Southsure Assurance Limited

Annual Report 2016

southsure
insurance

Contents

Company Directory

Board of Directors
Frank Spencer (Chair)
David Newman
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 2016.

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 24 June 2016:

Frank Spencer
Chairman

Tim Loan
Director

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. The Board currently comprises two 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 Kerrie Wales.

Directors' 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 chartered member of the Institute of Directors.

K Y [Kerrie] Wales

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

Kerrie has extensive experience in banking and insurance specialising in strategy formulation and business planning, strategic and business partnerships, risk management, and product development and marketing. Kerrie has 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).

T D R [Tim] Loan

Tim was appointed a Southsure Director in August 2009.

Tim has been the Chief Financial Officer 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 a Fellow of Chartered Accountants Australia and New Zealand. He holds various company secretary positions within the SBS Bank Group as well as external directorships in the not for profit and local authority sector.

P D [David] Newman

David was appointed a Southsure Director in December 2014.

David has been the Chief Executive Officer of Southsure Assurance Limited since October 2002 when the Company was established as an independent trading subsidiary of SBS Bank concurrently acquiring a 20% shareholding in the business. David was formerly the General Manager Operations and Finance at SBS Bank for 6 years. Previously to that he held Senior Executive roles in the Bank including the position of Chief Financial Officer and held executive responsibility for Southsure Assurance Limited since the Company was incorporated in 1987.

David has a Bachelor of Commerce Degree (University of Otago) with majors in Accounting and Marketing Management, a Diploma of Banking (Massey University) and is a Fellow of the Financial Services Institute of Australasia. David is a director of Abbott Insurance Brokers Limited and Credmere Holdings Limited.

Financial Statements

Statement of Profit or Loss

for the year ended 31 March 2016

	Note	2016 $	2015 $
Gross Premium Revenue	7	**11,300,877**	11,003,847
Reinsurance Premiums		**(838,049)**	(821,961)
Net Premiums		**10,462,828**	**10,181,886**
Commission Income		**1,028,782**	970,548
Investment Income	8	**465,617**	403,083
Realised Gains	9	**98,921**	140,938
Fair Value Gains	10	**8,515**	25,500
Other Operating Revenue		**44,859**	58,668
Other Revenue		**1,646,694**	**1,598,737**
TOTAL REVENUE		**12,109,522**	**11,780,623**
Claims Expense	11	**2,025,754**	914,735
Reinsurance Recoveries		**(1,051,472)**	(155,174)
Net Change in Insurance Policy Liabilities	13	**697,469**	1,813,063
Commission Expenses	12	**4,508,777**	4,394,062
Direct Expenses		**6,180,528**	**6,966,686**
Other Operating and Administrative Expenses	12	**2,826,671**	2,760,379
Other Expenses		**2,826,671**	**2,760,379**
Total Direct and Other Expenses		**9,007,199**	**9,727,065**
Profit from Investment in Associate	26	**606,405**	515,259
NET SURPLUS BEFORE TAX		**3,708,728**	**2,568,817**
Taxation Expense	14	**633,626**	355,062
NET SURPLUS FOR THE YEAR	6	**3,075,102**	**2,213,755**

Statement of Comprehensive Income

for the Year ended 31 March 2016

	Note	2016 $	2015 $
NET SURPLUS FOR THE YEAR		**3,075,102**	2,213,755
Other comprehensive income			
Change in available for sale asset reserve		**(29,045)**	(21,628)
Deferred tax on change in available for sale asset reserve		**8,133**	6,402
Other comprehensive income for the year, net of tax	21	**(20,912)**	(15,226)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**3,054,190**	2,198,529

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 2016

	Note	2016 $	2015 $
Share Capital			
Balance at beginning of year	20	1,000,000	1,000,000
Balance at end of year		1,000,000	1,000,000
Revaluation Reserve - available for sale assets	21		
Balance at beginning of year		75,645	90,871
Other comprehensive income for the year		(20,912)	(15,226)
Balance at end of year		54,733	75,645
Retained Earnings	21		
Balance at beginning of year		6,121,745	6,159,680
Net surplus for the year		3,075,102	2,213,755
Dividends		(2,990,000)	(2,251,690)
Balance at end of year		6,206,847	6,121,745
TOTAL EQUITY		7,261,580	7,197,390
Represented by:			
Equity at beginning of the year		7,197,390	7,250,551
Net surplus for the year		3,075,102	2,213,755
Other comprehensive income for the year		(20,912)	(15,226)
Total comprehensive income for the year		3,054,190	2,198,529
Dividends	22	(2,990,000)	(2,251,690)
		(2,990,000)	(2,251,690)
TOTAL EQUITY AT END OF THE YEAR		7,261,580	7,197,390

