

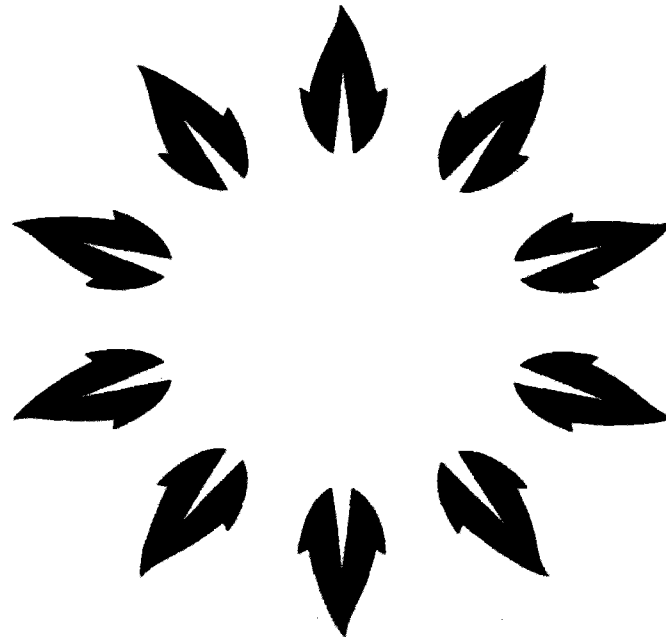


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# ***Asteron Life Limited***

## **FINANCIAL REPORT**

***For the Year Ended 30 June 2010***



# **asteron**



**NPC# 27**

**- 1 NOV 2010**

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The Directors have pleasure in presenting the financial statements of Asteron Life Limited for the year ended 30 June 2010.

#### Directors

The following persons were Directors of Asteron Life Limited ("the Company") for the whole of the period unless otherwise stated:

G T Ricketts (Chairman)  
S Carroll  
B D Connor (resigned 8 February 2010)  
P C Conroy (appointed 8 February 2010)  
A Vriens  
G E Summerhayes

#### Directors' responsibility statement

The Directors are responsible for ensuring that the financial statements present fairly the financial position of the company and the group as at 30 June 2010 and their financial performance and cash flows for the year ended 30 June 2010.

The Directors consider that the financial statements of the company and the group have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates, and that all relevant financial reporting standards have been followed. The financial statements have been prepared to comply fully with the New Zealand equivalents to International Financial Reporting Standards. In complying with the New Zealand equivalents to the International Financial Reporting Standards, these financial statements also comply with International Financial Reporting Standards.

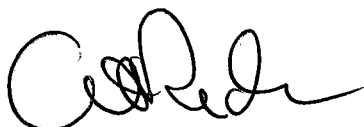
The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the company and group and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The Directors have taken adequate steps to safeguard the assets of the company and group and to prevent and detect fraud and other irregularities.

With the unanimous agreement of all shareholders, the Company has taken advantage of reporting concessions available to it under section 211(3) of the Companies Act 1993.

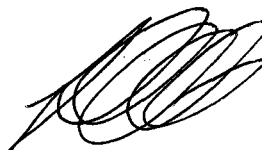
The financial statements of Asteron Life Limited were approved for issue on 21 September 2010.

The following Directors have signed on behalf of the Board:



Director

21 September 2010



Director

21 September 2010



## Audit report

### To the shareholder of Asteron Life Limited

We have audited the financial statements on pages 6 to 54. The financial statements provide information about the past financial performance of the company and group and its financial position as at 30 June 2010. This information is stated in accordance with the accounting policies set out on pages 10 to 20.

#### Directors' responsibilities

*The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the company and group as at 30 June 2010 and the results of its operations and cash flows for the year ended on that date.*

#### Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

#### Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Directors in the preparation of the financial statements;
- whether the accounting policies are appropriate to the company and group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our firm has provided other audit related services to the company and group. 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 and group. There are, however certain restrictions on dealings which the partners and employees of our firm can have with the company and group. These matters have not impaired our independence as auditors of the company and group. The firm has no other relationship with, or interest in, the company or any of its subsidiaries.



### **Unqualified opinion**

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records;
- the financial statements on pages 6 to 54:
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the company and group as at 30 June 2010 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 23 September 2010 and our unqualified opinion is expressed as at that date.

KPMG

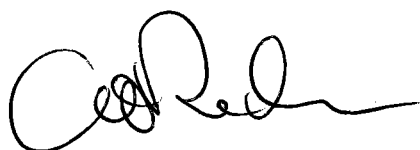
Auckland

**Asteron Life Limited**  
**Statements of financial position**  
as at 30 June 2010

(All amounts are in NZD thousands unless otherwise stated)

	Notes	Group		Parent	
		2010	2009	2010	2009
<b>Assets</b>					
Cash and cash equivalents	12	12,335	8,774	10,429	7,207
Loans and receivables	13	121,212	198,904	14,305	18,685
Related party receivables	24(b)	3,742	4,007	5,333	7,930
Other assets	15	5,111	4,815	4,104	3,054
Current tax asset		8,534	6,946	6,032	8,323
Reinsurance recoveries - outstanding claims liabilities		19,608	16,212	19,608	16,212
Financial assets at fair value through profit or loss	14	621,154	599,653	652,717	634,591
Reinsurance recoveries - policy liabilities	21(b)	15,396	16,627	15,396	16,627
Employee defined benefit assets	18(a)	69	1,807	69	1,807
Plant and equipment	16	344	425	285	381
Intangible assets	17	1,505	2,538	1,409	2,418
<b>Total assets</b>		<b>809,010</b>	<b>860,708</b>	<b>729,687</b>	<b>717,235</b>
<b>Liabilities</b>					
Trade and other payables	19	8,740	9,882	8,979	8,110
Related party payables	24(b)	7,955	8,012	13,764	15,880
Financial liabilities - external	20	89,400	158,700	-	-
Unearned premium liabilities		2,166	1,906	2,166	1,906
Outstanding claims liabilities		70,970	67,927	70,970	67,927
Policy liabilities	21(a)	228,497	254,388	228,497	254,388
Unvested policy liabilities		17,079	16,366	17,079	16,366
Other employee benefit obligations	18(a)	1,534	1,200	1,489	1,162
Employee defined benefit obligations	18(a)	3,795	3,776	3,795	3,776
Deferred tax liabilities	11(b)	53,301	47,403	52,632	49,223
<b>Total liabilities</b>		<b>483,437</b>	<b>569,560</b>	<b>399,371</b>	<b>418,738</b>
<b>Net assets</b>		<b>325,573</b>	<b>291,148</b>	<b>330,316</b>	<b>298,497</b>
<b>Equity</b>					
Total share capital	22	190,656	190,514	190,656	190,514
Retained earnings		132,525	98,049	139,660	107,983
<b>Shareholder's equity</b>		<b>323,181</b>	<b>288,563</b>	<b>330,316</b>	<b>298,497</b>
Non-controlling interests		2,392	2,585	-	-
<b>Total Equity</b>		<b>325,573</b>	<b>291,148</b>	<b>330,316</b>	<b>298,497</b>

The following Directors have signed on behalf of the Board:



Director  
21 September 2010



Director  
21 September 2010

**Asteron Life Limited**  
**Statements of comprehensive income**  
for the year ended 30 June 2010

(All amounts are in NZD thousands unless otherwise stated)

	Notes	Group		Parent	
		2010	2009	2010	2009
<b>Revenue:</b>					
Premium revenue	7	132,114	122,314	132,114	122,314
Less outwards reinsurance expense	7	(24,109)	(22,416)	(24,109)	(22,416)
<b>Net premium revenue</b>		<b>108,005</b>	<b>99,898</b>	<b>108,005</b>	<b>99,898</b>
Investment revenue	7	67,109	3,429	49,567	(22,516)
Other revenue	7	8,748	9,795	-	-
<b>Net revenue</b>		<b>183,862</b>	<b>113,122</b>	<b>157,572</b>	<b>77,382</b>
<b>Claims and expenses:</b>					
Claims expense	8	77,406	89,562	77,406	89,562
Less: Reinsurance recoveries	8	(17,799)	(25,769)	(17,799)	(25,769)
<b>Net claims expenses</b>		<b>59,607</b>	<b>63,793</b>	<b>59,607</b>	<b>63,793</b>
Acquisition expenses	8	46,590	41,835	43,967	36,665
Maintenance expenses	8	31,064	32,951	27,170	29,816
Investment management expense	8	2,794	4,163	1,588	1,840
Change in policy liabilities	21(a)	(8,552)	(65,975)	(8,552)	(65,975)
Change in unvested policy liabilities	8	714	(974)	714	(974)
<b>Total management expenses and policy liability movements</b>		<b>72,610</b>	<b>12,000</b>	<b>64,887</b>	<b>1,372</b>
<b>Total operating expenses</b>		<b>132,217</b>	<b>75,793</b>	<b>124,494</b>	<b>65,165</b>
<b>Result from operating activities</b>		<b>51,645</b>	<b>37,329</b>	<b>33,078</b>	<b>12,217</b>
Finance costs	9	6,153	14,285	-	777
<b>Profit before impairment losses on loans and advances and tax</b>		<b>45,492</b>	<b>23,044</b>	<b>33,078</b>	<b>11,440</b>
Other expenses - impairment loss on mortgage loans	8	9,788	12,731	-	-
<b>Profit before tax</b>	10	<b>35,704</b>	<b>10,313</b>	<b>33,078</b>	<b>11,440</b>
Income tax credit	11(a)	(1,071)	(12,615)	(1,091)	(11,439)
<b>Profit after tax</b>		<b>36,775</b>	<b>22,928</b>	<b>34,169</b>	<b>22,879</b>
<b>Other comprehensive income</b>					
Actuarial loss on defined benefit fund	18(b)(iv.)	(2,492)	(2,312)	(2,492)	(2,312)
<b>Total other comprehensive income</b>		<b>(2,492)</b>	<b>(2,312)</b>	<b>(2,492)</b>	<b>(2,312)</b>
<b>Total comprehensive income for the year</b>	27	<b>34,283</b>	<b>20,616</b>	<b>31,677</b>	<b>20,567</b>
Total comprehensive income for the year attributable to:					
Owner of the Company		34,476	21,050	31,677	20,567
Non-controlling interests loss	21(d)	(193)	(434)	-	-
<b>Total comprehensive income for the year</b>		<b>34,283</b>	<b>20,616</b>	<b>31,677</b>	<b>20,567</b>



**Asteron Life Limited**  
**Statements of changes in equity**  
for the year ended 30 June 2010

(All amounts are in NZD thousands unless otherwise stated)

Group	Notes	Contributed capital	Retained earnings	Non-controlling interests	Total equity
Balance at 1 July 2008		172,899	94,499	3,019	270,417
<b>Total comprehensive income for the period</b>					
Profit after tax		-	23,362	(434)	22,928
<b>Other comprehensive income net of income tax</b>					
Actuarial losses on defined benefit plans		-	(2,312)	-	(2,312)
<b>Total comprehensive income for the period</b>		-	21,050	(434)	20,616
<b>Transactions with owners, recorded directly in equity</b>					
Contributions by owners	22	17,500	-	-	17,500
Share-based payment transactions	22	115	-	-	115
Dividends to equity holders	23	-	(17,500)	-	(17,500)
<b>Total contributions by and distributions to owners</b>		17,615	(17,500)	-	115
<b>Balance at 30 June 2009 / 1 July 2009</b>		<b>190,514</b>	<b>98,049</b>	<b>2,585</b>	<b>291,148</b>
<b>Total comprehensive income for the period</b>					
Profit after tax		-	36,968	(193)	36,775
<b>Other comprehensive income net of income tax</b>					
Actuarial losses on defined benefit plans		-	(2,492)	-	(2,492)
<b>Total comprehensive income for the period</b>		-	34,476	(193)	34,283
<b>Transactions with owners, recorded directly in equity</b>					
Contributions by owners	22	-	-	-	-
Share-based payment transactions	22	142	-	-	142
Dividends to equity holders	23	-	-	-	-
<b>Total contributions by and distributions to owners</b>		142	-	-	142
<b>Balance at 30 June 2010</b>		<b>190,656</b>	<b>132,525</b>	<b>2,392</b>	<b>325,573</b>
<b>Parent</b>					
Balance at 1 July 2008		172,899	104,916	-	277,815
<b>Total comprehensive income for the period</b>					
Profit after tax		-	22,879	-	22,879
<b>Other comprehensive income net of income tax</b>					
Actuarial losses on defined benefit plans		-	(2,312)	-	(2,312)
<b>Total comprehensive income for the period</b>		-	20,567	-	20,567
<b>Transactions with owners, recorded directly in equity</b>					
Contributions by owners	22	17,500	-	-	17,500
Share-based payment transactions	22	115	-	-	115
Dividends to equity holders	23	-	(17,500)	-	(17,500)
<b>Total contributions by and distributions to owners</b>		17,615	(17,500)	-	115
<b>Balance at 30 June 2009 / 1 July 2009</b>		<b>190,514</b>	<b>107,983</b>	<b>-</b>	<b>298,497</b>
<b>Comprehensive income for the period</b>					
Profit after tax		-	34,169	-	34,169
<b>Other comprehensive income net of income tax</b>					
Actuarial losses on defined benefit plans		-	(2,492)	-	(2,492)
<b>Total comprehensive income for the period</b>		-	31,677	-	31,677
<b>Transactions with owners, recorded directly in equity</b>					
Contributions by owners	22	-	-	-	-
Share-based payment transactions	22	142	-	-	142
Dividends to equity holders	23	-	-	-	-
<b>Total contributions by and distributions to owners</b>		142	-	-	142
<b>Balance at 30 June 2010</b>		<b>190,656</b>	<b>139,660</b>	<b>-</b>	<b>330,316</b>

