962,569
Revaluation Reserve	25	**90,871**	29,225
TOTAL EQUITY		**7,250,551**	**5,991,794**
LIABILITIES			
Payables	22	**632,234**	438,755
Deferred Tax	16	**645,218**	787,315
Policy Liabilities	15	**3,665,461**	3,404,804
Policy Liabilities - reinsurance	15	**1,446,016**	1,410,728
TOTAL LIABILITIES		**6,388,929**	**6,041,602**
TOTAL EQUITY AND LIABILITIES		**13,639,480**	**12,033,396**
ASSETS			
Cash and Cash Equivalents	17	**5,846,677**	3,678,712
Current Tax	16	**77,857**	(109,793)
Receivables	18	**583,255**	301,611
Investments	19	**6,837,890**	7,928,609
Plant and Equipment	20	**260,630**	171,084
Intangible Assets	21	**33,171**	63,173
TOTAL ASSETS		**13,639,480**	**12,033,396**

Approved for issue for and on behalf of the Board on 27 June 2014:

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 2014

	Note	2014 $	2013 $
CASH FLOWS FROM OPERATING ACTIVITIES	27		
Premiums received		7,808,015	6,908,007
Commission received		835,753	634,507
Interest received		395,171	358,203
Dividends received		78,380	66,613
Other income		130,601	103,421
Reinsurance received		807,249	720,185
Claims paid		(1,463,564)	(1,340,648)
Reinsurance paid		(804,079)	(835,462)
Commission paid		(2,985,205)	(2,408,096)
Payments to suppliers and employees		(2,434,370)	(2,190,262)
Subvention receipt		-	-
Tax paid		(289,793)	(50,000)
Insurance proceeds		-	77,494
Net Cash Flows from Operating Activities		2,078,158	2,043,963
CASH FLOW FROM INVESTING ACTIVITIES			
Purchases of intangible assets, property, plant and equipment		(223,722)	(73,391)
Purchases of financial assets		(2,618,543)	(3,140,623)
Proceeds from sale of financial assets		3,642,672	2,331,579
Proceeds from sale of property, plant and equipment		69,400	-
Net Cash Flows from Investing Activities		869,807	(882,435)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(780,000)	-
Net Cash Flows from Financing Activities		(780,000)	-
NET INCREASE / (DECREASE) IN CASH HELD		2,167,965	1,161,528
Opening cash balance brought forward		3,678,712	2,517,184
CASH AND CASH EQUIVALENTS CARRIED FORWARD		5,846,677	3,678,712
CASH AND CASH EQUIVALENTS COMPRISE			
Bank accounts		5,901,021	3,754,497
Parent current account		(54,344)	(75,785)
		5,846,677	3,678,712

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 2014

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 life insurance operations are conducted in accordance with the Life Insurance Act 1908 and the Insurance (Prudential Supervision) Act 2010. On 15 July 2013, the Company obtained its licence to carry on life insurance business in New Zealand under the Insurance (Prudential Supervision) Act 2010 from the Reserve Bank of New Zealand.

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 2014 were authorised for issue by the Board of Directors on 27 June 2014.

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) as appropriate to profit oriented entities. 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 is an issuer in terms of the Financial Reporting Act 1993. 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 2014, 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.

NZ IFRS 9 introduces changes to the classification and measurement of financial instruments which are expected to affect certain amounts recognised in the Company's financial statements. The mandatory effective date for NZ IFRS 9 has been removed and is currently being reconsidered by the International Accounting Standards Board. Management will evaluate the full impact this standard will have on the financial statements once the revised standard has been finalised.

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) Financial assets at fair value through profit or loss

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 statement of profit or loss. Assets included in this category are held to back policy liabilities.

(ii) 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.

(iii) 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 statement of profit or loss 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 statement of profit or loss 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 statement of profit or loss 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

Insurance premium revenue is recognised from the inception date as soon as there is a basis on which it can reliably be estimated. Insurance premium revenue is recognised as income when it is earned in accordance with the pattern of incidence of risk expected under the insurance contract.