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 2016

	Note	2016 $	2015 $
EQUITY			
Share Capital	20	**1,000,000**	1,000,000
Retained Earnings	21	**6,206,847**	6,121,745
Revaluation Reserve	21	**54,733**	75,645
TOTAL EQUITY		**7,261,580**	**7,197,390**
LIABILITIES			
Payables	18	**682,918**	625,499
Current Tax	14	**51,793**	(239,511)
Deferred Tax	14	**1,326,991**	1,037,738
Policy Liabilities	13	**5,385,008**	5,245,891
Policy Liabilities - reinsurance	13	**2,237,001**	1,678,649
TOTAL LIABILITIES		**9,683,711**	**8,348,266**
TOTAL EQUITY AND LIABILITIES		**16,945,291**	**15,545,656**
ASSETS			
Cash and Cash Equivalents	15	**3,000,010**	4,575,406
Receivables	16	**851,546**	769,227
Investments	17	**8,629,191**	6,685,331
Investment in Associate	26	**4,257,206**	3,270,356
Plant and Equipment		**193,626**	222,983
Intangible Assets		**13,712**	22,353
TOTAL ASSETS		**16,945,291**	**15,545,656**

Approved for issue for and on behalf of the Board on 24 June 2016:

Frank Spencer
Chairman

Tim Loan
Director

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 2016

	Note	2016 $	2015 $
CASH FLOWS FROM OPERATING ACTIVITIES	23		
Premiums received		**11,193,837**	10,582,218
Commission received		**1,031,070**	956,014
Interest received		**338,137**	331,232
Dividends received		**105,750**	81,278
Other income		**178,137**	60,358
Reinsurance received		**1,051,472**	206,185
Claims paid		**(2,034,052)**	(988,653)
Reinsurance paid		**(835,163)**	(821,643)
Commission paid		**(4,488,603)**	(4,201,259)
Payments to suppliers and employees		**(2,845,975)**	(2,668,816)
Tax paid		**(42,000)**	(116,499)
Net Cash Flows from Operating Activities		**3,652,610**	**3,420,415**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of intangible assets, property, plant and equipment		**(14,241)**	(48,566)
Purchases of financial assets		**(2,022,180)**	(2,114,601)
Investment in associate		**(380,446)**	(2,692,269)
Proceeds from sale of financial assets		**178,861**	2,415,440
Net Cash Flows from Investing Activities		**(2,238,006)**	**(2,439,996)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**(2,990,000)**	(2,251,690)
Net Cash Flows from Financing Activities		**(2,990,000)**	**(2,251,690)**
NET DECREASE IN CASH HELD		**(1,575,396)**	(1,271,271)
Opening cash balance brought forward		**4,575,406**	5,846,677
CASH AND CASH EQUIVALENTS CARRIED FORWARD		**3,000,010**	**4,575,406**
CASH AND CASH EQUIVALENTS COMPRISE			
Bank accounts		**3,087,542**	4,751,150
Parent current account		**(87,532)**	(175,744)
		3,000,010	**4,575,406**

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 2016

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 2016 were authorised for issue by the Board of Directors on 24 June 2016.

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 a FMC reporting entity and Tier 1 entity in terms of the Financial Reporting Act 2013. The financial statements have been prepared in accordance with the requirements of the Companies Act 1993, Financial Reporting Act 2013, the Financial Markets Conduct Act 2013 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 2016, 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 is for annual accounting periods beginning on or after 1 January 2018. Management will evaluate the full impact this standard will have on the financial statements prior to this date.

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 two 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.

Investment in Associate

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Company's investment in associate is accounted for using the equity method and is measured in the Statement of Financial Position at cost plus post-acquisition changes in the Company's share of net assets. Goodwill relating to associates is included in the carrying amount of the investment. Dividends reduce the carrying value of the investment.

The financial statements of the associate are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Company.

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:

<u>Planned margins of revenues over expenses</u>

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.

<u>The difference between actual and assumed experience</u>

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.

<u>Changes to underlying assumptions</u>

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.