**Asteron Life Limited**  
**Statements of cash flows**  
for the year ended 30 June 2010

(All amounts are in NZD thousands unless otherwise stated)

	Notes	Group		Parent	
		2010	2009	2010	2009
<b>Cash flows from operating activities</b>					
Premiums received		145,700	137,541	145,700	137,541
Reinsurance premiums paid		(24,163)	(25,007)	(24,163)	(25,007)
Policy payments		(107,182)	(136,332)	(107,182)	(136,332)
Reinsurance and other recoveries received		17,583	19,956	17,583	19,956
Operating expenses paid		(38,905)	(37,164)	(28,267)	(22,655)
Agents commission and bonuses paid		(38,165)	(33,909)	(37,341)	(32,432)
Equity distributions received		8,079	19,389	8,079	19,389
Interest received		30,747	43,882	19,698	25,017
Other income received		4,202	551	614	475
Other revenue and fees received		8,748	9,795	-	-
Income tax refund/(paid)		-	(3,567)	-	(3,564)
Borrowing costs		(6,153)	(14,285)	-	(777)
<b>Net cash flows from operating activities</b>	27	<b>491</b>	<b>(19,150)</b>	<b>(5,279)</b>	<b>(18,389)</b>
<b>Cash flows from investing activities</b>					
Repayment of investment in wholesale mortgage funds		-	-	-	31,500
Investment in GTFM Mortgage Fund		-	-	-	(31,500)
Proceeds from sale of controlled entities		-	-	-	317
Purchase of financial assets		(500,102)	(646,081)	(499,899)	(643,450)
Advances of policy loans		(2,173)	(646)	(2,173)	(646)
Advances of mortgage and other loans		(1,591)	(241,141)	(1,032)	(6,746)
Proceeds from the sale of financial assets		510,106	668,728	509,623	660,307
Repayments of policy loans		1,590	2,727	1,590	2,727
Repayments of mortgage and other loans		64,497	223,324	286	56,282
Proceeds from sale of plant and equipment		-	6	-	5
Payment for purchases of plant and equipment		(99)	(83)	(36)	(62)
Payments for purchase of intangible assets		-	(1,048)	-	(928)
<b>Net cash flows from investing activities</b>		<b>72,228</b>	<b>5,786</b>	<b>8,359</b>	<b>67,806</b>
<b>Cash flows from financing activities</b>					
Proceeds from borrowings		-	266,750	-	-
Repayments of borrowings		(69,300)	(262,793)	-	(54,743)
Proceeds from share issues		142	17,615	142	17,615
Dividends paid		-	(17,500)	-	(17,500)
<b>Net cash flows from financing activities</b>		<b>(69,158)</b>	<b>4,072</b>	<b>142</b>	<b>(54,628)</b>
<b>Net increase in cash and cash equivalents</b>		<b>3,561</b>	<b>(9,292)</b>	<b>3,222</b>	<b>(5,211)</b>
Cash and cash equivalent at 1 July		8,774	18,066	7,207	12,418
<b>Cash and cash equivalent at 30 June</b>	12(b)	<b>12,335</b>	<b>8,774</b>	<b>10,429</b>	<b>7,207</b>

## 1 Reporting entity

Asteron Life Limited ("the company") and its subsidiaries (together "the group") operates primarily in the life insurance and long term savings business within New Zealand.

The company is incorporated in New Zealand with its registered office at 139 The Terrace, Wellington and head office at 48 Shortland Street, Auckland.

The company is a wholly owned subsidiary of Suncorp Group New Zealand Limited. The ultimate New Zealand parent is Suncorp Group Services NZ Limited and the ultimate parent of this group is Suncorp-Metway Limited, an Australian listed company.

## Statement of Accounting Policies

### 2 Basis of preparation

The principal accounting policies adopted in the preparation of these general purpose financial statements are set out below. These policies have been consistently applied to all periods presented unless otherwise stated.

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

#### (a) Statement of compliance

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate to profit oriented entities and International Financial Reporting Standards. The financial statements have been prepared in accordance with the requirements of the Companies Act 2003 and the Financial Reporting Act 1993.

The company and the group are profit oriented entities.

#### (b) Basis of measurement

The financial statements have been prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held to back life insurance policy liabilities and life investment contract liabilities.

#### (c) Functional currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the group operates ("the functional currency"). The financial statements are presented in New Zealand dollars, which is the group's functional and presentation currency.

#### (d) Rounding

All values are rounded to the nearest thousand dollars (\$000) unless stated otherwise.

#### (e) New reporting standards or interpretations

##### i Standards adopted during the period

NZ IFRS 2 Share-based Payment: - amendment to Share-Based Payments is to be effective for annual reporting periods on or after 1 January 2010. This change has no financial impact to the group. The group have already early adopted this standard.

NZ IFRS 7 Financial Instruments: - the group has applied (amendments to NZ IFRS 7), issued in March 2009, which required disclosures about fair value hierarchy measurement in respect of financial instruments, these have been included in note 4.

NZ IAS 1 Presentation of Financial Statements(effective from 1 January 2009): - the revised standard supersedes the 2003 version of NZ IAS 1, as amended in 2005. The application of the revised standard has not had an impact on the groups financial results as the revision is only concerned with the presentation of the primary statements. As a result, the group presents in the statements of changes in equity all transactions with owners as equity, whereas all non shareholder transactions previously recognised in equity are presented in the statement of comprehensive income as other comprehensive income.

NZ IAS 7: Statement of Cash Flows: - amendments (effective periods beginning on or after 1 January 2010) explicitly states that only expenditure that results in a recognised asset can be classified as cash flow from investing activities. The group, by default, has early adopted this amendment.

NZ IAS 19 Employee Benefits (Amendment) NZ IFRIC 14: -the Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. These amendments (effective 1 January 2011) remove unintended consequence arising from the treatment of prepayments when there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense.

##### ii. Standards not yet effective

The following reporting standards and interpretations applicable to the group have been issued by the Financial Reporting Standards Board but are not yet effective.

NZ IFRS 9 Financial Instruments: -the requirements of this standard represent a significant change from the existing requirements in NZ IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value, and eliminates the existing NZ IAS 39 categories of held to maturity, available for sale, and loans and receivables. A financial asset would be measured at amortised cost if it is held to collect contractual cash flows of principal and interest on specified dates. All other financial assets would be measured at fair value. These requirements are not expected to substantially change the way the group currently measure and present financial instruments. A detailed analysis of the impact is yet to be performed.

### 3 Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

#### (a) Principles of consolidation

##### i. Subsidiaries

Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Profit or loss of subsidiaries is included in the statements of comprehensive income for the period that the company controls the entity.

Investments in subsidiary companies are carried at their fair value. The fair value is based on the net asset value (NAV) of the subsidiary. They are subsequently increased by any capital contributions such as equity-settled share-based payments issued to employees of subsidiaries and decreased by any impairment losses. Investments in subsidiary unit trusts are carried at their fair value in the relevant parent's financial reports.

##### ii. Transactions eliminated on consolidation

The effect of all balances and transactions between entities in the group are eliminated from the statements of financial position and statements of comprehensive income in full.

##### iii. Non-controlling interests

Non-controlling interests occur when the group does not hold 100% of the shares in a subsidiary where such shares are recognised as equity in the subsidiary. Non-controlling interests are also recognised as equity.

Related items of income and expense are recognised in the statements of comprehensive income at their gross amounts, with the offsetting amount attributable to non-controlling interests disclosed separately in the statements of comprehensive income.

#### (b) Foreign currency translation

Items included in the financial statements of each of the entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the profit & loss in the statement of comprehensive income.

#### (c) Principles of life insurance business

The group's significant activity is life insurance business. The business is comprised of life and disability insurance and investments. In relation to the group's life insurance business, which is conducted by the company, assets, liabilities, revenues and expenses are recognised in the financial statements irrespective of whether they relate to policy owners or the shareholder. A policy owner is one who holds a policy of insurance with Asteron Life Limited.

The life insurance operations of the group comprise the selling and administration of life insurance and life investment contracts.

##### i. Life insurance contracts

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness. The insured benefit is either not linked or only partly linked to the market value of the investments held by the entity, and the financial risks are substantially borne by the entity.

The insurance operations of the group are conducted within separate funds as required by the relevant local laws and regulations, and are reported in aggregate in the profit or loss in the statements of comprehensive income, statements of financial positions and statements of cash flows of the group.

##### ii. Life investment contracts

Life investment contracts are all contracts that do not involve the acceptance of significant insurance risk. They include investment-linked contracts where the benefit amount is directly linked to the market value of the investment held in the particular investment-linked fund. While the underlying assets are registered in the name of the entity and the investment-linked policy owner has no direct access to the specific assets, the contractual arrangements are such that the investment-linked policyholder bears the risks and rewards of the fund's investment performance. The group derives fee income from the administration of investment-linked policies and funds.

Policy contracts that include both investment and insurance elements are separated into these two elements when practicable and when components can be reliably measured, and reported accordingly.

#### (d) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, other short-term highly liquid investments with original maturities of three months or less, deposits at call that are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts. Bank overdrafts are shown within financial liabilities in the statement of financial position unless there exists a right of offset.

### 3 Significant accounting policies (continued)

#### (e) Financial assets

A financial asset is recognised in the statements of financial position when the group becomes a party to the contractual provisions of the instrument. Initial recognition is at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset except for financial assets at fair value through profit or loss which exclude transaction costs.

All purchases and sales of financial assets that require delivery of the asset within the time frame established by regulation or market convention are recognised at trade date, being the date on which the group commits to buy or sell the asset.

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

Financial assets are classified into one of the following categories upon initial recognition:

- Financial assets at fair value through profit and loss; or
- Loans and receivables.

At each reporting date measurement depends upon the chosen classification.

#### i. Financial assets at fair value through profit or loss

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

- it is classified as held for trading; or
- upon initial recognition it is designated by the group as at fair value through profit or loss.

The assets are valued at fair value each reporting date based on the current bid price where available. Where a quoted price is not available one of the following valuation techniques are used to value the assets at reporting date: recent arms length transactions, discounted cash flow analysis, option pricing models or other valuation techniques commonly used by market participants.

Movements in fair value are taken immediately to the profit or loss in the statements of comprehensive income.

#### ii. Loans and receivables

Loans and receivables are initially measured at fair value plus directly attributable transaction costs. They are subsequently measured at amortised cost using the effective interest method, and are stated net of any impairment losses.

Interest income is recorded in the profit or loss in the statements of comprehensive income.

Included in loans and other receivables are mortgage loans held by mortgage funds. Performing mortgage loans are stated at amortised cost which, due to the minimum loan to value ratio and the minimum credit criteria required by the relevant fund for the mortgage loans it holds, is believed by the fund manager to be the fair value of these investments. Impairment provision (refer note 3 (j)) is recognised on impaired loans, which are assessed by reference to independent forced sales valuations adjusted for expected selling and marketing costs. Mortgage loans are derecognised when the rights to receive cash flows have expired which is normally when the mortgage loan and any accrued interest has been fully repaid.

#### iii. Life insurance activities

The assets of the life business are assessed under NZ IFRS4 Insurance Contracts to be assets that are held to back life insurance and life investment contracts.

##### *Financial assets backing life insurance and life investment contract liabilities*

The group has designated all assets backing policy liabilities as fair value through profit or loss in statements of comprehensive income, and are measured on a basis that is consistent with the measurement of the liabilities. These financial assets include:

- Investment securities comprising holdings in unlisted managed investment schemes, futures and forward foreign exchange contracts.

Movements in the fair values between each reporting date, being the last price on those dates, are recognised in the profit or loss in the statements of comprehensive income.

- Receivables comprise premium receivables, reinsurance and other recoveries, investment related receivables, distributions receivable and loans. Receivables are recognised at fair value which is approximated by taking the initially recognised amount and reducing it for credit risk as appropriate. Given the short term nature of most receivables, the recoverable amount approximates fair value.

##### *Financial assets not backing life insurance and life investment contract liabilities*

Financial assets held within shareholder funds do not back life insurance contract liabilities or life investment contract liabilities. These comprise investment securities which have been designated at fair value through profit or loss as they are managed and their performance evaluated on a fair value basis for internal and external reporting in accordance with the investment strategy.

#### iv. Determination of fair value

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

- Cash assets - at face value of the amounts deposited or drawn;
- Listed unit trusts and shares - by reference to quoted bid price;
- Listed government and semi government securities - by reference to quoted bid price;
- Unlisted investments (including investment in subsidiaries) - at valuation based on recent arm's length transactions, reference to other instruments that have substantially the same characteristics, discounted cash flow analysis and other pricing models.

#### iv. Recognition and de-recognition

All purchases and sales of financial assets that require delivery of the asset within the time frame established by regulation or market convention are recognised at trade date, being the date on which the group commits to buy or sell the asset.

**3 Significant accounting policies (continued)**  
**(e) Financial assets (continued)**  
**iv. Recognition and de-recognising (continued)**

Financial assets are de-recognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and the group has transferred substantially all risks and rewards of ownership.

**(f) Trade and other receivables**

Amounts due from policyholders, intermediaries and other receivables are classified as loans and receivables and are initially recognised at fair value, being the amounts receivable.

They are subsequently measured at fair value, being the initial recognised amount and reduced for impairment as appropriate. Any impairment charge is recognised in profit or loss in the statements of comprehensive income.

A provision for impairment of receivables is established when there is objective evidence that the group will not be able to collect all amounts receivable according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. Expected future receivables are discounted using interest rates on government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash inflows.

**(g) Lease transactions**

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Operating lease payments are charged to the profit or loss in the statements of comprehensive income in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

The group does not have any finance leases.