Investment Income

Interest income

Interest income is recognised in the Statement of Profit or Loss 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 Statement of Profit or Loss.

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 Statement of Profit or Loss. 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 Statement of Profit or Loss 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 Statement of Profit or Loss 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 Statement of Profit or Loss 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 Statement of Profit or Loss when they become due and payable in accordance with the reinsurance agreements.

Reinsurance recoveries on claims are recognised in the Statement of Profit or Loss 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 Statement of Profit or Loss 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 adopted by the Company are consistent with those adopted in previous periods, except for the adoption of the following new standards and amendments to standards which were applicable to annual reporting periods commencing on or before 1 April 2013.

- NZ IFRS 13: Fair Value Measurement;
- NZ IAS 1 (Amendment): Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income;
- NZ IFRS 7 (Amendment): Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities; and
- Annual Improvements to NZ IFRSs: 2009 – 2011 Cycle.

The application of the above new standards and amendments to standards has not resulted in any material change to the Company's reported result or financial position.

In accordance with the transitional provisions of NZ IFRS 13, the Company has applied the new definition of fair value prospectively, as set out in Note 23. The change had no significant impact on the measurement of the Company's financial assets and financial liabilities. Note 23 also includes the new disclosures required under NZ IFRS 13.

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;
- Persistency experience, which affects the entity's ability to recover the cost of acquiring new business over the lives of the contracts;

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 2014. The actuarial reports were prepared by Peter Davies, Fellow of the New Zealand Society of Actuaries and signed on 26 June 2014. (2013: Prepared by Peter Davies, Fellow of the New Zealand Society of Actuaries signed 07 June 2013)

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:

A) 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 2.72% net of tax based on swap rates (2013: 2.10%).

The discount rate assumed for other business (predominantly term life and regular premium disability business) is 3.76% net of tax based on swap rates (2013: 3.10%).

The assumed inflation rate was 2.0% p.a. (2013: 2.0%).

B) Profit Carriers

Group Life and Total Permanent Disability (TPD) cover, and Bond insurance, were valued using an accumulation method, therefore no profit carrier was used.
The profit carrier for all other product groups, which were valued using a projection method, was claims plus renewal commission plus administration costs (2013: no change).

C) Future Expenses and Indexation

Maintenance expenses per policy in the year ended 31 March 2014 were assumed to be:

Payment protection insurances	- $17 per policy per annum (2013: $20 p.a.)
Regular premium term insurances	- $41 per policy per annum (2013: $49 p.a.)
Single premium term insurances	- $12 per policy per annum (2013: $15 p.a.)
Reviewable disability insurances	- $41 per policy per annum (2013: $49 p.a.)

Expenses are assumed to escalate at 2.0% per annum (2013: 2.0% p.a.)
There are no indexation options on the Company's business.

D) Rates of Taxation

The future rate of taxation was assumed to be 28% (2013: 28%).

E) Mortality and Morbidity

Future mortality for term insurances was assumed in aggregate to be 75% of NZ04 (2013: 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 frequencies for Payment Protection Insurances were based on aggregate rates derived from the Company's experience (unchanged from 2013). Future disability and redundancy claim continuance rates were based on the Company's experience, and termination rates have reduced from the previous assumptions in 2013.
Claim frequencies and claim continuance rates for reviewable disability policies were based on the Company's experience (frequencies are unchanged from the 2013 assumptions, however the claim termination rates have been reduced from 2013 in line with recent experience).
Group Life and TPD covers, and Bond Protection cover were valued on an accumulation basis.

F) Discontinuances

Future rates of discontinuance are assumed to be between 0% and 40% p.a. (2013: 0% and 40% p.a.), according to product and duration in force, based on the Company's recent and expected future experience.

G) Surrender Values

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

H) Unit Prices

The Company has no unit-linked business.

I) Participating Benefits - rate of future supportable additions

The Company has no participating business.