<u>Investment earnings on assets in excess of policy liabilities</u>

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

<u>Interest income</u>

Interest income is recognised in the Statement of Profit or Loss as it accrues and is calculated by using the effective interest rate method.

<u>Dividend and distributions</u>

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

<u>Fair value gains and losses</u>

Fair value gains and losses on financial assets at fair value are recognised through the Statement of Profit or Loss.

Other Income

<u>Commission income</u>

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

F) EXPENSE RECOGNITION

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). Concessions which allowed certain policies to continue being taxed similar to that incurred under the old regime came to an end at 30 June 2015 and are explained below. Level term policies may have concessions for the duration of the policy.

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 all mandatory new standards, amendments to standards and interpretations which were applicable to annual reporting periods commencing on or before 01 April 2015. None had a material impact on these 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 regulations, competitors, interest rates, the performance of 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 2016. The actuarial reports were prepared by Peter Davies, Fellow of the New Zealand Society of Actuaries and signed on 13 May 2016. (2015: Prepared by Peter Davies, Fellow of the New Zealand Society of Actuaries signed 29 May 2015)

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 1.57% net of tax based on swap rates (2015: 2.55%).

The discount rate assumed for other business (predominantly term life and regular premium disability business) is 2.45% net of tax based on swap rates (2015: 2.74%).

The assumed inflation rate was 2.0% p.a. (2015: 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 (2015: no change).

C) Future Expenses and Indexation

Maintenance expenses per policy in the year ended 31 March 2016 were assumed to be:

Payment protection insurances	- $12 per policy per annum (2015: $15 p.a.)
Regular premium term insurances	- $31 per policy per annum (2015: $37 p.a.)
Single premium term insurances	- $9 per policy per annum (2015: $11 p.a.)
Reviewable disability insurances	- $31 per policy per annum (2015: $37 p.a.)

Expenses are assumed to escalate at 2.0% per annum (2015: 2.0% p.a.)

D) Rates of Taxation

The future rate of taxation was assumed to be 28% (2015: 28%).

E) Mortality and Morbidity

Future mortality for term insurances was assumed in aggregate to be 75% of NZ04 (2015: 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 2015). Future disability and redundancy claim continuance rates were based on the Company's experience, and termination rates are not materially different from 2015. Claim frequencies and claim continuance rates for reviewable disability policies were based on the Company's experience (frequencies are unchanged from the 2015 assumptions, and the claim termination rates are not materially different from 2015).
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. (2015: 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

<u>Risk management programme</u>

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:

		2016		2015	
		Future Margins	**Policy Liability**	**Future Margins**	**Policy Liability**
Discount rate	Increase by 1%	(259,000)	(372,000)	(223,000)	(326,000)
	Decrease by 1%	285,000	407,000	245,000	356,000
Mortality/Morbidity	Increase by 10%	(972,000)		(830,000)	
	Decrease by 10%	940,000		803,000	
Surrenders/Lapses	Increase by 10%	(169,000)		(119,000)	
	Decrease by 10%	180,000		126,000	
Expenses	Increase by 10%	(633,000)		(605,000)	
	Decrease by 10%	633,000		605,000	

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 2016				
Call and Current Accounts	26%	-	-	3,000,010
Bank Paper	41%	7%	-	5,619,319
Equities	-	-	15%	1,805,422
Listed Debt Products	3%	-	8%	1,204,450
31 March 2015				
Call and Current Accounts	41%	-1%	-	4,575,406
Bank Paper	38%	3%	-	4,600,100
Equities	-	-	11%	1,239,931
Listed Debt Products	3%	-	5%	845,300

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
2016					
Financial assets:					
Cash and cash equivalents	3,000,010	-	-	-	-
Receivables	851,546	-	-	-	-
Investments	1,901,460	3,552,639	500,000	505,257	2,169,835
	5,753,016	**3,552,639**	**500,000**	**505,257**	**2,169,835**
Financial liabilities:					
Payables and other financial liabilities	682,918	-	-	-	-
	682,918	**-**	**-**	**-**	**-**
2015					
Financial assets:					
Cash and cash equivalents	4,575,406	-	-	-	-
Receivables	769,227	-	-	-	-
Investments	1,239,931	3,336,546	303,554	500,000	1,305,300
	6,584,564	**3,336,546**	**303,554**	**500,000**	**1,305,300**
Financial liabilities:					
Payables and other financial liabilities	625,499	-	-	-	-
	625,499	**-**	**-**	**-**	**-**

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 2016 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:

	2016		2015	
	+ 1%	**- 1%**	**+ 1%**	**- 1%**
Cash and cash equivalents	48,944	(48,944)	34,909	(34,909)
Financial assets at fair value through profit or loss	59,651	(59,651)	43,552	(43,552)

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 the Company'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 the Company 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. The following tables show the solvency margin, assets, liabilities, equity and profit by Fund.