**(h) Plant and equipment**

**i. Recognition and initial measurement**

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

Plant and equipment is initially measured at cost, which comprises:

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

**ii. Subsequent measurement**

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

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

**iii. Depreciation**

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

The following depreciation rates have been used:

- Computer Hardware 33%
- Furniture, Fittings and Office Equipment 10%-33%
- Leasehold Alterations 20%
- Motor Vehicles 15%-26%

**iv. Retirement**

The carrying amount of plant and equipment is derecognised upon disposal or where no future economic benefits are expected from its use.

The gain or loss arising from the derecognition is recognised in the profit or loss in the statements of comprehensive income when the item is derecognised and calculated as the difference between the carrying amount of the asset at the time of derecognition and the net proceeds of derecognition.

**v. Project costs**

Projects with an eligible spend of at least \$500k in upfront costs are generally considered for capitalisation. The accounting treatment of a project's upfront costs is considered based on all relevant accounting policies with particular reference to the 'Plant and equipment' policy to determine which costs can be capitalised.

Capitalised costs held in work-in-progress are reviewed every half-year to ensure that no impairment has occurred and that the capitalisation criteria continue to be met. Factors considered include questionnaires to project teams, evaluation of NPV, etc.

### 3 Significant accounting policies (continued)

#### (i) Intangible assets

##### i. Initial recognition and measurement

Intangible assets are non-monetary assets other than goodwill with no physical substance, that are separately identifiable, controlled by the group and have future economic benefits. The asset is measured as the cost incurred in its generation.

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

Expenditure on internally generated goodwill and brands is recognised in the profit or loss in the statements of comprehensive income as an expense as incurred.

Intangible assets comprise capitalised software, goodwill and management rights.

##### ii. Subsequent expenditure

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

##### iii. Amortisation

Amortisation is charged to the profit or loss in the statements of comprehensive income in a manner that reflects the pattern in which the asset's future economic benefits are expected to be consumed over the estimated useful lives of intangible assets unless such lives are indefinite.

An intangible asset is regarded as having an indefinite useful life when, based on all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the group. Where the asset is deemed to have an indefinite life, it is not amortised but tested for impairment at least on an annual basis.

##### iv. Goodwill

The group uses the purchase method of accounting to account for the acquisition of subsidiaries. Where an entity or operation is acquired, the cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The identifiable net assets acquired, including other intangibles, are measured at fair value. The excess of the fair value of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired, including other intangibles, represents goodwill. Goodwill on acquisitions on controlled subsidiaries is brought to account as goodwill.

#### (j) Impairment

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

##### i. Intangible assets

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

An impairment loss is recognised whenever the asset's carrying amount exceeds its recoverable amount. Impairment losses are recognised in the profit or loss in the statements of comprehensive income unless the asset has previously been revalued. In that case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the profit or loss in the statements of comprehensive income.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value (if any), on a systematic basis over its remaining useful life. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGU) – this may be an individual asset or a group of assets. For the purpose of assessing any impairment of goodwill, goodwill is allocated to CGU's representing the group's investment in each of its business lines, which are its primary reporting segments. Impairment losses, if any, recognised in respect of a CGU are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then, to reduce the carrying amount of the other assets in the unit on a pro rata basis.

##### ii. Mortgage loans

###### *Specific provisions*

Mortgage loans and accrued interest are subject to an impairment assessment to determine if there is objective evidence that any loan or accrued interest are impaired at each balance date. All known bad debts are written off against the impairment provision in the period in which they are incurred. Where not previously provided for they are written off directly to the profit or loss in the statements of comprehensive income.

The criteria that the group uses to determine that there is objective evidence of an impairment loss includes:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Initiation of bankruptcy proceedings; and
- Deterioration in the value of the collateral property.

**3 Significant accounting policies (continued)**  
**(j) Impairment(continued)**  
**ii. Mortgage loans (continued)**

Specific impairment provisions are recognised for all loans where there is objective evidence that an individual loan is impaired. Specific impairment provisions are measured as the difference between the assets carrying amount and the estimated future cash flows discounted to their present value at the original effective interest rate. As this discount unwinds during the period between recognition of impairment and recovery of the written down amount, it is recognised in the profit or loss in the statements of comprehensive income. The process of estimating the amount and timing of future cash flows involves considerable management judgement. These judgements are reviewed at least monthly to reduce any differences between loss estimates and actual loss experience.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

When a loan is known to be uncollectable, the loan is written off directly to the profit or loss in the statements of comprehensive income, and the related provision for loan impairment is adjusted accordingly. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount is recognised in the profit or loss in the statements of comprehensive income as a reversal of the impairment charge for credit losses.

*Collective provisions*

In response to conditions in the global and local credit and property markets and the associated uncertainty in respect of expectations regarding the repayment of the group's mortgage loans and underlying security values, the group has considered it appropriate to continue to recognise collective provisioning for mortgage loans with similar credit risk characteristics where individual impairment losses have not been recognised.

Where loans are not assessed as individually impaired, they are classified into groups of loans with similar credit risk characteristics and collectively assessed for impairment. Collective impairment provisions are based on historical loss experience adjusted where appropriate for current observable data. The amount necessary to bring the collective impairment provision to its assessed levels, after write-offs, is charged to the profit or loss in the statements of comprehensive income.

**iii. Other assets**

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Any resultant write-down is recognised as an expense in the reporting period in which it occurs, unless the asset had previously been re-valued, in which case the previous revaluation is written back with any excess being expensed.

**iv. Calculation of recoverable amount for other assets**

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

The unwinding of the discount from initial recognition of impairment through to recovery of the written down amount is recognised through interest income through the profit or loss in the statements of comprehensive income.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable operational cash flows (cash generating units).

**v. Reversal of impairment**

Any impairment loss for an asset other than goodwill is reversed in following periods if there are indications that the impairment loss previously recognised no longer exists or has decreased.

The impairment loss is reversed, in the statements of comprehensive income, only to the extent that it increases the asset back to its original carrying amount before any impairment was recorded. Any impairment loss recognised for goodwill is not reversed.

**(k) Financial liabilities**

Financial liabilities are initially recognised at fair value plus transaction costs that are directly attributable to the issue of the financial liability, except for financial liabilities at fair value through profit or loss which exclude transaction costs.

A financial liability is derecognised when it is extinguished, that is, when the obligation specified in the contract is discharged or cancelled or expires.

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

**i. Financial liabilities at fair value through profit or loss**

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

- it is classified as held for trading; or
- upon initial recognition it is designated by the group as fair value through profit or loss

Financial liabilities arising from life investment contracts are measured at fair value based on future settlement amounts under the contract. Changes to the fair value are recognised in the profit or loss in the statements of comprehensive income in the period in which they occur.

**3 Significant accounting policies (continued)**  
**(k) Financial liabilities (continued)**

**ii. Financial liabilities at amortised cost**

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

**iii. Financial guarantee contract liabilities**

Liabilities arising from financial guarantee contracts are subsequently measured at the higher of the amount determined in accordance with the measurement requirements of a provision and the amount initially recognised less cumulative amortisation.

**(l) Employee entitlements**

**i. Short term employee benefits**

*Wages, salaries and annual leave*

Liabilities for wages and salaries and annual leave are recognised, and are measured at the amounts expected to be paid when the liabilities are settled.

Liabilities for unpaid wages, salaries and annual leave due within 12 months are recognised in the statements of financial position. The liability is measured at undiscounted amounts using pay rates expected to be effective when the liability is to be paid in respect of employees' services up to the reporting date.

*Sick leave*

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

*Short term bonus plans*

A liability is recognised for short term bonus plans when the benefit calculations are formally documented and determined before signing the financial statements and past practice supports the calculation.

*Other leave and non-monetary benefits*

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

**ii. Post-employment benefits (superannuation)**

The group contributes to both defined contribution and defined benefit superannuation schemes. Contributions are charged to the profit or loss in the statements of comprehensive income as the obligation to pay is incurred.

Contributions outstanding at reporting date are treated as liabilities. The defined contribution plans receive fixed contributions from group companies and the group's legal or constructive obligation is limited to these contributions. The defined benefit plans provide defined pension annuities and lump sum benefits based on years of service and final salary.

The asset and liability recognised in the statements of financial position in respect of defined benefit plans is the lower of:

- the present value of the defined benefit obligation at the date of the statements of financial position less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs; and
- the total of cumulative unrecognised net actuarial losses and past service costs and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the statements of comprehensive income.

Past service costs are recognised immediately in the profit or loss in the statements of comprehensive income.

**iii. Other long term employee benefits**

*Long service leave*

A liability for long service leave is recognised in the statements of financial position, at the point the entitlement vests to the employee. The liability is measured at the amounts expected to be paid when the liabilities are settled.

**iv. Termination benefits**

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

**v. Share-based payments**

The group participates in two equity-settled, share-based compensation plans.

*Immediately vesting compensation*

Shares granted under the Exempt Employee Share Plan vest immediately at grant date. Although the value paid to each employee is determined by a cash amount, the payment is made in shares (with no cash alternative) and is therefore treated as an equity-settled share-based payment transaction.

**3 Significant accounting policies (continued)**  
**(l) Employee entitlements (continued)**  
**v. Share-based payments (continued)**

The total expected cost is recognised in the profit or loss in the statements of comprehensive income during the financial year the services are rendered. The total expected cost is determined by considering the expected amount per person (the fair value) and non-market factors such as eligibility requirements and staff attrition rates.

*Future vesting compensation*

Shares granted under the Executive Performance Share Plan vest over a period from grant date to generally three to five years. The value of these long-term incentives is recognised as an expense in the profit or loss in the statements of comprehensive income on a straight line basis over the vesting period. The value is calculated as: fair value at grant date x expected number of shares to be granted.

The fair value of the shares is the market price of the shares adjusted for the terms and conditions upon which the shares were granted. This is measured using a Monte-Carlo simulation. Once determined, fair value does not change throughout the vesting period unless the terms and conditions of the grant are modified. The number of shares reflect the best estimate of shares expected to vest at the end of the vesting period and this estimate is revised if indicated by subsequent information. Non-market conditions (e.g. fulfilment of service period) are taken into account when determining this best estimate, whilst market conditions are not. If shares do eventually vest, any unamortised balance is expensed at the end of the vesting period.

When the group grants deferred shares to employees of subsidiaries, the fair value at grant date is recognised as an increase in the investments in subsidiaries, with a corresponding increase in equity over the vesting period of the grant. Where shares do not eventually vest, the treatment of the previously recognised expense depends upon the reason the shares did not vest:

- If a non-market condition is not satisfied (e.g. an unfulfilled service period) the expense is reversed in the profit or loss in the statements of comprehensive income in the period when the condition was not satisfied; and
- If a market condition is not satisfied (e.g. Total Shareholder Return not being achieved) the expense is not reversed.

**(m) Provisions**

A provision is a liability of uncertain timing or amount which is recognised in the statements of financial position when:

- the group has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of economic benefits will be required to settle the obligation; and
- the amount can be reliably estimated.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

Where the group enters into financial arrangements to provide financial support, the group considers these to be insurance arrangements or financial guarantees, as applicable. The group treats the insurance arrangements as contingent liabilities until such time as it becomes probable that the group will incur losses under the insurance arrangements. Financial guarantees are recognised at fair values, determined using cash flow forecasts to determine whether losses related to the indemnities have been incurred.

**(n) Policy liabilities**

Contracts entered into by the company are classified as either insurance or investment. A life insurance contract is an insurance contract or a financial instrument with a discretionary participation feature and includes risk business, lifetime annuities, traditional and participating business. A life investment contract is a contract which does not meet the definition of a life insurance contract and includes non-participating investment business and immediate term certain annuities. Some policy contracts include both investment and insurance elements, in which case, the contracts are separated into these two elements when practicable and when the components can be reliably measured.

**i. Determination of policy liabilities**

Liabilities to policyholders in the statement of financial position are measured on the Margin on Services basis ("MoS") in accordance with New Zealand Society of Actuaries Professional Standard 3, "Determination of Life Insurance Policy Liabilities, ("P53")." The increase/(decrease) in policy liabilities in the profit or loss in the statement of comprehensive income is also calculated on a MoS basis.

**ii. Life insurance policy liabilities**

Policy liabilities, arising from life insurance contracts, are measured at the net present value of estimated future cash flows in accordance with P53. Policy liabilities are remeasured periodically and changes are recognised in the profit or loss in the statements of comprehensive income in a manner that allows for the systematic release of planned margins over a period that reflects the services provided to, and premiums received from, the policyholders.

Expected future cash flows are reviewed to establish the present value of estimated future expenses for the group of related products against the present value of estimated future revenues to test the adequacy of the policy liabilities.

The significant assumptions applied in calculating these estimates and the process and methodology used for determining these assumptions are included in note 5.

**iii. Life investment policy liabilities**

Policy liabilities, arising from life investment contracts, are recognised at fair value through the profit or loss in the statement of comprehensive income, which is based on the valuation of the linked assets, subject to a minimum of current surrender value.

**(o) Contributed capital**

**i. Ordinary shares**

Ordinary shares are recognised as equity.

**ii. Share based payments**

Ordinary shares are periodically issued in accordance with the terms in note (3(j) (v.)) above and recognised as equity.

**3 Significant accounting policies (continued)**  
**(o) Contributed capital (continued)**

**iii. Repurchase of share capital**

When contributed capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from total equity.

**vi. Preference shares**

The preference shares do not exhibit the characteristics of debt in their terms of issue, repayment, or dividend payment and are therefore classified as equity.

**v. Capital contributions to subsidiaries**

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

**vi. Dividends**

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

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

**(p) Contingent liabilities and assets**

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

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

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

**(q) Commitments**

Commitments to extend credit, letters of credit, guarantees, warranties and indemnities are classed as financial instruments and attract fees in line with market prices for similar arrangements and reflect the probability of default.

They are not sold or traded. They are not recognised in the financial statements but are disclosed in the notes to the financial statements at their face value.