J) 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

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:

		2014		2013	
		Future Margins	**Policy Liability**	**Future Margins**	**Policy Liability**
Discount rate	Increase by 1%	(226,000)	(231,000)	(228,000)	(268,000)
	Decrease by 1%	248,000	254,000	250,000	294,000
	Increase by 10%	(710,000)		(663,000)	
Mortality/Morbidity	Decrease by 10%	686,000		641,000	
	Increase by 10%	128,000		86,000	
Surrenders/Lapses	Decrease by 10%	(120,000)		(81,000)	
Expenses	Increase by 10%	(477,000)		(495,000)	
	Decrease by 10%	477,000		495,000	

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 2014				
Call and Current Accounts	43%	3%	-	5,846,677
Bank Paper	32%	8%	-	5,046,918
Government	-	-	-	-
New Zealand Top 50 listed equities	-	-	10%	1,271,172
Listed Debt Products	4%	-	-	519,800
31 March 2013				
Call and Current Accounts	32%	-1%	-	3,678,712
Bank Paper	39%	8%	-	5,321,097
Government	9%	-	-	1,101,935
New Zealand Top 50 listed equities	-	-	8%	982,777
Listed Debt Products	5%	-	-	522,800

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for the year ended 31 March 2014

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

Maturity analysis

The table below 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
2014					
Financial assets:					
Cash and cash equivalents	5,846,677	-	-	-	-
Receivables	583,255	-	-	-	-
Investments	1,271,282	4,320,946	507,968	-	737,694
	7,701,214	**4,320,946**	**507,968**	**-**	**737,694**
Financial liabilities:					
Payables and other financial liabilities	632,234	-	-	-	-
	632,234	**-**	**-**	**-**	**-**
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	**-**	**-**	**-**	**-**

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 are not required to meet liabilities
- maintaining no off-balance sheet exposures

Interest Rate Risk

For the year ended 31 March 2014 if interest rates on cash deposits and interest bearing investments had been 1% higher or lower with all other variables held constant the impact on post tax profits and net assets would have been as follows:

	2014		2013	
	+ 1%	**- 1%**	**+ 1%**	**- 1%**
Cash and cash equivalents	24,306	(24,306)	34,162	(34,162)
Financial assets at fair value through profit or loss	56,952	(56,952)	60,583	(60,583)

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

The Company's capital management objectives are to ensure an adequate and prudent level of capital is maintained to support the risks borne by the business and in turn protect policyholders and shareholders interests, and to meet its obligations under the Insurance (Prudential Supervision) Act 2010.

The Act requires the Company to maintain a minimum level of capital at all times that meets the Solvency Standard for Life Insurance Business ("Solvency Standard").

The Directors have adopted a policy of holding a "buffer" amount of free capital over and above the minimum level of capital required by the Solvency Standard.

Solvency

The Solvency Standard requires the Company to hold a minimum level of capital at all times. This must be in excess of either $5,000,000 or the (risk-based) calculated minimum solvency capital requirement - whichever is higher.

Statutory Funds

A life insurer is required to have at least one statutory fund in respect of its life insurance business. The Company established "Southsure Statutory Fund No 1 (the Fund) on 1 April 2013.

The Fund gives priority to policy holders to the assets held in the Fund ahead of the claims of any other creditor. All operating profits and losses generated by the Fund are retained within the Fund and distributions of these can only be made provided they comply with the requirements of the Insurance (Prudential Supervision) Act 2010 and the Insurance (Prudential Supervision) Regulations 2010. These requirements include receiving and having regard to Southsure Assurance’s Appointed Actuary’s written advice as to the likely consequences of any proposed distribution. A distribution of the Fund’s retained profits must not be made if the distribution would have the result that Southsure Assurance would fail to maintain the minimum solvency margin in relation to the Fund.

The Act requires disclosure of the solvency margins for the Fund, the business and assets outside the fund and for the Company as a whole. These solvency margins as at 31 March 2014 are shown in the following table.