	Statutory Fund	Non-life Shareholder Fund	Company
2016			
Total assets	6,743,062	10,202,229	16,945,291
Total liabilities	6,577,826	3,105,885	9,683,711
Total equity	**165,236**	**7,096,344**	**7,261,580**
Profit/(loss) after income tax	1,136,964	1,938,138	3,075,102
Net dividends paid	(2,990,000)	-	(2,990,000)
Actual solvency capital	151,523	5,796,345	5,947,868
Minimum calculated solvency requirement (risk based)	-	4,212,936	4,212,936
Solvency margin before applying $5m minimum	**151,523**	**1,583,409**	**1,734,932**
Solvency ratio before applying $5m minimum		137.6%	141.2%
Minimum requirement for Company			5,000,000
Solvency margin with $5m overall minimum			947,868
Solvency ratio with $5m minimum			**119.0%**
2015			
Total assets	8,106,507	7,678,660	15,785,167
Total liabilities	6,088,235	2,499,542	8,587,777
Total equity	**2,018,272**	**5,179,118**	**7,197,390**
Profit/(loss) after income tax	1,043,861	1,169,894	2,213,755
Net dividends paid	(1,101,690)	(1,150,000)	(2,251,690)
Actual solvency capital	1,345,919	4,679,118	6,025,037
Minimum calculated solvency requirement (risk based)	442,616	3,814,954	4,257,570
Solvency margin before applying $5m minimum	**903,303**	**864,164**	**1,767,467**
Solvency ratio before applying $5m minimum	304.1%	122.7%	141.5%
Minimum requirement for Company			5,000,000
Solvency margin with $5m overall minimum			1,025,037
Solvency ratio with $5m minimum			**120.5%**

6 ANALYSIS OF PROFIT

	2016	2015
Profit after taxation arose from:		
Planned margins of revenues over expenses	1,035,530	918,698
Other revenue	1,680,045	1,499,066
Difference between actual and assumed experience	273,657	(85,461)
Effects of changes in underlying assumptions	(115,434)	(344,200)
Investment earnings on assets in excess of life insurance liabilities	201,304	225,652
PROFIT AFTER TAXATION	**3,075,102**	**2,213,755**

7 GROSS PREMIUM REVENUE

	2016	2015
Single premium	8,294,636	8,096,416
Regular premium	3,006,241	2,907,431
GROSS PREMIUM REVENUE	**11,300,877**	**11,003,847**

8 INVESTMENT INCOME

	2016	2015
Cash and cash equivalents interest income	99,323	117,278
Available for sale financial assets		
Interest income	212,069	187,045
Dividend income	85,876	63,827
Financial assets at fair value through the profit or loss		
Interest income	50,329	16,673
Dividend income	18,020	18,260
	465,617	**403,083**

SUMMARY OF NET INVESTMENT INCOME		
Interest and similar income	361,721	320,996
Dividend income	103,896	82,087
NET INVESTMENT INCOME	**465,617**	**403,083**

Notes to the Financial Statements

for the year ended 31 March 2016

9 REALISED GAINS

	2016	2015
Property and Equipment	(1,501)	-
Equity Securities - Available for sale	100,422	140,938
TOTAL REALISED GAINS / (LOSSES)	**98,921**	**140,938**

10 FAIR VALUE GAINS

	2016	2015
Debt Securities - Designated at fair value through profit or loss		
Corporate – New Zealand	(9,000)	6,000
Bonds	15,615	16,700
Capital Notes	1,900	2,800
TOTAL FAIR VALUE GAINS / (LOSSES)	**8,515**	**25,500**

11 CLAIMS EXPENSE

	2016	2015
Accident claims	602,603	487,875
Death claims	1,423,151	426,860
TOTAL CLAIMS	**2,025,754**	**914,735**