**(r) Revenue**

**i. Life insurance premium revenue**

Premiums are separated into their revenue and deposit business components. Premium revenues with regular due dates are recognised as revenue on an accrual basis. Premium revenues with no due date are recognised as revenue on a cash received basis. Unpaid premiums are only recognised as revenue during the days of grace or where secured by the surrender value of the policy and are included as receivables in the statements of financial position. Premiums received in respect of life investment contracts are recognised as an increase in the investment contract liability in the statements of financial position.

**ii. Life insurance reinsurance and other recoveries receivable**

Policy claims recoverable from reinsurers are recognised as revenue in line with the recognition of the claim expense (or upon notification of the insured event).

**iii. Investment revenue**

*Interest income*

Interest income is recognised using the effective interest method. The effective interest method uses the effective interest rate to allocate interest income and expense over the relevant accounting period for the financial asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash payments and receipts through the expected life of the financial instrument, or when appropriate, a shorter period to the net carrying amount of the financial asset or liability.

*Dividends*

Dividends from listed companies are recognised as income on the date the shares are quoted ex-dividend. Dividends from subsidiaries and associated entities are recognised when they are declared in the financial reports of the subsidiaries and associated entities. Dividend revenue is recognised net of any imputation credits. Distributions from listed and unlisted unit trusts are recognised on the date the unit value is quoted ex-distribution.

**iv. Fee income and investment revenue**

Fee income is recognised as revenue in the accounting periods in which the services are performed.

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

Amounts receivable in respect of the indemnity provided to compensate for capital and interest losses in the fund are recognised as sundry investment income as the losses are identified.

**3 Significant accounting policies (continued)**  
**(r) Revenue (continued)**  
**iv. Fee income and investment revenue (continued)**

Interest and other revenues are recognised on an accrual basis as being due up to the end of each accounting period.

**(s) Claims expense**

**i. Life insurance contracts**

Claims are recognised as an expense in the profit or loss in the statements of comprehensive income when the insured event under the policy contract has occurred or upon notification of the insured event, depending on the type of claim.

**ii. Life investment contracts**

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

**(t) Reinsurance**

**i. Outwards reinsurance premium expense**

Where portions of the policy are reinsured, the ceded premiums are recognised in the profit or loss in the statement of comprehensive income as reinsurance premium expense. Premiums ceded to reinsurers are recognised as expenses in accordance with the pattern of gross premium received, being for facultative, proportional and non-proportional reinsurance.

**ii. Reinsurance recoveries**

Policy claims recoverable from reinsurers are recognised as revenue in line with recognition of the claim expense (or upon notification of the insured event).

**(u) Basis of expense apportionment for the group's life insurance business**

The group's life insurance business expenses comprise of either direct i.e. where they are directly attributable to life insurance and life investment products; or indirect i.e. all other expenses relating to the acquisition, maintenance and investment management activities associated with life insurance and life investment contracts, which are recorded in cost centres and have been incurred in relation to more than one business activity.

Life business expenses are classified as follows;

**i. Acquisition expenses**

Being the fixed and variable costs of acquiring new business, including commissions and similar distribution costs and costs of accepting, issuing and initially recording policies.

**ii. Investment management expenses**

Being the costs involved with buying and selling investments and the ongoing management costs of an investment portfolio.

**iii. Maintenance expenses**

All other costs are considered to be maintenance costs incurred to administer existing life insurance and life investment contracts.

**(v) Deferred life insurance expenses**

**i. Life insurance contracts**

The costs incurred in acquiring specific life insurance contracts include adviser fees, commission payments, underwriting costs, application processing costs, relevant advertising costs, and promotion of products and related activities.

Acquisition costs are deferred provided that these amounts are recoverable out of future profit margins.

The deferred amounts are recognised in the statements of financial position as a reduction in policy liabilities and are released through the profit or loss in the statements of comprehensive income over the expected duration of the relevant policies.

All other costs are expensed as incurred.

**ii. Life investment contracts**

Acquisition costs and all other costs are expensed as incurred.

**(w) Finance costs**

Finance costs include interest on financial liabilities (borrowing costs) and amortisation of discounts or premiums relating to borrowings. Borrowing costs are expensed as incurred.

**(x) Taxation**

**i. Income tax**

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

**3 Significant accounting policies (continued)**

**(x) Taxation (continued)**

**i. Income tax (continued)**

The company, as a life insurer, is subject to a special tax regime. Two bases are maintained: the life office base which is subject to tax on investment income less expenses plus deemed 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 pays tax on the higher of the two bases at the company rate of 30%. As the life insurer is taxed as a proxy for the policyholders, returns to policyholders are tax-exempt.

**ii. Goods and services tax (GST)**

Revenue, expenses and assets are recognised net of the recoverable amount of GST. Receivables and payables are stated inclusive of GST where applicable. The net amount of GST recoverable from, or payable to, the tax authority is included as part of receivables and payables. The items in the cash flow statements are shown exclusive of the recoverable amount of GST.

**iii. Deferred tax**

Deferred tax is provided in full, using the statements of financial position approach, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the statements of financial position. Current and deferred taxes attributable to amounts recognised in other comprehensive income are recognised in other comprehensive income in the statements of comprehensive income. Deferred tax assets and liabilities are recognised at tax rates expected to apply when the assets are recovered or liabilities settled, with deferred tax assets recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

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

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

**(y) Changes in accounting information**

**i. Estimates**

If a change in an accounting estimate gives rise to a change in an asset or liability, or relates to equity, it is recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

Otherwise, it is recognised prospectively by including it in the profit or loss in the statements of comprehensive income in the period of the change and future periods, as applicable.

**ii. Errors**

Any material prior period errors are corrected retrospectively (to the earliest date practicable) in the next issued financial report by:

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

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

**iii. Policies**

The same accounting policies must be applied within each period to enable users to compare the financial statements over time and identify trends. An accounting policy can only be changed if the change is required by a New Zealand Accounting Standard or if the change improves the financial report's reliability or relevance.

A change in accounting policy is either:

**the initial application of a New Zealand Accounting Standard** – transitional provisions are to be applied, if provided, otherwise the change is to be applied retrospectively;

**or a voluntary change** – the change is to be applied retrospectively.

The changed accounting policy shall be applied from the earliest date practicable.

**4 Critical accounting estimates and judgements**

Significant estimates and judgements are made by the group to arrive at certain key asset and liability amounts disclosed in the financial statements. These estimates and judgements are continually being evaluated and are based on historical experience as well as new enhancements to actuarial modelling techniques.

The key areas of significant estimates and judgement and the methodologies used to determine key assumptions are set out on next page.

#### 4 Critical accounting estimates and judgements (continued)

##### (a) Uncertainty over valuation of life insurance policy liabilities

Policy liabilities arising from life insurance contracts are computed at each reporting date using statistical and mathematical methods. The valuations are prepared by suitably qualified personnel on the basis of recognised actuarial methods and with due regard to the actuarial principles laid down in actuarial standards and guidance. 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 insurance contracts;
- Mortality and morbidity experience on individual and group life insurance products; including enhancements to benefits to policyholders and other amounts arising from regulatory interventions;
- Persistency experience, which affects the group's ability to recover the cost of acquiring new business over the lives of the contracts;
- In addition, factors such as regulation, competition, interest rates, taxes, the performance of the capital markets and general economic conditions affect the level of these liabilities.

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

See note 5 for more detail on the valuation of the policy liabilities and the assumptions applied.

##### (b) Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the group may not receive amounts due to it and these amounts can be reliably measured.

##### (c) Pension and post-retirement benefits

The cost of these benefits and the present value of the pension and other post-retirement liabilities depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net periodic cost (income) for pension and post-retirement benefits include the expected long-term rate of return on the relevant plan assets, the discount rate and, in the case of the post-employment medical benefits, the expected rate of increase in medical costs. Any changes in these assumptions will impact the net periodic cost (income) recorded for pension and post-retirement benefits and may affect planned funding of the pension plans. The expected return on plan assets assumption is determined on a uniform basis, considering long-term historical returns, asset allocation and future estimates of long-term investment returns. The group determines the appropriate discount rate at the end of each financial period, which represents the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension and post-retirement benefit obligations.

In determining the appropriate discount rate, the group considered interest rates of government guaranteed securities that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for the pension and post-retirement benefit costs and credits are based in part on current market conditions.

Additional information is disclosed in note 18.

##### (d) Impairment of mortgage loans

Mortgage loan portfolios are reviewed to assess impairment. In determining whether an impairment loss should be recorded in the profit or loss in the statements of comprehensive income, the group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of mortgage loans before the decrease is incurred on an individual mortgage loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or notional or local economic conditions that correlate with defaults on assets in the group. Mortgage portfolios are managed by The New Zealand Guardian Trust Company Limited ("Guardian Trust"), a fellow subsidiary. The Executive Management Team of Guardian Trust uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

##### (e) Maturity profile of mortgage loan portfolio

The contractual maturity dates of the mortgage loan portfolio have been used to generate the loan maturity profile presented in note 6. At the current time a number of borrowers are electing to repay their loans before maturity date. However in the current economic environment it is inevitable that some borrowers will not be able to repay their loans on maturity date. The expected maturity profile has not been adjusted to take account of these uncertain factors that will impact on mortgage loan repayments in the future.

##### (f) Property market and timing of repayments

At this current time the deterioration of the property market and wide spread uncertainty around borrowers' abilities to meet their future obligations may lead to further impairment or delay in the expected repayment of the group's mortgage loans. The uncertainty as to the outcome of these matters could lead to further impairment in the carrying value of the group's mortgage loans. The group is unable to quantify the potential effect of this uncertainty however the collective provision provided in these financial statements is management's best estimate of these potential future losses.

(All amounts are in NZD thousands unless otherwise stated)

#### 4 Critical accounting estimates and judgements (continued)

##### (g) Fair value hierarchy of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and calibrated to ensure that outputs reflect actual data and comparative market prices. A variety of factors are considered in the group's valuation techniques, including time value, credit risk (both own and counterparty), volatility factors (including policyholder behaviour), servicing costs and activity in similar instruments. Changes in assumptions about these factors could affect the reported fair value of financial instruments. For example, to the extent that the actual expected surrenders are different from management's estimates, additional fair value gains or losses would have been recognised in the fair value of liabilities associated with investment contracts.

The group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

**Level 1:** Quoted market price (unadjusted) in an active market for an identical instrument.

**Level 2:** Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

**Level 3:** Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

##### i. Financial classification

Group	Level 1	Level 2	Level 3	Total
<b>2010</b>				
Government/semi government securities	104,119	7,805	-	111,924
Other fixed interest securities	2,596	160,795	-	163,391
Discounted securities	-	52,486	1,288	53,774
Shares in other corporations	144,988	-	-	144,988
Derivatives	-	1,378	-	1,378
Policy and other loans	-	-	8,997	8,997
Unit trusts	135,934	768	-	136,702
<b>Total financial assets at fair value through profit or loss</b>	<b>387,637</b>	<b>223,232</b>	<b>10,285</b>	<b>621,154</b>
Life investment contract liabilities	-	(246,792)	-	(246,792)
Financial liabilities interest rate swap contracts	-	(5,351)	-	(5,351)
	<b>387,637</b>	<b>(28,911)</b>	<b>10,285</b>	<b>369,011</b>
<b>Parent</b>				
<b>2010</b>				
Government/semi government securities	104,119	7,805	-	111,924
Other fixed interest securities	2,596	160,795	-	163,391
Discounted securities	-	51,942	1,288	53,230
Shares in other corporations	144,988	-	-	144,988
Derivatives	-	1,378	-	1,378
Policy and other loans	-	-	8,997	8,997
Unit trusts	135,934	768	-	136,702
Investments in subsidiaries	-	-	32,107	32,107
<b>Total financial assets at fair value through profit or loss</b>	<b>387,637</b>	<b>222,688</b>	<b>42,392</b>	<b>652,717</b>
Life investment contract liabilities	-	(246,792)	-	(246,792)
	<b>387,637</b>	<b>(24,104)</b>	<b>42,392</b>	<b>405,925</b>

There have been no transfers between (level 1 and level 2) for the group during the year ended 30 June 2010.

##### ii. Level 3 movements 2009 to 2010

	Group	Parent
<b>Opening balance</b>	10,176	45,430
Fair value adjustments of investments through profit or loss	(263)	(263)
Fair value adjustments of investments through profit or loss	-	(3,147)
Additions	2,671	2,671
Settlements	(2,299)	(2,299)
<b>Closing balance</b>	<b>10,285</b>	<b>42,392</b>

(All amounts are in NZD thousands unless otherwise stated)

**4 Critical accounting estimates and judgements**  
**(g) Fair value hierarchy of financial instruments (continued)**

**iii. Sensitivity analysis of level 3 valuation**

The table below shows the impact on profit and loss and equity of the level 3 financial assets, should the value move 10% from the stated amount at 30 June 2010.

	2010		2009	
Fair value movement	+10%	-10%	+10%	-10%
<b>Group</b>				
Impact on profit or loss before tax	1,029	(1,029)	1,018	(1,018)
Impact on change in equity	1,029	(1,029)	1,018	(1,018)
<b>Parent</b>				
Impact on profit or loss before tax	4,239	(4,239)	4,543	(4,543)
Impact on change in equity	4,239	(4,239)	4,543	(4,543)

**iv. Level 3 financial instruments 2010**

The group has 4 investments classified as level 3 at 30 June 2010.

(i) The group has provided loans to policy owners secured against the policy surrender values. These loan values compute up to 85% of the surrender value of the policy at the initial date of the loan origination. These loans can be premium based where the client does not pay premiums and can accumulate unpaid premiums up to the surrender value of the policy. There are also cash loans afforded to policy owners. Should the client reach surrender value before the maturity date and no funds are received to reduce the loan value then the policy is forfeited.

There are no observable inputs to the fair value of these loans.

(ii) The group has an investment in a related party mortgage fund unit trust. (refer to note 24 (e) iv.)