	Statutory Fund	Shareholder Fund	Company
2014			
Actual solvency capital	2,041,321	5,176,059	7,217,380
Minimum calculated solvency requirement (risk based)	267,872	1,437,879	1,705,751
Solvency margin before applying $5m minimum	1,773,449	3,738,180	5,511,629
Solvency ratio before applying $5m minimum	**762.1%**	**360.0%**	**423.1%**
Minimum requirement for Company			5,000,000
Solvency margin with $5m overall minimum			2,217,380
Solvency ratio with $5m minimum			**144.3%**
2013			
Actual solvency capital	1,505,924	4,422,696	5,928,620
Minimum calculated solvency requirement (risk based)	-	1,140,123	1,140,123
Solvency margin before applying $5m minimum	1,505,924	3,282,573	4,788,497
Solvency ratio before applying $5m minimum		**287.9%**	**420.0%**
Minimum requirement for Company			5,000,000
Solvency margin with $5m overall minimum			928,620
Solvency ratio with $5m minimum			**118.6%**

6 ANALYSIS OF PROFIT

	2014	2013
Profit after taxation arose from:		
Planned margins of revenues over expenses	815,668	385,151
Other revenue	859,415	639,911
Difference between actual and assumed experience	(91,772)	396,465
Effects of changes in underlying assumptions	210,767	(157,060)
Investment earnings on assets in excess of life insurance liabilities	183,033	185,427
PROFIT AFTER TAXATION	**1,977,111**	**1,449,894**

7 GROSS PREMIUM REVENUE

	2014	2013
Single premium	5,111,265	3,973,836
Regular premium	2,914,476	2,936,858
GROSS PREMIUM REVENUE	**8,025,741**	**6,910,694**

8 REINSURANCE

	2014	2013
Reinsurance risk premiums	785,237	835,895
TOTAL REINSURANCE PREMIUMS	**785,237**	**835,895**
Reinsurance recoveries on claim payments	858,259	720,185
TOTAL REINSURANCE RECOVERIES	**858,259**	**720,185**

9 COMMISSION INCOME

	2014	2013
Commission received	859,380	640,855
TOTAL COMMISSION INCOME	**859,380**	**640,855**

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for the year ended 31 March 2014

10 INVESTMENT INCOME

	2014	2013
Cash and cash equivalents interest income	104,990	53,594
Available for sale financial assets		
Interest income	226,559	246,157
Dividend income	61,601	58,086
Financial assets at fair value through the profit and loss		
Interest income	39,443	75,887
Dividend income	18,979	18,979
	451,572	**452,703**

SUMMARY OF NET INVESTMENT INCOME		
Interest and similar income	370,992	375,638
Dividend income	80,580	77,065
NET INVESTMENT INCOME	**451,572**	**452,703**

11 REALISED GAINS/(LOSSES)

	2014	2013
Property and Equipment	(697)	(3,551)
Equity Securities - Available for sale	(51,829)	-
Debt Securities - Designated at fair value through profit and loss		
New Zealand Government	(16,074)	(6,487)
TOTAL REALISED GAINS/(LOSSES)	**(68,600)**	**(10,038)**

12 FAIR VALUE GAINS/(LOSSES)

	2014	2013
Debt Securities - Designated at fair value through profit and loss		
New Zealand Government	-	(34,297)
Corporate – New Zealand	(3,000)	10,200
TOTAL FAIR VALUE GAINS/(LOSSES)	**(3,000)**	**(24,097)**

13 CLAIMS EXPENSE

	2014	2013
Accident claims	361,205	345,743
Death claims	1,158,024	1,021,346
TOTAL CLAIMS	**1,519,229**	**1,367,089**