12 COMMISSION AND OTHER EXPENSES

	2016	2015
Commission Expenses		
Acquisition	4,395,346	4,286,064
Maintenance	113,431	107,998
TOTAL COMMISSION EXPENSES	**4,508,777**	**4,394,062**
Other Expenses		
Acquisition	1,241,272	1,123,370
Maintenance	893,061	908,814
Other	692,338	728,195
TOTAL OTHER EXPENSES	**2,826,671**	**2,760,379**
Other Expenses include:		
Personnel	1,676,215	1,619,605
Audit services		
Audit of annual financial statements	22,619	27,000
Review of interim financial statements	6,498	6,419
Other assurance services [1]	12,150	2,588
Directors' fees	66,000	54,000
Depreciation	58,555	75,013
Amortisation	11,159	16,600
Other expenses	973,475	959,154
TOTAL OTHER EXPENSES	**2,826,671**	**2,760,379**

[1] Other assurance services include amounts paid during the year ended 31 March 2016 to Deloitte for services relating to the review of the company's investment portfolio and associated policies ($7,560) and to KPMG for services relating to the review of the company's solvency return.

Notes to the Financial Statements

for the year ended 31 March 2016

13 POLICY LIABILITIES

		2016	2015
a)	**Movement in Insurance Policy Liabilities - Gross**		
	Opening balance at 1 April	5,245,891	3,665,461
	Increase recognised in Statement of Profit or Loss	139,117	1,580,430
	Closing balance at 31 March	**5,385,008**	**5,245,891**
b)	**Movement in Policy Liabilities / (Assets) - Reinsurance**		
	Opening balance at 1 April	1,678,649	1,446,016
	Increase recognised in Statement of Profit or Loss	558,352	232,633
	Closing balance at 31 March	**2,237,001**	**1,678,649**
	Summary of Policy Liabilities		
	Gross policy liabilities	5,385,008	5,245,891
	Insurance contract liabilities - Reinsurance	2,237,001	1,678,649
	Closing balance at 31 March	**7,622,009**	**6,924,540**
Policy liabilities contain the following components:			
	Future policy benefits	17,728,870	14,053,251
	Future expenses	6,332,073	6,046,158
	Business valued on accumulation basis	10,000	10,000
	Future profit margins	6,645,795	5,860,513
	Balance of future premiums	(25,331,730)	(20,724,031)
	Reinsurance	2,237,001	1,678,649
	Closing Net Policy Liabilities	**7,622,009**	**6,924,540**

14 TAXATION

		2016	2015
a)	**Current income tax expense**		
	Current Income Tax	324,613	(52,791)
	Deferred Income Tax	1,326,991	1,037,738
	Prior period adjustment	11,627	8,931
	Origination and reversal of temporary differences	(1,029,605)	(638,816)
	Expense reported in the Statement of Profit or Loss	**633,626**	**355,062**
b)	**Amounts charged directly to equity**	**(8,133)**	**(6,402)**

		2016	2015
c)	**Numeric reconciliation between tax expense and profit before tax**		
	Surplus before taxation per Statement of Profit or Loss	3,708,728	2,568,817
	Prima Facie Taxation @ 28%	1,038,444	719,269
	Adjusted for tax effect of:		
	Permanent Differences	59,389	(41,112)
	Timing Differences	(548,113)	(928,005)
	Provision for Life Insurance Liabilities	195,291	507,658
	Tax credits claimed	(209,441)	(166,328)
	Policy Liabilities	294,756	407,535
	Income tax included within associate earnings	(169,793)	(144,273)
	Other	2,630	(8,613)
	Prior period adjustment	(29,537)	8,931
	Taxation as per Statement of Profit or Loss	**633,626**	**355,062**

		2016	2015
d)	**Net deferred tax benefits/(liabilities)**		
	Balance at beginning of the year	(1,037,738)	(645,218)
	Deferred Tax Benefit/(Charge) charged to income	(297,386)	(398,922)
	Deferred Tax Benefit/(Charge) charged to equity	8,133	6,402
	Balance at end of the year	**(1,326,991)**	**(1,037,738)**
	The balance of Deferred Tax benefits/(liabilities) comprises:		
	i Deferred Tax Liabilities		
	Policy Liabilities	(1,327,681)	(1,032,925)
	Funds with financial institutions - available for sale	(20,804)	(28,937)
		(1,348,485)	**(1,061,862)**
	ii Deferred Tax Assets		
	Staff Provisions	21,494	24,124
		21,494	**24,124**
	Net Deferred Tax Liability	**(1,326,991)**	**(1,037,738)**

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 $1,327,681 has been separately disclosed and included in the deferred tax liabilites balance representing taxable temporary differences which are implicitly embedded within insurance contract liabilities (2015: $1,032,925).