The fair value is based on the funds net asset value (NAV), however a critical component to this value is a regular assessment of the underlying mortgage impairment provisioning performed by management.

(iii) The company has four entities that are subsidiary investments (refer note 24(d)(i)). The financial statements for these subsidiaries are prepared monthly and the net performance movement is recorded by the parent. Periodically there is also an impairment test performed on each subsidiary as an entity. There are no observable inputs into the fair value of the investments in the subsidiaries.

(iv) The group holds five parcels of mortgage backed bonds in two separate New Zealand residential mortgage structures, with a carrying value of \$1.15m, (2009 \$1.29m). These bonds are private placements for which there is no active market prices. They are deemed to be level 3 for fair value disclosure purposes in the financial statements. The liquidity nature of these bonds is a key driver of the fair value and the interest margin reflects this. All interest income continues to be received as scheduled and the group's investments are intended to be held to maturity. The unknown factor with these products focuses on the repayment process and is dependant on the repayment behaviour of the mortgages within the appropriate structures and therefore bonds remain in place for the life of the underlying mortgages.

All of these structures are independently monitored and rated on a regular basis by an international credit rating agency. The latest regular investor analysis reports of the group's holdings in the level 3 investments can be summarised as follows:

(a) one investment of \$1.151m has been reduced by 22% to approx \$0.895m by the 30 June 2010. The rating agency in its latest review down graded this bond, one grade. The movement in fair value has been included in the profit or loss in the statements of comprehensive income, (refer Level 3 movements table above).

(b) the other investment of \$0.4m was acquired during the year and had its existing credit rating reconfirmed.

## 5 Summary of significant actuarial methods and assumptions

### (a) Actuarial policies and methods for the life insurance business

The effective date of the actuarial valuation of policy liabilities and solvency requirements is 30 June 2010. The actuarial valuation was prepared by Daniel Wong FIAA FNZSA (Company Actuary of Asteron Life Limited). The Company Actuary is satisfied as to the accuracy of the data upon which policy liabilities have been determined.

Policy liabilities for life insurance contracts are amounts which, when taken together with future premiums and investment earnings are required to meet the payment of future benefits and expenses, and incorporate profit margins on existing business to be released when earned in future periods.

Policy liabilities for life investment contracts are determined as the fair value of the financial instrument.

### (b) Disclosure of assumptions

The valuations included in the reported results are calculated using assumptions about certain key underlying variables. The assumptions are determined by the company Actuary based on the results of annual investigations into the experience of the group's in force business, industry experience data and data provided by the group's reinsurers.

Policy liabilities have been calculated in accordance with Professional Standard No. 3, "Determination of Life Insurance Policy Liabilities" issued by the New Zealand Society of Actuaries.

The actuarial standards require the policy liabilities for life insurance contracts to be calculated in a way which allows for the systematic release of planned margins as services are provided to policy owners. Policy liabilities for investment contracts are calculated as the fair value of the liability.

The profit carriers used and the method of valuation applied for the major product groups in order to achieve the systematic release of planned margins are as follows:

Product group	Method	Profit Carriers
Traditional non-participating business, term insurance	Projection	Claims payments
Lump sum risk payments	Projection	Claims payments
Traditional participating business	Projection	Bonuses
Disability business	Projection	Claims payments
Annuity	Projection	Annuity payments

#### i. Discount Rates

Where the value of benefits under a life insurance contract is not contractually linked to the performance of the assets held, risk-free discount rates derived from inter-bank swap rates are used to determine the present value of the liabilities. A discount rate based on the market return on the backing assets is applied where the value of benefits are contractually linked to the performance of the assets.

The risk free discount rates (before tax) applied for all life insurance business, with the exception of contracts with discretionary participating features, vary between 3.75% and 6.35% (2009: flat rate of 6.0% for all durations).

The discount rate for business with discretionary participating features is based on the market yield on backing assets. This yield was 6.8% in 2010 (2009: 8.0%) gross of tax and investment expenses.

#### ii. Inflation

Allowance for future inflation of 2.5% per annum (2009: 2.5%) is assumed. This level is consistent with long term expectations.

#### iii. Future expenses and indexation

Future investment expenses have been assumed to be at the same percentage of assets under management as currently applies to the actual assets backing the liabilities. Future maintenance expenses per policy have been assumed at current levels increased by the rate of inflation set out above. For contracts which provide for the increase of future benefits in line with inflation, the benefit indexation rate has been assumed to be 2.5% per annum (2009: 2.5%). It is further assumed that the benefit indexation will be taken up by a percentage, determined in line with the group's recent experience, of the eligible policyholders.

#### iv. Rates of taxation

Rates of taxation have been assumed to be at 30% until the financial year end 30 June 2011. Thereafter, future tax will be at 28%. (2009: 33%).

The rate of GST has been assumed to be 15% (2009: 12.5%).

#### v. Asset mix

The assumptions regarding asset mix are based on the target mix of assets.

#### vi. Mortality and morbidity

Mortality rates for risk products, which vary by sex, age and smoking status, have been based on the group's recent experience. Further adjustments are applied for direct marketing products and for some closed products on the observed experience for this business. The rates shown in the following table are aggregate rates before smoker/non-smoker adjustments.

(All amounts are in NZD thousands unless otherwise stated)

**5 Summary of significant actuarial methods and assumptions (continued)**

**(b) Disclosure of assumptions (continued)**

**vi. Mortality and morbidity (continued)**

	As at 30 June 2010		As at 30 June 2009	
Males	95%	IA9597	95%	IA9597
Females	95%	IA9597	95%	IA9597

IA9597 are the Graduated Mortality Tables IA95-97 issued by The Institute of Actuaries of Australia.

Mortality rates for some direct marketed products are based on NZ population mortality tables and have been set at 75%-90% NZ9092 (2009: 75%-90%) for males and 70%-90% NZ9092 (2009: 70%-90%) for females.

Annuitant mortality rates, which vary by age and sex, have been based on industry experience. They are set at 68% (2009: 70%) of the IM80 and IF80 UK tables of the immediate annuity tables published by The Institute of Actuaries allowing for future mortality improvement.

**vii. Disability**

Disability income benefit incidence and termination rates were based on the graduated morbidity (IAD) tables for disability income business published by the Institute of Actuaries of Australia. In each case the rates were adjusted by factors dependent on New Zealand industry experience, entity experience and the nature of benefits. Claim incidence and termination rates are as shown below:

Incidence between 46% and 134% IAD 89-93 (2009: Incidence between 46% and 134% IAD 89-93)

Termination between 30% and 95% IAD89-93 (2009: Termination between 40% and 100% IAD 89-93)

Claim rates for lump sum disability benefits were based on various tables reflecting New Zealand and Australian experience, adjusted by factors dependent on group experience and the nature of benefits.

**viii. Voluntary discontinuance**

Future rates of discontinuance for the major classes of business assumed, varied by duration and class of business, were in the order of:

Class of business	2010	2009
	%	%
Lump sum risk	7.5-21	8-20
Disability income	6-22.5	8-25
Conventional	3	3

Higher discontinuances are assumed for policyholders aged over 64. Higher discontinuances are assumed where premium rates have recently been increased.

**ix. Surrender values**

Surrender values have been based on current practice. No change from last year.

**x. Bonuses**

Future bonuses in policy liabilities are those supported by the supporting assets together with the current premium rates and other assumptions.

Bonus rates and interest crediting rates are reviewed at least once a year after taking into consideration the investment experience of the underlying assets, other experience of the business such as the experience on lapse and mortality, the reasonable expectation of the policyholders and equity among different lines of products. The actual bonus rates and interest crediting rates declared may include a certain degree of smoothing. Terminal bonus rates vary by duration and product lines.

**xi. Future participating benefits**

For participating business, the group's policy is to set reversionary bonus rates such that over long periods together with terminal bonuses where applied, the returns to policy owners are commensurate with the investment returns achieved on relevant assets, together with other sources of profit arising from this business. Distributions are split between policy owners and shareholders with the valuation allowing for shareholders to share in distributions up to the maximum allowable rate of 20%. In applying the policy owners' share of retained profits to provide bonuses, consideration is given to equity between generations of policy owners and equity between the various classes in force.

**(c) Processes used to select assumptions**

An explanation of the method used to determine the individual applied assumptions is described below.

**i. Mortality and morbidity**

An appropriate base table of mortality is chosen for the type of product being written. An investigation into the actual experience of the group is performed and statistical methods are used to adjust the rates reflected in the table to a best estimate of expected mortality based on the investigation results and industry benchmarks. A similar process is adopted for morbidity.

**ii. Lapse**

An investigation into the actual experience of the group is performed and statistical methods are used to determine an appropriate lapse rate. Allowance is made for any trends in the data to arrive at a best estimate of future lapse rates.

(All amounts are in NZD thousands unless otherwise stated)

**5 Summary of significant actuarial methods and assumptions (continued)**

**(d) Effects of changes in actuarial assumptions from 30 June 2009 to 30 June 2010**

Assumption category	Effect on Profit Margin for year Increase/(decrease)	Effect on Policy Liability Increase/(decrease)
Discount rates (risk business)	-	(2,900)
Mortality and morbidity	(1,222)	274
Lapse and surrender rates	(2,532)	(16)
Maintenance expenses	9,257	(150)
<b>Total</b>	<b>5,503</b>	<b>(2,792)</b>

**(e) Sensitivity analysis**

Life insurance and investment contracts are affected by the same subset of variables (mainly arising from financial risks and risks associated with events in human life like death or diseases) and as a result are presented together in this note.

The tables below illustrate the sensitivity of reported profit or loss to changes in assumptions that have a material effect on it.

Variable	Change in variable	Effect on profit or (loss)
<b>As at 30 June 2010</b>		
Change in mortality and morbidity	+10%	(1,460)
	-10%	1,460
Change in lapse rate	+10%	-
	-10%	-
Change of expense assumption	+10%	(40)
	-10%	40
<b>As at 30 June 2009</b>		
Change in mortality and morbidity	+10%	(1,460)
	-10%	1,460
Change in lapse rate	+10%	-
	-10%	-
Change of expense assumption	+10%	(60)
	-10%	60

**6 Risk management and financial instruments**

The group's financial conditions and operating activities are affected by a number of key financial risks; interest rate, currency, credit, pricing, liquidity, and fiscal and non-financial risks; compliance and operational. The group has implemented a detailed risk management programme to identify and mitigate those risks.

**(a) The group's risk management roles and responsibilities**

**i. General**

The group operates within the Suncorp-Metway risk management framework. This structured risk management framework has been implemented throughout the Suncorp-Metway Group in respect of all risks. The universe of risks includes credit, market, liquidity, insurance, compliance, operational and strategic risks. The risk management framework comprises the language, accountabilities, principles, policies and practices, systems and tools, and reporting processes used to enable the delivery of fast, effective and profitable business to the group's customers in a safe environment.

The risk and compliance manager has delegated authority from the Suncorp-Metway Board to approve and oversee the processes used to identify, evaluate and manage risk and recommends the group's risk appetite to the Board. Management has the primary responsibility and accountability for embedding the risk management framework within the business operations of the group. Group functions provide monitoring and advisory functions on an independent basis and facilitate the reporting of the status, appropriateness and quality of risk management capabilities to the risk and compliance manager.

Management is required as part of the monthly due diligence process to identify and report any risk events which have occurred and any breaches in authorities, policies or legislative requirements. These reports are endorsed through management and executives and included in the Suncorp-Metway Chief Executive Officer's Due Diligence Report to the Board Risk Committee.

**ii. Life insurance risk**

The life insurance and investment activities of the group are concerned with the pricing, acceptance and management of the mortality and morbidity risks of policyholders, integrated to a varying extent with the provision of effective wealth management products that attempt to match their investment risk and reward objectives.

In compliance with contractual and regulatory requirements, the risks underwritten by the group are actively managed to ensure they satisfy policyholders' risk and reward objectives and do not adversely affect the group's ability to pay benefits and claims when due. Compliance and operational risks are controlled and monitored to maintain the efficiency of the group as well as to manage the risk of non-compliance.

**(a) Risk management objectives, policies for mitigating life insurance risk**

**Underwriting procedures**

The type and nature of life insurance risk accepted is determined by reference to underwriting procedures detailed in the group's underwriting manual that includes limits to delegated authority and signing powers.



(All amounts are in NZD thousands unless otherwise stated)

**6 Risk management and financial instruments (continued)**  
**(a) The group's risk management roles and responsibilities (continued)**  
**ii. Life insurance risk (continued)**

*Portfolio of Risks*

The group writes insurance policies covering mortality and morbidity risks. The performance of the group and its ability to write business depends on its ability to manage this risk exposure. The group has a risk strategy approved by the company's board, which summarises the group's approach to life insurance risk and risk management.

*Capital allocation and solvency requirements*

Capital requirements are measured by reference to New Zealand actuarial professional standards with which the group is obliged to comply.

*Solvency*

Solvency margin requirements established by New Zealand actuarial professional standards are in place to reinforce safeguards for policyholders' interests, being primarily the ability to meet future claims payments. The solvency margins measure the excess of the value of the insurers' assets over the value of its solvency requirements, each element being determined in accordance with the applicable valuation rules. This margin must be maintained throughout the period, not just at the period end. These solvency requirements also take into account specific risks faced by the group.

*Monitoring of life insurance risk*

Under the group's internal reporting system, the financial and operating results, mortality and morbidity experience, claims frequency, persistency and expenses are monitored monthly against budget projections from actuarial models. In addition, detailed annual investigations are performed into the mortality, morbidity and persistency experience of the life funds.

*Claims management procedures*

Strict claims management procedures ensure the timely and correct payment of claims in accordance with policy conditions.

**(b) Methods to limit or transfer life insurance contracts risk exposures**

*Ceding of risk and reinsurance security*

The group purchases reinsurance to manage exposure to accepted insurance risk. The level of reinsurance cover has historically been high relative to the size of the group's life insurance portfolio.