Notes to the Financial Statements

for the year ended 31 March 2014

14 COMMISSION AND OTHER EXPENSES

	2014	2013
Commission Expenses		
Acquisition	3,001,157	2,309,747
Maintenance	101,098	100,669
TOTAL COMMISSION EXPENSES	**3,102,255**	**2,410,416**
Other Expenses		
Acquisition	982,817	829,443
Maintenance	885,134	1,040,724
Other	683,749	430,725
TOTAL OTHER EXPENSES	**2,551,700**	**2,300,892**
Other Expenses include:		
Personnel	1,319,701	1,212,016
Audit services		
Audit of annual financial statements	23,206	25,509
Review of interim financial statements	5,750	5,175
Other assurance services [1]	5,175	-
Directors' fees	50,750	41,500
Depreciation	61,548	59,405
Amortisation	31,992	86,368
Other expenses	1,053,578	870,919
TOTAL OTHER EXPENSES	**2,551,700**	**2,300,892**

[1] Other assurance services include amounts paid during the year ended 31 March 2014 to KPMG for services relating to the review of the company Solvency Return.

15 POLICY LIABILITIES

		2014	2013
a)	**Movement in Insurance Policy Liabilities - Gross**		
	Opening balance at 1 April	3,404,804	4,657,934
	Increase/(decrease) recognised in Statement of Profit or Loss	260,657	(1,253,130)
	Closing balance at 31 March	**3,665,461**	**3,404,804**
b)	**Movement in Policy Liabilities/(Assets) - Reinsurance**		
	Opening balance at 1 April	1,410,728	(76,242)
	Increase/(decrease) recognised in Statement of Profit or Loss	35,288	1,486,970
	Closing balance at 31 March	**1,446,016**	**1,410,728**
	Summary of Policy Liabilities		
	Gross policy liabilities	3,665,461	3,404,804
	Insurance contract liabilities - Reinsurance	1,446,016	1,410,728
	Closing balance at 31 March	**5,111,477**	**4,815,532**
Policy liabilities contain the following components:			
	Future policy benefits	11,995,244	11,338,372
	Future expenses	5,111,050	4,945,432
	Business valued on accumulation basis	10,000	10,000
	Future profit margins	5,527,001	5,422,696
	Balance of future premiums	(18,977,834)	(18,311,696)
	Reinsurance	1,446,016	1,410,728
	Closing Net Policy Liabilities	**5,111,477**	**4,815,532**

Notes to the Financial Statements

for the year ended 31 March 2014

16 TAXATION

		2014	2013
a)	**Current income tax expense / (benefit)**		
	Current Income Tax	105,549	200,709
	Deferred Income Tax	645,218	787,315
	Prior period adjustment	(6,158)	-
	Prior year losses now recognised	-	(40,916)
	Origination and reversal of temporary differences	(811,289)	(809,822)
	Income tax expense / (benefit) reported in the statement of profit or loss	**(66,680)**	**137,286**
b)	**Amounts charged directly to equity**	**23,973**	**40,382**

		2014	2013
c)	**Numeric reconciliation between tax expense and profit before tax**		
	Surplus before taxation per Statement of Profit or Loss	1,910,431	1,587,180
	Prima Facie Taxation @ 28%	534,921	444,410
	Adjusted for tax effect of:		
	Permanent Differences	(188,314)	(184,596)
	Timing Differences	(298,941)	(97,886)
	Provision for Life Insurance Liabilities	82,865	65,475
	Tax credits claimed	(24,982)	(26,694)
	Policy Liabilities	(170,261)	(53,888)
	Other	4,190	(1,501)
	Prior period adjustment	(6,158)	(8,034)
	Taxation as per statement of profit or loss	**(66,680)**	**137,286**
d)	**Net deferred tax benefits / (liabilities)**		
	Balance at beginning of the year	(787,315)	(769,440)
	Deferred Tax Benefit/(Charge) charged to income	166,070	22,507
	Deferred Tax Benefit/(Charge) charged to equity	(23,973)	(40,382)
	Balance at end of the year	**(645,218)**	**(787,315)**
	The balance of Deferred Tax benefits / (liabilities) comprises:		
	i Deferred Tax Liabilities		
	Policy Liabilities	(625,390)	(795,651)
		(625,390)	**(795,651)**
	ii Deferred Tax Assets		
	Funds with financial institutions - available for sale	(35,339)	(11,365)
	Staff Provisions	15,511	19,701
		(19,828)	**8,336**
	Net Deferred Tax Liability	**(645,218)**	**(787,315)**

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 Statement of Profit or Loss over the period services are provided to policyholders resulting in deferral for accounting purposes compared to up-front deductibility for tax purposes. A net deferred tax liability of $625,390 has been separately disclosed and included in the deferred tax liabilites balance representing taxable temporary differences which are implicitly embedded within insurance contract liabilities (2013: $795,651).