		2016	2015
e)	**Current Taxation**		
	Current income tax expense	324,613	(52,791)
	Less provisional tax paid	(272,820)	(186,720)
	Balance at end of the year	**51,793**	**(239,511)**

		2016	2015
f)	**Imputation Credit Account**		
	Balance at beginning of year	284,427	447,528
	Income tax paid during the year	(228,011)	(68,927)
	Provisional tax paid during the year	272,820	186,720
		329,236	565,321
	Less credits attached to Dividends paid	(224,000)	(447,222)
	Add credits attached to Dividends received	209,441	166,328
	Balance at end of year	**314,678**	**284,427**

15 CASH AND CASH EQUIVALENTS

	2016	2015
Cash at bank and in hand		
Bank balances	2,163,460	4,192,052
Deposits at call	836,550	383,354
Cash and cash equivalents	**3,000,010**	**4,575,406**

16 TRADE AND OTHER RECEIVABLES

	2016	2015
Outstanding premiums	48,439	46,518
Prepayments	100,154	26,671
Sundry receivables	702,953	696,038
Total other receivables	**851,546**	**769,227**
Expected maturity		
Within 12 months	828,546	769,227
Later than 12 months	23,000	-
	851,546	**769,227**

17 INVESTMENTS

	2016	2015
Financial assets designated at fair value through profit or loss		
Debt securities		
Corporate – New Zealand	315,000	324,000
Bonds	684,750	418,500
Capital Notes	204,700	102,800
	1,204,450	**845,300**
Financial assets available for sale		
Equity securities	1,805,422	1,239,931
Debt securities		
Bank paper	5,619,319	4,600,100
	7,424,741	**5,840,031**
Total Investments	**8,629,191**	**6,685,331**
Expected maturity		
Within 12 months	4,148,677	3,640,100
Later than 12 months	4,480,514	3,045,231
	8,629,191	**6,685,331**

18 PAYABLES AND OTHER FINANCIAL LIABILITIES

	2016	2015
Creditors and accruals	499,394	437,430
Claims approved for settlement	-	8,298
Employee entitlements	183,524	179,771
	682,918	**625,499**
Expected maturity		
Within 12 months	682,918	625,499
Later than 12 months	-	-
	682,918	**625,499**

19 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:

	2016	2015
Level 1		
Cash and Cash Equivalents	3,000,010	4,575,406
Equity Securities	1,805,422	1,239,931
Debt Securities		
Bank paper	213,651	213,615
	5,019,083	**6,028,951**
Level 2		
Debt Securities		
Bank paper	5,405,669	4,386,486
Corporate	315,000	324,000
Bonds	684,750	418,500
Capital Notes	204,700	102,800
	6,610,119	**5,231,786**
	11,629,202	**11,260,737**

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

Notes to the Financial Statements

for the year ended 31 March 2016

20 SHARE CAPITAL

		2016		2015	
		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.

21 RETAINED EARNINGS AND RESERVES

		2016	**2015**
(a)	Revaluation reserve		
	Movements in the revaluation reserve were as follows:		
	Balance 1 April	75,645	90,871
	Revaluation reserve of Available for Sale assets, net of tax	(20,912)	(15,226)
	Balance 31 March	**54,733**	**75,645**

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

		2016	**2015**
(b)	Retained earnings		
	Movements in Retained Earnings were as follows:		
	Balance 1 April	6,121,745	6,159,680
	Net surplus for the year	3,075,102	2,213,755
	Dividends	(2,990,000)	(2,251,690)
	Balance 31 March	**6,206,847**	**6,121,745**

22 DIVIDENDS

	2016		2015	
	Per Share	**$**	**Per Share**	**$**
Dividends paid during the year				
Interim dividend	1.090	1,090,000	1.102	1,101,690
Final dividend	1.150	1,150,000	1.150	1,150,000
Special dividend	0.750	750,000	-	-
Total dividends paid during the year		**2,990,000**		**2,251,690**

Imputation credits of $224,000 were attached to dividends paid (2015: $447,222).