*Interest rate risk arising from life insurance contracts*

Some of the life insurance and investment product groups are interest rate sensitive. These contribute to the group's result primarily from the spread between investment income received and interest credited to policyholder accounts, which may be a guaranteed rate of return for certain products. The group strives to maintain this spread by adjusting the interest-crediting rates at contractually specified intervals. The group's ability to adjust interest-crediting rates may be constrained by competitive forces and minimum guaranteed crediting rates, if any.

**(c) Concentration of risk**

The group writes a mixture of life insurance business providing mortality, morbidity and annuity benefit payments. The mix of business is monitored and managed to avoid inappropriate concentrations of risk.

Concentrations of risk based on individual lives are managed through the use of surplus reinsurance arrangements whereby the group's maximum exposure to any individual life is capped.

Concentrations of risk by product type are managed through monitoring the group's in force life insurance business and the mix of new business written each period.

A product pricing and re-rating process ensures that any cross subsidies between insurance rates for groups of policyholders of different sex and age are minimised such that profitability is not materially impacted by changes to the age and sex profile of the in-force business.

The group writes a mixture of life investment business providing lump sum and regular payments. The mix of business is the decision of the policyholder and monitored, managed and matched with an investment product that aligns with the investment contracts. The group has no concentrations of risk issues with investment contracts as the performance of these products is solely for the policyholder.

**(d) Terms and conditions of life insurance contracts**

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

Type of contract	Details of contract workings	Nature of compensation for claims	Key variables affecting future cash flows
Long term non-participating life insurance contracts with fixed and guaranteed terms. (Term and Life Disability)	Guaranteed benefits paid on death, ill health or maturity benefits are fixed and guaranteed and not at the discretion of the insurer.	Benefits, defined by the insurance contract, are not directly affected by the performance of underlying assets or the performance of the contracts as a whole.	Mortality, morbidity, market interest rates, lapses and expenses.

(All amounts are in NZD thousands unless otherwise stated)

**6 Risk management and financial instruments (continued)**  
**ii. Life insurance risk (continued)**  
**Terms and conditions of life insurance contracts (continued)**

Type of contract	Details of contract workings	Nature of compensation for claims	Key variables affecting future cash flows
Long term insurance contracts with discretionary participating benefits. (Endowment and Whole of Life)	These policies include a defined initial guaranteed sum assured which is payable on death. The guaranteed amount increases throughout the duration of the policy by the addition of regular bonuses annually which, once added, are not removed.	Benefits arising from the discretionary participation feature are based on the performance of specified pool of contracts or a specified type of contract.	Mortality, morbidity, market earning interest rates, lapses and expenses.
Non-discretionary participating investment contracts without guaranteed returns	The gross value of premiums received is invested in units and the investment account is the value of the units. Investment management fees are deducted from policyholders annually based on the average value of funds under management.	The investment return is equal to the earnings on assets backing the investment contracts less any applicable management fees.	Market risk, interest rates and expenses.

**(b) Financial risk**

The group is exposed to a number of forms of financial risk, the most significant being market, credit, and liquidity risk. The impact of these risks on the group's life insurance business has been discussed in the preceding sections. This section provides an explanation of the other aspects to which the group is affected by financial risks.

**(c) Market risk**

The group takes on exposure to market risks including currency risk, fair value and cash flow interest rate risk, and price risk. Market risks arise from open positions in interest rates, currency and equity products, all of which are exposed to general and specific market movements. The market risks that the group primarily faces are equity risk and interest rate risk due to the nature of its investments and liabilities.

For all the assets backing life insurance contracts that are sensitive to equity risk, the group has developed investment guidelines to manage the group's exposure to equity price risk primarily by setting benchmarks for asset mix.

Investment activity for the group is undertaken in accordance with investment mandates established by the Directors of the group. The mandates stipulate the investment allocation mix, the match of investment assets and liabilities and the use of derivatives.

The group monitors the sensitivity of reported profit to market risk by assessing the expected change in the values of assets which would affect the profit as follows:

For investment linked business, the liability to policyholders is linked to the performance and value of the assets that back those liabilities. The shareholder has no direct exposure to risk in those assets. The assets that back the unit linked liabilities are therefore not included in the tables shown below.

**i. Market pricing risk**

The following table shows the sensitivity to movements in the value of the equity assets to which the group is exposed:

	Australian	International	NZ	Totals
<b>Group and Parent</b>				
<b>2010</b>				
<b>Exposure in NZD</b>	10,527	16,398	101,833	128,758
<b>Profit / (Loss)</b>				
+ 25% market value movement on financial assets	1,842	2,870	17,821	22,533
- 25% market value movement on financial assets	(1,842)	(2,870)	(17,821)	(22,533)
<b>Equity</b>				
+ 25% market value movement on financial assets	1,842	2,870	17,821	22,533
- 25% market value movement on financial assets	(1,842)	(2,870)	(17,821)	(22,533)
<b>2009</b>				
<b>Exposure in NZD</b>	7,514	15,107	113,336	135,957
<b>Profit / (Loss)</b>				
+ 25% market value movement on financial assets	1,315	2,644	19,834	23,793
- 25% market value movement on financial assets	(1,315)	(2,644)	(19,834)	(23,793)
<b>Equity</b>				
+ 25% market value movement on financial assets	1,315	2,644	19,834	23,793
- 25% market value movement on financial assets	(1,315)	(2,644)	(19,834)	(23,793)

**6 Risk management and financial instruments (continued)****(c) Market risk (continued)****i. Market pricing risk (continued)**

For the group's mortgage assets market risk arises from open positions in interest rates and exposure to the property market, which is exposed to general and specific market movements. The group only advances on first registered securities up to 60% and 67% of the registered value of the property in the commercial and residential lending sectors respectively. Therefore a 10% market movement in the original security valuation for performing mortgage loans would not have a material impact on the value of the group.

At this current time the deterioration of the property market and wide spread uncertainty around borrowers' abilities to meet their future obligations may lead to further impairment or delay in the expected repayment of the group's mortgage loans. The uncertainty as to the outcome of these matters could lead to further impairment in the carrying value of the group's impaired mortgage loans. The group's management is unable to quantify the potential impact of this uncertainty however the collective provision represents management's best estimate at balance date.

As part of the management of market risk, investment activity is undertaken in accordance with the authorised investments set out in the trust deed of the mortgage fund subsidiary of the group.

**ii. Liquidity risk**

The group is exposed to daily calls on its available cash resources from maturing policies and policy claims and surrenders. Liquidity risk is the risk that payment of obligations may not be met in a timely manner at a reasonable cost. The Directors set limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover maturities, claims and surrenders at unexpected levels of demand.

**Liquidity Risk: contractual maturity profile**

Group	1 year or less	1 to 5 years	Over 5 years	No term	Investment contracts	Total
<b>2010</b>						
Trade and other payables	8,740	-	-	-	-	8,740
Related party payables	7,955	-	-	-	-	7,955
Financial liabilities - external	89,400	-	-	-	-	89,400
Outstanding claims liabilities	17,250	-	-	53,720	-	70,970
Policy liabilities	3,004	7,292	(28,592)	-	246,793	228,497
Unvested policy liabilities	-	-	-	17,079	-	17,079
	126,349	7,292	(28,592)	70,799	246,793	422,641
<b>2009</b>						
Trade and other payables	9,882	-	-	-	-	9,882
Related party payables	8,012	-	-	-	-	8,012
Financial liabilities - external	158,700	-	-	-	-	158,700
Outstanding claims liabilities	19,498	-	-	48,429	-	67,927
Policy liabilities	463	2,838	4,703	-	246,384	254,388
Unvested policy liabilities	-	-	-	16,366	-	16,366
	196,555	2,838	4,703	64,795	246,384	515,275
<b>Parent</b>						
<b>2010</b>						
Trade and other payables	8,979	-	-	-	-	8,979
Related party payables	13,764	-	-	-	-	13,764
Financial liabilities - external	-	-	-	-	-	-
Outstanding claims liabilities	17,250	-	-	53,720	-	70,970
Policy liabilities	3,004	7,292	(28,592)	-	246,793	228,497
Unvested policy liabilities	-	-	-	17,079	-	17,079
	42,997	7,292	(28,592)	70,799	246,793	339,289
<b>2009</b>						
Trade and other payables	8,110	-	-	-	-	8,110
Related party payables	15,880	-	-	-	-	15,880
Financial liabilities - external	-	-	-	-	-	-
Outstanding claims liabilities	19,498	-	-	48,429	-	67,927
Policy liabilities	463	2,838	4,703	-	246,384	254,388
Unvested policy liabilities	-	-	-	16,366	-	16,366
	43,951	2,838	4,703	64,795	246,384	362,671

For investment linked business the liability to policyholders is linked to the performance and value of the assets that back those liabilities. The shareholder has no direct exposure to any risk in those assets.

In addition GTFM Mortgage Fund ("the fund") has specific liquidity risk in respect of its mortgage loan assets and its borrowings as follows:

Liquidity risk is the risk that the fund is unable to meet its payment obligations associated with its financial liabilities when they fall due. Under the terms of the ANZ National Bank Limited loan facility agreement all cash generated by the Fund must be applied to servicing and repaying the loan facility. Until such time as the loan facility is fully repaid, Unit Holders are not able to withdraw their investments in the Fund.

Liquidity risk is high for the fund due to the long term nature of the investments held by the fund, namely mortgages.

(All amounts are in NZD thousands unless otherwise stated)

**6 Risk management and financial instruments (continued)**

**(c) Market risk (continued)**

**ii. Liquidity risk (continued)**

**Liquidity Risk: contractual maturity profile(continued)**

The Manager, The New Zealand Guardian Trust Company Limited ("Guardian Trust") manages the liquidity risk of the fund by preparing expected cash flow forecasts based on the expected maturity analysis for financial assets and liabilities. Expected cash flows on financial assets and liabilities may vary from their contractual maturity. For example, mortgage loans may be repaid early or extended subject to the normal credit approval process. Expected cash flows include future interest income on mortgage loans and interest expense on borrowings.

The following table shows contractual and expected maturity periods for the fund's mortgage assets and associated financial liabilities:

**Contractual cash flow**

	Carrying Amount	1 year or less	1 to 5 years	Over 5 years	Total cash flow
<b>2010</b>					
Mortgage loans	104,609	65,330	36,964	2,315	104,609
Financial liabilities - external	(89,400)	(89,400)	-	-	(89,400)
<b>2009</b>					
Mortgage loans	178,664	95,304	82,744	-	178,048
Financial liabilities - external	(158,700)	(158,700)	-	-	(158,700)

**Expected cash flow**

<b>2010</b>					
Mortgage loans	104,609	52,574	59,710	2,315	114,599
Financial liabilities - external	(89,400)	(90,309)	-	-	(90,309)
<b>2009</b>					
Mortgage loans	178,048	81,719	118,042	-	199,761
Financial liabilities - external	(158,700)	(159,943)	-	-	(159,943)

**iii. Interest rate risk**

The group manages some of its exposure to interest rate risk by matching assets to the liabilities that they back. Separate asset/liability matching analyses are employed for separate categories of products within each business. Although this natural hedging is not reflected in the accounting policies adopted or in the presentation of the results and statement of financial position included in these financial statements, it does mitigate the group's exposure to such risk. These matching procedures are not 100% effective. The group strikes a balance, mitigating the most significant exposure to interest rate risk while maximising the return to participating policyholders and shareholders by allowing some flexibility to those who manage the investment of the assets. A number of derivatives may be held to enable the matching of asset and liability to further mitigate exposure to interest rate movements.

The substantial proportion of both interest bearing and non-interest bearing assets are investments held in respect of policy liabilities. The management of the risks associated with policy liabilities, including the interest rate risk, is subject to the prudential requirements of the Professional Actuarial Standards. This includes satisfying solvency requirements, which in turn includes consideration of how assets and liabilities are matched.

Details of the company's solvency is disclosed in note 28.

For investment linked business, the liability to policyholders is linked to the performance and value of the assets that back those liabilities. The shareholder has no direct exposure to risk in those assets. The assets that back the unit linked liabilities are therefore not included in the tables shown below.

The following table shows the sensitivity to movements in the underlying interest rates of the interest bearing assets/(liabilities) to which the group is exposed:

**Interest rate risk schedules**

	Cash	Interest bearing investment assets	Loans and receivables	Derivative financial instruments	Financial liabilities - external
<b>Group</b>					
<b>2010</b>					
Financial asset exposure in NZD	4,589	270,815	120,690	229	(89,400)
<b>Profit / (Loss)</b>					
+2% market value movement on financial assets	64	(14,241)	1,690	3	(1,252)
-2% market value movement on financial assets	(64)	16,197	(1,690)	(3)	1,252
<b>Equity</b>					
+2% market value movement on financial assets	64	(14,241)	1,690	3	(1,252)
-2% market value movement on financial assets	(64)	16,197	(1,690)	(3)	1,252
<b>2009</b>					
Financial asset exposure in NZD	8,774	319,522	202,911	1,012	(158,700)
<b>Profit / (Loss)</b>					
+2% market value movement on financial assets	32	(13,146)	2,630	-	(2,222)
-2% market value movement on financial assets	(32)	15,157	(2,630)	-	2,222
<b>Equity</b>					
+2% market value movement on financial assets	32	(13,146)	2,630	-	(2,222)
-2% market value movement on financial assets	(32)	15,157	(2,630)	-	2,222

(All amounts are in NZD thousands unless otherwise stated)

**6 Risk management and financial instruments (continued)**  
**(c) Market risk (continued)**  
**iii. Interest rate risk (continued)**  
**Interest rate risk schedules (continued)**

	Cash	Interest bearing investment assets	Loans and receivables	Derivative financial instruments	Financial liabilities - external
<b>Parent</b>					
<b>2010</b>					
Financial asset exposure in NZD	2,683	270,271	13,783	229	-
<b>Profit / (Loss)</b>					
+2% market value movement on financial assets	38	(14,241)	193	3	-
-2% market value movement on financial assets	(38)	16,197	(193)	(3)	-
<b>Equity</b>					
+2% market value movement on financial assets	38	(14,241)	193	3	-
-2% market value movement on financial assets	(38)	16,197	(193)	(3)	-
<b>2009</b>					
Financial asset exposure in NZD	7,207	319,206	26,616	1,012	-
<b>Profit / (Loss)</b>					
+2% market value movement on financial assets	10	(13,136)	68	-	-
-2% market value movement on financial assets	(10)	15,147	(68)	-	-
<b>Equity</b>					
+2% market value movement on financial assets	10	(13,136)	68	-	-
-2% market value movement on financial assets	(10)	15,147	(68)	-	-

(Note: the above analysis of interest rate sensitivity for interest bearing investment assets has been analysed with respect to movements in yields rather than direct movements in market value).