		2014	2013
e)	**Current Taxation**		
	Current income tax expense	105,549	200,709
	Less losses claimed	-	(40,916)
	Less provisional tax paid	(183,406)	(50,000)
	Balance at end of the year	**(77,857)**	**109,793**

Notes to the Financial Statements

for the year ended 31 March 2014

f) **Imputation Credit Account**

	2014	2013
Balance at beginning of year	135,505	58,811
Income tax paid during the year	103,635	
Provisional tax paid during the year	183,406	50,000
	422,546	108,811
Less credits attached to Dividends paid	-	-
Add credits attached to Dividends received	24,982	26,694
Balance at end of year	**447,528**	**135,505**

g) **Tax Losses**

Unrecognised tax losses available to set off against future assessable income

	2014	2013
Losses brought forward	-	117,434
Prior period adjustment	21,993	28,695
Losses claimed	(21,993)	(146,129)
Current period tax losses	-	-
Balance	**-**	**-**
Tax saving thereon @ 28%	**-**	**-**

17 CASH AND CASH EQUIVALENTS

	2014	2013
Cash at bank and in hand		
Bank balances	4,606,927	2,490,423
Deposits at call	1,239,750	1,188,289
Cash and cash equivalents	**5,846,677**	**3,678,712**

18 TRADE AND OTHER RECEIVABLES

	2014	2013
Outstanding premiums	20,069	43,979
Prepayments	151,190	59,363
Sundry receivables	411,996	198,269
Total other receivables	**583,255**	**301,611**
Expected maturity		
Within 12 months	583,255	301,611
Later than 12 months	-	-
	583,255	**301,611**

19 INVESTMENTS

	2014	2013
Financial assets designated at fair value through profit or loss		
Debt securities		
Local Authority	-	100,500
New Zealand Government	-	1,001,435
Corporate – New Zealand	519,800	522,800
	519,800	**1,624,735**
Financial assets available for sale		
Equity securities	1,271,172	982,777
Debt securities		
Bank paper	5,046,918	5,321,097
	6,318,090	**6,303,874**
Total Investments	**6,837,890**	**7,928,609**
Expected maturity		
Within 12 months	4,829,024	6,213,032
Later than 12 months	2,008,866	1,715,577
	6,837,890	**7,928,609**

Notes to the Financial Statements

for the year ended 31 March 2014

20 PLANT AND EQUIPMENT

	2014	2013
Computer Equipment at cost	133,778	150,661
Accumulated depreciation	(112,510)	(133,815)
Net book amount	**21,268**	**16,846**
Office Equipment at cost	138,171	105,169
Accumulated depreciation	(53,159)	(45,341)
Net book amount	**85,012**	**59,828**
Motor Vehicles at cost	237,340	217,896
Accumulated depreciation	(82,990)	(123,486)
Net book amount	**154,350**	**94,410**
TOTAL PLANT AND EQUIPMENT	**260,630**	**171,084**
Computer Equipment		
Opening net book amount at 1 April	16,846	19,005
Additions	16,470	10,703
Depreciation	(11,782)	(12,616)
Disposals	(266)	(246)
Closing net book amount as at 31 March	**21,268**	**16,846**
Office Equipment		
Opening net book amount at 1 April	59,828	46,532
Additions	35,413	21,881
Depreciation	(10,012)	(6,377)
Disposals	(217)	(2,208)
Closing net book amount as at 31 March	**85,012**	**59,828**
Motor Vehicles		
Opening net book amount at 1 April	94,410	112,336
Additions	169,108	22,486
Depreciation	(56,880)	(40,412)
Disposals	(52,288)	-
Closing net book amount as at 31 March	**154,350**	**94,410**
TOTAL PLANT AND EQUIPMENT	**260,630**	**171,084**