23 RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	2016	**2015**
Net profit after taxation	3,075,102	2,213,755
Add/(Deduct) Non-Cash Items:		
Depreciation	58,555	75,013
Amortisation	11,159	16,600
Net Change in Policy Liabilities	697,469	1,813,063
Realised (Gains)/Losses	(98,921)	(140,938)
Fair Value (Gains)/Losses on Investments	(8,515)	(25,500)
Share of (Profit)/Loss from Associate	(606,405)	(515,259)
Changes in Assets and Liabilities:		
Payables	345,737	320,786
Current Tax	281,795	(162,215)
Receivables	(82,718)	(186,419)
Accrued Interest	(20,648)	11,529
NET CASH FLOWS FROM OPERATING ACTIVITIES	**3,652,610**	**3,420,415**

Notes to the Financial Statements

for the year ended 31 March 2016

24 FINANCIAL INSTRUMENTS BY CATEGORY

2016

	Fair Value through profit or loss	Available for Sale	Loans and receivables	Amortised Cost	Total
Financial Assets					
Cash and cash equivalents	-	-	3,000,010	-	3,000,010
Trade and other receivables	-	-	851,546	-	851,546
Investments	1,204,450	7,424,741	-	-	8,629,191
Total Financial Assets	**1,204,450**	**7,424,741**	**3,851,556**	**-**	**12,480,747**
Financial Liabilities					
Trade and Other Payables	-	-	-	682,918	682,918
Total Financial Liabilities	**-**	**-**	**-**	**682,918**	**682,918**

2015

	Fair Value through profit or loss	Available for Sale	Loans and receivables	Amortised Cost	Total
Financial Assets					
Cash and cash equivalents	-	-	4,575,406	-	4,575,406
Trade and other receivables	-	-	769,227	-	769,227
Investments	845,300	5,840,031	-	-	6,685,331
Total Financial Assets	**845,300**	**5,840,031**	**5,344,633**	**-**	**12,029,964**
Financial Liabilities					
Trade and Other Payables	-	-	-	625,499	625,499
Total Financial Liabilities	**-**	**-**	**-**	**625,499**	**625,499**

25 RELATED PARTY TRANSACTIONS

(a) Parent entity

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

(b) Southland Building Society

The Company purchases selected support services from SBS. The Company remunerates SBS for these services on an arms length basis.

The Company 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.

The Company 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 95% owned subsidiary of SBS. FNL distributes the Company's products. FNL is remunerated for this service on an arms length basis. FNL collects and remits premium income owing to the Company. All balances owing between the parties at balance date are included in Payable and Receivable balances.

(d) Abbott Insurance Brokers Limited (AIL)

The Company owns a 31.01% shareholding in Abbott Insurance Brokers Limited.

AIL pays a referral commission to the Company on an arms length basis for commercial insurance policies.

From time to time the Company may purchase commercial insurance products from AIL at current market rates.

There were no balances owing between the parties at balance date.

(d) Transactions with Related Parties

The following transactions occurred with related parties:

	2016	2015
SBS		
Net interest received	(23,886)	(22,784)
Net commission paid	182,212	182,998
Dividends paid	2,392,000	1,801,352
Other sundry items	124,559	133,121
	2,674,885	**2,094,687**
FNL		
Net commission paid	3,473,644	3,431,560
	3,473,644	**3,431,560**
AIL		
Net commission received	(2,252)	(425)
Net premiums paid	13,423	15,154
	11,171	**14,729**

(e) Balances with Related Parties

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

	2016	2015
SBS		
Receivables	356	196
Investments	924,991	403,071
Transaction Account	890	368
Current account balance	(87,532)	(175,744)
Payables	(147,083)	(128,509)
Net Balance	**691,622**	**99,383**
FNL		
Receivables	335,686	311,899
Payables	(110,151)	(86,609)
Net Balance	**225,535**	**225,290**

(f) Key Management Personnel Compensation

Key management personnel compensation for the year ended 31 March 2016 and the year ended 31 March 2015 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.

	2016	2015
Short term benefits	667,516	591,238
TOTAL	**667,516**	**591,238**

26 INVESTMENT IN ASSOCIATE

On 1 April 2014 the Company aquired a 25% interest in Abbott Insurance Brokers Limited (AIL) for a consideration of $3,000,000. On 4 September 2015 the Company acquired an additional 500 ordinary shares in AIL for a consideration of $171,965. On 16 October 2015 the Company acquired an additional 2,146 ordinary shares in AIL for a consideration of $670,625. The Company now has an effective interest in AIL of 31.01%.