In addition the group's cash flow and fair value interest rate risk arising from its mortgage loan subsidiary is set out below. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The fund is exposed to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes and may reduce losses in the event that unexpected movements arise. The board of the manager of the fund, set limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by the mortgage administration department for the fund.

The exposure of the fund to interest rate risk is set out in the following tables.

	Fixed interest maturing in 1 year or less	Fixed interest maturing in 1 to 2 years	Floating interest rate	Non interest bearing	Total
<b>The fund</b>					
<b>2010</b>					
<b>Financial assets and liabilities exposed to cash flow interest rate risk:</b>					
Mortgage loans	5,351	-	69,816	39,149	114,316
Financial liabilities - external	-	-	(89,400)	-	(89,400)
<b>Net financial assets and liabilities</b>	<b>5,351</b>	<b>-</b>	<b>(19,584)</b>	<b>39,149</b>	<b>24,916</b>
Effect of interest rate swaps held for risk management (notional amount)	(5,351)	-	5,351	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>(14,233)</b>	<b>39,149</b>	<b>24,916</b>
<b>2009</b>					
<b>Financial assets and liabilities exposed to cash flow interest rate risk:</b>					
Mortgage loans	18,077	5,533	106,154	61,199	190,963
Financial liabilities - external	-	-	(158,700)	-	(158,700)
<b>Net financial assets and liabilities</b>	<b>18,077</b>	<b>5,533</b>	<b>(52,546)</b>	<b>61,199</b>	<b>32,263</b>
Effect of interest rate swaps held for risk management (notional amount)	(22,775)	(2,927)	37,338	(11,636)	-
<b>Total</b>	<b>(4,698)</b>	<b>2,606</b>	<b>(15,208)</b>	<b>49,563</b>	<b>32,263</b>

**(d) Currency risk**

The group is exposed to currency risk in that future movements in the New Zealand dollar against currencies of the countries in which foreign investments are held will affect the cash flows and the market values of these investments. The group also holds certain denominated investments in overseas unit trusts which hold an underlying exposure to other foreign currencies.

(All amounts are in NZD thousands unless otherwise stated)

**6 Risk management and financial instruments (continued)**  
**(d) Currency risk (continued)**

The group has undertaken forward exchange contracts to mitigate this currency risk in respect of some investments denominated in foreign currencies and the underlying foreign currency exposure on some of its investments in overseas unit trusts. The table below shows assets denominated in overseas currencies after allowing for the effect of forward foreign exchange contracts.

For investment linked business, the liability to policyholders is linked to the performance and value of the assets that back those liabilities. The shareholder has no direct exposure to risk in those assets. The assets that back the unit linked liabilities are therefore not included in the tables shown below.

The carrying amounts and profit or loss sensitivity to movements in the currencies of the group's overseas financial assets are denominated in the following currencies:

**Overseas financial assets converted to NZD:**

	Australia AUD	United Kingdom GBP	Other	Total
<b>Group and parent</b>				
<b>2010</b>				
Financial asset exposure in NZD	22,826	-	-	22,826
<b>Profit / (Loss)</b>				
+10% market value movement on financial assets	1,598	-	-	1,598
-10% market value movement on financial assets	(1,598)	-	-	(1,598)
<b>Equity</b>				
+10% market value movement on financial assets	1,598	-	-	1,598
-10% market value movement on financial assets	(1,598)	-	-	(1,598)
<b>2009</b>				
Financial asset exposure in NZD	15,069	11,491	2,415	28,975
<b>Profit / (Loss)</b>				
+10% market value movement on financial assets	1,055	804	169	2,028
-10% market value movement on financial assets	(1,055)	(804)	(169)	(2,028)
<b>Equity</b>				
+10% market value movement on financial assets	1,055	804	169	2,028
-10% market value movement on financial assets	(1,055)	(804)	(169)	(2,028)

The group has no foreign currency liabilities (2009: nil).

**(e) Credit risk**

Credit risk is the risk that a counterparty will cause a financial loss to the group by failing to discharge an obligation. Credit risk to the group arises as a result of placement of reinsurance with counterparties and investment in financial instruments.

Credit risk and its management in relation to life insurance activities is dealt with in the section above on insurance risk.

Financial instruments which potentially subject the group to credit risk principally consist of cash, debtors, discounted securities, government and local body securities, sovereign debt, fixed interest securities and mortgage loans.

The group has no specific concentration of risk with a single counterparty arising from the use of financial instruments in managing its investment portfolios other than normally arise through dealings on recognised exchanges and off exchange dealings (over the counter contracts). The counterparties to over the counter contracts are limited to companies with strong credit ratings from a recognised credit rating agency. These counterparties are normally banks operating in New Zealand.

Credit risk from the use of financial instruments in investment management is controlled both by credit management (credit rating and credit limit controls), and by counterparty diversification policies to limit exposure to any one counterparty as a proportion of the investment portfolio.

The group has collateral against mortgages in the form of first registered security over the property. Valuations are obtained for the property at the time the lending is approved and generally not updated over the course of the mortgage loan. The lending policy is to lend up to 60% of the market value of the property for commercial lending and up to 67% for residential lending. Information on the carrying value and amounts provided against impaired loans is shown in the table below.

As at 30 June 2010 there were provisions for impaired mortgage assets of \$11.8m (30 June 2009 \$13.1m).

For investment linked business, the liability to policyholders is linked to the performance and value of the assets that back those liabilities. The shareholder has no direct exposure to any credit risk in those assets.

Unit linked assets totalling \$77 million (2009: \$84 million) are therefore not included in the two below sets of schedules.

(All amounts are in NZD thousands unless otherwise stated)

**6 Risk management and financial instruments (continued)**  
**(e) Credit risk (continued)**

The following table shows the assets exposed to credit risk and the relevant credit rating:

	Credit rating					Other not rated	Total
	AAA	AA	A	BBB	Non investment grade		
<b>Group</b>							
<b>2010</b>							
Cash and cash equivalents	-	4,584	-	-	-	5	4,589
Loans and receivables	-	8,023	1,882	-	-	110,785	120,690
Related party receivables	-	-	-	-	-	3,742	3,742
Other assets	-	-	-	-	-	5,111	5,111
Reinsurance recoveries - outstanding claims liabilities	-	-	-	-	-	19,608	19,608
Financial assets at fair value through profit or loss	105,519	94,355	52,149	8,739	8,997	1,285	271,044
Reinsurance recoveries - policy liabilities	-	-	-	-	-	15,396	15,396
	<b>105,519</b>	<b>106,962</b>	<b>54,031</b>	<b>8,739</b>	<b>8,997</b>	<b>155,932</b>	<b>440,180</b>
<b>2009</b>							
Cash and cash equivalents	-	1,108	-	-	-	1,171	2,279
Loans and receivables	9,689	-	-	-	-	187,822	197,511
Related party receivables	-	-	-	-	-	4,007	4,007
Other assets	-	-	-	-	-	4,815	4,815
Reinsurance recoveries - outstanding claims liabilities	-	-	-	-	-	16,212	16,212
Financial assets at fair value through profit or loss	90,922	78,719	64,111	6,669	8,414	357	249,192
Reinsurance recoveries - policy liabilities	-	-	-	-	-	16,627	16,627
	<b>100,611</b>	<b>79,827</b>	<b>64,111</b>	<b>6,669</b>	<b>8,414</b>	<b>231,011</b>	<b>490,643</b>
<b>Parent</b>							
<b>2010</b>							
Cash and cash equivalents	-	4,191	-	-	-	(1,508)	2,683
Loans and receivables	-	8,023	1,882	-	-	3,878	13,783
Related party receivables	-	-	-	-	-	5,333	5,333
Other assets	-	-	-	-	-	4,104	4,104
Reinsurance recoveries - outstanding claims liabilities	-	-	-	-	-	19,608	19,608
Financial assets at fair value through profit or loss	105,519	94,355	52,149	8,739	8,997	741	270,500
Reinsurance recoveries - policy liabilities	-	-	-	-	-	15,396	15,396
	<b>105,519</b>	<b>106,569</b>	<b>54,031</b>	<b>8,739</b>	<b>8,997</b>	<b>47,552</b>	<b>331,407</b>
<b>2009</b>							
Cash and cash equivalents	-	4,752	-	-	-	1,171	5,923
Loans and receivables	9,689	-	-	-	-	26,616	36,305
Related party receivables	-	-	-	-	-	7,930	7,930
Other assets	-	-	-	-	-	3,054	3,054
Reinsurance recoveries - outstanding claims liabilities	-	-	-	-	-	16,212	16,212
Financial assets at fair value through profit or loss	90,817	78,614	64,006	6,669	8,414	332	248,852
Reinsurance recoveries - policy liabilities	-	-	-	-	-	16,627	16,627
	<b>100,506</b>	<b>83,366</b>	<b>64,006</b>	<b>6,669</b>	<b>8,414</b>	<b>71,942</b>	<b>334,903</b>

For investment linked business, the liability to policyholders is linked to the performance and value of the assets that back those liabilities. The shareholder has no direct exposure to any credit risk in those assets. Unit linked assets have not therefore been shown in the tables below.

The following table shows assets subject to credit risk according to age and impairment:

	Past due but not impaired financial assets					Impaired	Total
	Neither past due nor impaired	0-3 mths	3-6 mths	6-12 mths	> 12 mths		
<b>Group</b>							
<b>2010</b>							
Loans and receivables	68,681	4,336	6,806	1,707	4,076	35,084	120,690
Related party receivables	3,742	-	-	-	-	-	3,742
Other assets	5,111	-	-	-	-	-	5,111
Reinsurance recoveries - outstanding claims liabilities	19,608	-	-	-	-	-	19,608
Reinsurance recoveries - policy liabilities	15,396	-	-	-	-	-	15,396
	<b>112,538</b>	<b>4,336</b>	<b>6,806</b>	<b>1,707</b>	<b>4,076</b>	<b>35,084</b>	<b>164,547</b>

(All amounts are in NZD thousands unless otherwise stated)

**6 Risk management and financial instruments (continued)**  
**(e) Credit risk( continued)**

	Neither past due nor impaired	0-3 mths	3-6 mths	6-12 mths	> 12 mths	Impaired	Total
<b>2009</b>							
Loans and receivables	113,911	10,244	6,652	8,475	6,706	51,523	197,511
Related party receivables	4,007	-	-	-	-	-	4,007
Other assets	4,815	-	-	-	-	-	4,815
Reinsurance recoveries - outstanding claims	16,212	-	-	-	-	-	16,212
Reinsurance recoveries - policy liabilities	16,627	-	-	-	-	-	16,627
	<b>155,572</b>	<b>10,244</b>	<b>6,652</b>	<b>8,475</b>	<b>6,706</b>	<b>51,523</b>	<b>239,172</b>

**Parent entity**

<b>2010</b>							
Loans and receivables	8,777	1,108	3,626	272	-	-	13,783
Related party receivables	5,333	-	-	-	-	-	5,333
Other assets	4,104	-	-	-	-	-	4,104
Reinsurance recoveries - outstanding claims	19,608	-	-	-	-	-	19,608
Reinsurance recoveries - policy liabilities	15,396	-	-	-	-	-	15,396
	<b>53,218</b>	<b>1,108</b>	<b>3,626</b>	<b>272</b>	<b>-</b>	<b>-</b>	<b>58,224</b>

<b>2009</b>							
Loans and receivables	31,305	3,680	200	551	569	-	36,305
Related party receivables	7,930	-	-	-	-	-	7,930
Other assets	3,054	-	-	-	-	-	3,054
Reinsurance recoveries - outstanding claims	16,212	-	-	-	-	-	16,212
Reinsurance recoveries - policy liabilities	16,627	-	-	-	-	-	16,627
	<b>75,128</b>	<b>3,680</b>	<b>200</b>	<b>551</b>	<b>569</b>	<b>-</b>	<b>80,128</b>

**Mortgage loans**

The group invests in mortgage loans through the controlled entity, The fund. (At 30 June 2008 it also invested in mortgages through another controlled entity, The New Zealand Guardian Trust Wholesale Mortgage Fund).The parent invests in mortgage loans to agents. The total carrying value and amounts provided for impaired loans are shown in the table below:

**Summary of provisions:**

	<b>Group</b>		<b>Parent</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Against individually impaired	8,316	9,714	38	38
Against past due but not impaired	-	-	-	-
Collective provisions	1,659	3,480	230	241
<b>Total impairment provisions</b>	<b>9,975</b>	<b>13,194</b>	<b>268</b>	<b>279</b>

**Summary of carrying values:**

<b>Neither past due nor impaired</b>				
Carrying amount	60,579	103,480	1,546	792
<b>Individually impaired</b>				
Gross amount	43,402	61,237	38	38
Specific provision	(8,316)	(9,714)	(38)	(38)
Carrying amount	35,086	51,523	-	-
<b>Past due but not impaired</b>				
Less than 30 days	923	3,304	45	64
31 to 60 days	2,350	1,974	-	-
61 to 90 days	-	1,350	-	-
Over 90 days	8,691	20,513	-	-
Carrying amount	11,964	27,141	45	64
Collective provision	(1,659)	(3,480)	(230)	(241)
<b>Total carrying amount of mortgages</b>	<b>105,970</b>	<b>178,664</b>	<b>1,361</b>	<b>615</b>

Impaired and past due assets are closely monitored and assessed for adequacy of security. Where security is assessed as not being adequate, assets are shown as *impaired* and the appropriate provisions are made.