21 INTANGIBLE ASSETS

	2014	2013
Computer Software at cost	708,017	854,339
Accumulated amortisation	(674,846)	(791,166)
TOTAL INTANGIBLE ASSETS	**33,171**	**63,173**
Computer Software		
Balance at beginning of year	63,173	125,888
Additions	2,206	24,750
Amortisation	(31,992)	(86,368)
Disposals	(216)	(1,097)
TOTAL INTANGIBLE ASSETS	**33,171**	**63,173**

22 PAYABLES AND OTHER FINANCIAL LIABILITIES

	2014	2013
Creditors and accruals	421,331	295,920
Claims approved for settlement	82,217	30,000
Employee entitlements	128,686	112,835
	632,234	**438,755**
Expected maturity		
Within 12 months	632,234	438,755
Later than 12 months	-	-
	632,234	**438,755**

Notes to the Financial Statements

for the year ended 31 March 2014

23 FAIR VALUE OF FINANCIAL INSTRUMENTS

There are no material differences between the carrying amounts of all financial assets and liabilities presented in the statement of financial position and their fair values.

The Company uses valuation techniques within the following hierarchy for determining the fair value of financial instruments:

Level 1: Fair values are determined using quoted (unadjusted) prices in active markets for identical assets and liabilities;
Level 2: Fair values are determined using other techniques where all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: Fair values are determined using techniques that use inputs which have a significant effect on the recorded fair value and are not based on observable market data.

Financial assets and liabilities that are recognised and measured at fair value on a recurring basis are categorised below:

	2014	2013
Level 1		
Cash and Cash Equivalents	5,846,677	3,678,712
Equity Securities	1,271,172	982,777
Debt Securities		
New Zealand Government	-	1,001,435
Bank paper	213,615	213,615
	7,331,463	**5,876,539**
Level 2		
Debt Securities		
Local Authority	-	100,500
Bank paper	4,833,303	5,107,482
Corporate	519,800	522,800
	5,353,103	**5,730,782**
	12,684,567	**11,607,321**

There were no transfers between Levels 1 and 2 during the year.

24 SHARE CAPITAL

		2014		2013	
		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.

25 RETAINED EARNINGS AND RESERVES

		2014	2013
(a)	Revaluation reserve		
	Movements in the revaluation reserve were as follows:		
	Balance 1 April	29,225	(74,615)
	Revaluation reserve of AFS assets, net of tax	61,646	103,840
	Balance 31 March	**90,871**	**29,225**

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

		2014	2013
(b)	Retained earnings		
	Movements in Retained Earnings were as follows:		
	Balance 1 April	4,962,569	3,512,675
	Net surplus for the year	1,977,111	1,449,894
	Dividends	(780,000)	-
	Balance 31 March	**6,159,680**	**4,962,569**

Notes to the Financial Statements

for the year ended 31 March 2014

26 DIVIDENDS

	2014	2013
Dividends paid during the year		
A dividend of 30 cents per share paid on 2 July 2013	300,000	-
A dividend of 48 cents per share paid on 2 December 2013	480,000	-
Total dividends paid during the year	**780,000**	**-**

The dividends were not imputed.