AIL is an insurance brokerage firm with its head office located in Christchurch, New Zealand. This interest represents a strategic investment in the continued operations of the company. AIL is a private entity that is not listed on any public exchange. The Company's interest in AIL is accounted for using the equity method in the financial statements. The following table illustrates the summarised financial information of the Company's investment in AIL.

	2016	2015
Total Revenue	7,207,138	6,441,171
Total Expenses	(4,221,233)	(3,562,329)
Profit before tax	**2,985,905**	**2,878,842**
Income tax expense	(853,256)	(817,805)
Net Profit for the period (continuing operations)	**2,132,649**	**2,061,037**
Company's share of profit for the period	**601,744**	**515,259**
Prior year adjustment	4,661	-
Company's total share of profit	**606,405**	**515,259**
Current assets	6,759,699	6,390,411
Non-current assets	4,807,308	2,747,627
Current liabilities	(4,107,062)	(3,473,007)
Non-current liabilities	(1,716,256)	(458,710)
Equity	**5,743,689**	**5,206,321**
Company's share of Equity	**1,781,118**	**1,301,580**
Dividends received	462,144	367,500
Fair value adjustment at acquisition	1,814,730	1,814,730
Subsequent fair value adjustment	199,214	(213,454)
Carrying amount of the investment	**4,257,206**	**3,270,356**
Dividends received from associate during the year		
A dividend of $20.91 per share paid on 31 March	285,326	217,500
A dividend of $11.49 per share paid on 1 October	156,818	150,000
A dividend of $1.47 per share paid on 26 June	20,000	-
Total dividends received during the year	**462,144**	**367,500**

Notes to the Financial Statements

for the year ended 31 March 2016

27 CONTINGENCIES

From time to time in the ordinary course of business, the Company may receive notifications of disputes from customers in regard to policies underwritten by the company or policies underwritten by other providers but arranged by the company under agency agreements. The Company has an established and formal dispute resolution process in place to resolve any disputes and is a member of the Banking Ombudsman Scheme which provides a free independent dispute resolution process for customers should any dispute fail to be resolved satisfactorily. Customers may also seek to resolve disputes through a court process. The Company does not consider the mere notification of a dispute as a contingent liability. As at 31 March 2016 no court proceedings had been filed in relation to any notified dispute. (2015: Nil).

28 COMMITMENTS

(a) Capital Commitments

There were no material capital commitments at balance date (2015: Nil).

(b) Operating Lease Commitments

Leases are for commercial office space in Invercargill and Christchurch. Commitments for the minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	2016	2015
0 - 12 months	14,804	139,807
12 - 24 months	-	14,638
24 - 60 months	-	-
	14,804	**154,445**

29 SUBSEQUENT EVENTS

A dividend of $1,300,000 ($1.30 per share) was proposed and submitted to the board for approval on 24 June 2016. (2015:Nil).

30 INSURER FINANCIAL STRENGTH RATING

Southsure Assurance Limited has an Insurer Financial Strength Rating of BBB+ by Fitch Ratings (18 December 2015).

Independent Auditor's Report

for the year ended 31 March 2016

KPMG

Independent auditor's report

To the shareholders of Southsure Assurance Limited

We have audited the accompanying financial statements of Southsure Assurance Limited ("the company") on pages 5 to 27. The financial statements comprise the statement of financial position as at 31 March 2016, the statement of profit or loss and statements of comprehensive income, changes in equity and statement of cash, and a summary of significant accounting policies and other explanatory information.

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

Directors' responsibility for the financial statements
The directors are responsible on behalf of the company for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards, 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 and fair presentation of the financial statements 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 service to the company in relation to review of solvency return. Subject to certain restrictions, partners and employees of our firm may also deal with the company on normal terms within the ordinary course of trading activities of the business of the company. These matters have not impaired our independence as auditor of the company. The firm has no other relationship with, or interest in, the company.

Opinion
In our opinion, the financial statements on pages 5 to 27 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the financial position of Southsure Assurance Limited as at 31 March 2016 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

KPMG

24 June 2016

Wellington

Appointed Actuary's Report

for the year ended 31 March 2016

Davies Financial and Actuarial Limited

14th June 2016

To: The Directors
Southsure Assurance Limited

From: Peter Davies
Appointed Actuary

Re: Southsure Assurance Limited: Report as at 31st March 2016 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 2016. "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.

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 2016. 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