27 RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	2014	2013
Net profit after taxation	1,977,111	1,449,894
Add/(Deduct) Non-Cash Items:		
Depreciation	61,548	59,405
Amortisation	31,992	86,368
Net Change in Policy Liabilities	295,945	233,840
Realised (Gains)/Losses	68,600	10,038
Fair Value (Gains)/Losses on Investments	3,000	24,097
Changes in Assets and Liabilities:		
Payables	(162,424)	115,805
Receivables	(221,792)	81,881
Accrued Interest	24,178	(17,365)
NET CASH FLOWS FROM OPERATING ACTIVITIES	**2,078,158**	**2,043,963**

28 FINANCIAL INSTRUMENTS BY CATEGORY

2014

	Fair Value through profit or loss	Available for Sale	Loans and receivables	Amortised Cost	Total
Financial Assets					
Cash and cash equivalents	-	-	5,846,677	-	5,846,677
Trade and other receivables	-	-	583,255	-	583,255
Investments	519,800	6,318,090	-	-	6,837,890
Total Financial Assets	**519,800**	**6,318,090**	**6,429,932**	**-**	**13,267,822**
Financial Liabilities					
Trade and Other Payables	-	-	-	632,234	632,234
Total Financial Liabilities	**-**	**-**	**-**	**632,234**	**632,234**

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**

29 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 arms 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 arms length basis.

(c) Finance Now Limited (FNL)
Finance Now Limited is an 85% owned subsidiary of SBS. FNL distributes Southsure products. FNL is remunerated for this service on an arms 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 arms length.

	2014	2013
SBS		
Net interest received	(31,230)	(33,371)
Net commission paid	176,098	155,016
Dividends paid	624,000	-
Other sundry items	125,033	135,947
	893,901	**257,592**
FNL		
Net commission paid	2,917,722	2,233,465
	2,917,722	**2,233,465**

(e) Balances with Related Parties
The following balances are outstanding at the reporting date in relation to transactions with related parties:

	2014	2013
SBS		
Receivables	72	15,659
Investments	1,400,000	750,000
Transaction Account	577	641
Current account balance	(54,344)	(75,785)
Payables	(138,161)	(115,518)
Net Balance	**1,208,144**	**574,997**
FNL		
Receivables	257,017	163,122
Payables	(64,674)	(44,339)
Net Balance	**192,343**	**118,783**

(f) Key Management Personnel Compensation
Key management personnel compensation for the year ended 31 March 2014 and the year ended 31 March 2013 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.

	2014	2013
Short term benefits	567,207	553,953
TOTAL	**567,207**	**553,953**

30 CONTINGENCIES

As at 31 March 2014 the Company had no contingent liabilities or assets (2013: Nil).

31 COMMITMENTS

(a) Capital Commitments

There were no material capital commitments at balance date (2013: 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

	2014	2013
0 - 12 months	141,398	141,398
12 - 24 months	139,808	141,399
24 - 60 months	14,638	154,445
> 60 months	-	-
	295,844	**437,242**

32 SUBSEQUENT EVENTS

On 1 April 2014 the Company acquired 25% of the issued share capital of Abbott Insurance Brokers Limited, an insurance brokering firm based in Christchurch, for the consideration of $3,000,000.

There have been no other subsequent events since 31 March 2014 that have a material impact on these financial statements.

33 INSURER FINANCIAL STRENGTH RATING

Southsure Assurance Limited has an Insurer Financial Strength Rating of BBB+ (Outlook Stable) by Fitch Ratings (15 November 2013).

Independent Auditor's Report

for the year ended 31 March 2014

Independent auditor's report

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 6 to 29. The financial statements comprise the statement of financial position as at 31 March 2014, the statements of profit or loss, 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 and International Financial Reporting Standards 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 provided other assurance services to the company in respect of the interim financial statements and RBNZ solvency returns. Partners and employees of our firm may 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 auditors. The firm has no other relationship with, or interest in, the company.

Opinion

In our opinion the financial statements on pages 6 to 29:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the company as at 31 March 2014 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

27 June 2014
Wellington

Appointed Actuary's Report

for the year ended 31 March 2014

26th June 2014

To: The Directors
Southsure Assurance Limited

From: Peter Davies
Appointed Actuary

Re: Southsure Assurance Limited: Report as at 31st March 2014 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 2014. "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 External Reporting Board. I have been provided with all information that I have requested in order to carry out this review.

4. 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.

5. 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 2014. 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

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