The group's credit criteria requires a current independent valuation of the mortgage security be completed by an approved independent valuer at date of loan origination.

Details of related party transactions with respect to the purchase of the mortgage loans during the period together with details of indemnities provided by related parties are detailed in note 24.

(All amounts are in NZD thousands unless otherwise stated)

**6 Risk management and financial instruments (continued)**

**(e) Credit risk( continued)**

**Summary of provisions: (continued)**

**Collateral held**

The group has collateral against mortgages in the form of first registered security over property. Valuations are obtained for the property at the time the lending is approved and are not necessarily updated over the course of the mortgage loan. The lending policy is to lend up to 60% of the market value of the property for commercial lending and up to 67% for residential lending. Certain loans have been rolled over for a further period. In these specific cases the group's policy may have been varied depending upon individual borrower's circumstances. These variations have only been applied to loans where the servicing ability of the borrower has met agreed criteria.

**(f) Derivatives**

A derivatives transaction is a contract whose fair value is derived from the value of an underlying asset or index.

The group uses derivatives for portfolio management purposes. They are used as an alternative to physical assets in order to achieve a desired level of total exposure as a means to hedge against market movements. Total exposure is the sum of the market value of the physical assets plus the equivalent physical asset value attributed to the derivatives.

In addition, the fund has taken out interest rate swaps or fixed interest rate loans in order to lock in the fund's margin between interest returns and borrowing costs. Interest rate swaps are matched to individual fixed rate loans and mature on the date the fixed interest rate period expires. At 30 June 2010, the notional amount of interest rate swaps is \$5.35m (2009 \$37.3m).

Deliberate gearing up or leverage exposure to an asset class is not permitted.

The most commonly used derivatives by the group are futures contracts, interest rate options, and forward currency contracts.

Derivatives are valued on a market-to-market basis such that the statement of comprehensive income and the statement of financial position reflect all unrealised gains and losses on derivatives.

The group has a risk management statement which describes the controls used to manage the risks associated with the use of derivatives. Limits are set on the effective exposure implied by the use of derivatives and on transaction levels and aggregate counterparty exposure. The limits and criteria on which they are set are regularly reviewed, while all review, monitoring and control processes are independent of portfolio activity.

As at 30 June 2010 (and as at 30 June 2009) there was no significant counterparty exposure to one single entity, other than normal clearing house exposure associated with dealings through recognised exchanges.

**7 Revenue**

	Group 2010	2009	Parent 2010	2009
<b>Premium revenue</b>				
Total premium revenue	145,357	137,874	145,357	137,874
Less savings premiums disclosed as a change in policy liabilities (Note 21)	(13,243)	(15,560)	(13,243)	(15,560)
<b>Premium revenue disclosed in statements of comprehensive income</b>	<b>132,114</b>	<b>122,314</b>	<b>132,114</b>	<b>122,314</b>
Outwards reinsurance premium expense	(24,109)	(22,416)	(24,109)	(22,416)
<b>Net premium revenue disclosed in statements of comprehensive incomes</b>	<b>108,005</b>	<b>99,898</b>	<b>108,005</b>	<b>99,898</b>
<b>Investment revenue</b>				
Dividends	8,079	19,123	8,079	19,123
Interest income - government and local body securities	6,894	5,592	6,894	5,592
Interest income - debentures, notes, term and call deposits	11,681	15,744	11,662	15,451
Interest - mortgage and other	11,490	21,345	1,214	2,756
Sundry	4,206	547	618	471
Movement in financial assets at fair value through profit or loss:				
Movement in value of subsidiaries	-	-	(1,952)	(2,398)
Profit/(loss) on sale of financial assets	(3,399)	(21,143)	(3,399)	(21,143)
Changes in fair value of financial assets	28,158	(37,779)	26,451	(42,368)
<b>Total investment revenue</b>	<b>67,109</b>	<b>3,429</b>	<b>49,567</b>	<b>(22,516)</b>
Movement in financial assets at fair value through profit or loss includes the following movements in derivatives:				
Profit/(loss) on sale	1,979	(774)	1,979	(774)
Changes in fair value	(481)	1,078	(481)	1,078
<b>Total investment revenue derivatives</b>	<b>1,498</b>	<b>304</b>	<b>1,498</b>	<b>304</b>
<b>Other revenue</b>				
Fees from management of superannuation schemes and unit trusts	6,944	7,621	-	-
Commission	1,804	2,174	-	-
<b>Total other revenue</b>	<b>8,748</b>	<b>9,795</b>	<b>-</b>	<b>-</b>
<b>Total revenue</b>	<b>183,862</b>	<b>113,122</b>	<b>157,572</b>	<b>77,382</b>

**8 Expenses**

	Group 2010	2009	Parent 2010	2009
<b>Claims expenses</b>				
Deaths	42,906	50,204	42,906	50,204
Maturities	10,795	12,316	10,795	12,316
Surrenders	28,994	54,471	28,994	54,471
Annuities	2,077	2,122	2,077	2,122
Disability	19,785	21,375	19,785	21,375
Gross claims expenses	104,557	140,489	104,557	140,489
Less savings product claims disclosed as a change in policy liabilities (note 21)	(27,151)	(50,927)	(27,151)	(50,927)
	77,406	89,562	77,406	89,562
Reinsurance recoveries	(17,799)	(25,769)	(17,799)	(25,769)
<b>Net claims expense</b>	<b>59,607</b>	<b>63,793</b>	<b>59,607</b>	<b>63,793</b>
<b>Operating expenses</b>				
<b>Acquisition expenses</b>				
Management expenses	18,665	18,926	15,733	13,996
Commission	27,925	22,909	28,234	22,669
<b>Total acquisition expenses</b>	<b>46,590</b>	<b>41,835</b>	<b>43,967</b>	<b>36,665</b>
<b>Maintenance expenses</b>				
Management expenses	20,534	22,651	17,773	20,753
Commission	10,530	10,300	9,397	9,063
<b>Total maintenance expenses</b>	<b>31,064</b>	<b>32,951</b>	<b>27,170</b>	<b>29,816</b>
<b>Total operating expenses</b>	<b>77,654</b>	<b>74,786</b>	<b>71,137</b>	<b>66,481</b>
Other expenses:				
Impairment provisions on mortgage loans	(3,516)	5,479	-	-
Bad debts written off impaired mortgage loans	13,304	7,252	-	-
<b>Total mortgage loan impairment loss</b>	<b>9,788</b>	<b>12,731</b>	<b>-</b>	<b>-</b>
Investment management expenses	2,794	4,163	1,588	1,840
<b>Total expenses</b>	<b>149,843</b>	<b>155,473</b>	<b>132,332</b>	<b>132,114</b>
Change in unvested policy liabilities	714	(974)	714	(974)
Change in net policy liability benefits (note 21(a))	(8,552)	(65,975)	(8,552)	(65,975)
<b>Total expenses including movement in policy liabilities</b>	<b>142,005</b>	<b>88,524</b>	<b>124,494</b>	<b>65,165</b>
<b>9 Finance costs</b>				
Interest expense:				
Bank borrowings	6,153	14,285	-	777
<b>Finance costs</b>	<b>6,153</b>	<b>14,285</b>	<b>-</b>	<b>777</b>

## 10 Operating profit

	Note	Group 2010	2009	Parent 2010	2009
<b>Profit before tax</b>		<b>35,704</b>	<b>10,313</b>	<b>33,078</b>	<b>11,440</b>
Profit before income tax is arrived at after charging/(crediting) the following specific items:					
Loss on disposal of plant and equipment		2	4	2	5
Loss on disposal of software		24	-	24	-
Depreciation of plant and equipment	16	178	219	123	165
Operating lease rental expenses		1,608	1,599	1,450	1,320
Movement in provision for post retirement employee benefits	18	(718)	(1,623)	(718)	(1,623)
Employee leave benefits		334	(301)	327	(291)
Impairment of mortgage loans		(3,516)	5,479	-	-
Impairment and amortisation of intangible assets	17	1,009	405	985	405
Movement in provision for bad and doubtful debt		13,304	7,252	-	-
Contributions to defined contribution superannuation schemes		575	716	575	716
Contributions to defined benefit superannuation schemes	18	96	121	96	121
Reversal of prior year employee share plan grant	18	-	(115)	-	(115)
Current year employee share plan grant	18	198	115	198	115

## 11 Taxation

### (a) Income tax expense

Current tax	(4,752)	(8,199)	(2,283)	(8,809)
Deferred tax expense	3,681	(4,416)	1,192	(2,630)
<b>Income tax expense</b>	<b>(1,071)</b>	<b>(12,615)</b>	<b>(1,091)</b>	<b>(11,439)</b>

The aggregate amount of income tax attributable to the financial period differs from the amount calculated by applying the current income tax rate to the profit/(loss) before tax. The difference is reconciled as follows:

<b>Profit before income tax expense</b>	<b>35,704</b>	<b>10,313</b>	<b>33,078</b>	<b>11,440</b>
Prima facie income tax @ 30% (2009: 30%)	10,711	3,094	9,923	3,432
Tax effect of amounts which are not deductible/assessable in calculating taxable income:				
Difference due to life insurance tax basis	(9,460)	(25,426)	(9,460)	(25,426)
Non-allowable losses on revaluation of financial assets	(568)	16,116	18	17,002
Non-allowable expenses and other items	(210)	(381)	(215)	(381)
Imputation credits on dividends received	(971)	(1,194)	(971)	(1,194)
Non-taxable dividends	(412)	(3,452)	(412)	(3,452)
Other	(66)	(114)	(32)	(140)
<b>Income tax adjusted for differences</b>	<b>(976)</b>	<b>(11,357)</b>	<b>(1,149)</b>	<b>(10,159)</b>
Change in deferred tax rate from 30% to 28%	192	-	345	-
Under/(over) provision in prior periods	(287)	(1,258)	(287)	(1,280)
<b>Income tax expense</b>	<b>(1,071)</b>	<b>(12,615)</b>	<b>(1,091)</b>	<b>(11,439)</b>

The income tax rate will change from 30% to 28% with effect from the 2012 financial year. Under NZ IAS 12, the group is required to measure the impact of the change in the tax rate on its current tax liability and deferred tax asset at the rate expected to apply when the liability and asset are realised. The impact of the change in the income tax rate on the financial statements are:

#### Current tax liability

The impact of the change in the tax rate on the group's current tax liability has been determined as being nil this financial year.

#### Deferred tax asset

The impact of the change in the tax rate on the group's deferred tax asset has been shown as a charge to the deferred tax expense in the profit or loss in the statement of comprehensive income this financial year.

### (b) Deferred tax

- Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets against tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

(All amounts are in NZD thousands unless otherwise stated)

**11 Taxation (continued)**

**(b) Deferred tax (continued)**

**Deferred tax assets to be recovered:**

	Group 2010	2009	Parent 2010	2009
After more than 12 months	3,866	8,118	2,393	6,298
Within 12 months	2,688	2,134	4,830	2,134
	<b>6,554</b>	<b>10,252</b>	<b>7,223</b>	<b>8,432</b>

**Deferred tax liabilities to be settled:**

Greater than 12 months	-	-	-	-
Policyholder liabilities	59,855	57,655	59,855	57,655
Within 12 months	-	-	-	-
	<b>59,855</b>	<b>57,655</b>	<b>59,855</b>	<b>57,655</b>

**Net deferred tax liability**

	<b>53,301</b>	<b>47,403</b>	<b>52,632</b>	<b>49,223</b>
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**ii. The gross movement of the deferred tax account is as follows:**

Opening balance	47,403	48,971	49,223	49,005
Deferred tax in policyholder liabilities	2,200	3,088	2,200	3,088
Charge through statement of recognised income and expense	17	(240)	17	(240)
Statement of comprehensive income charge	3,681	(4,416)	1,192	(2,630)
<b>Closing balance</b>	<b>53,301</b>	<b>47,403</b>	<b>52,632</b>	<b>49,223</b>

**iii. Deferred tax liabilities/(assets) are comprised of the following:**

Accrued expenses and provisions	(2,175)	(2,134)	(2,175)	(2,134)
Unrealised (loss)/gains on investments	(1,960)	(4,788)	(1,724)	(4,788)
Provision for impairment of mortgage loans	(1,969)	(1,753)	(2,870)	-
Depreciable and amortisable assets	(268)	(253)	(273)	(213)
Deferred tax in policyholder liabilities (note 11(b) (v) and 21(c))	59,855	57,655	59,855	57,655
Other	(182)	(1,324)	(181)	(1,297)
<b>Deferred tax liability</b>	<b>53,301</b>	<b>47,403</b>	<b>52,632</b>	<b>49,223</b>

**iv. Tax losses carried forward**

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable.

**v. Deferred tax on policy liabilities**

Life insurance policy 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 comprehensive income over the period services are provided to policyholders. Life insurance companies are not taxed on pre-tax net holding profit. They are taxed on both the business activity of the life insurer base and the growth and value of the policyholders' investments.

Taxable temporary differences, largely in respect of deferred acquisition costs, embedded within policy liabilities, which can be reliably measured, have been recognised and disclosed separately from the underlying policy liabilities.

**(c) Imputation credit and dividend withholding credits**

Note	Group 2010	2009	Parent 2010	2009
<b>Imputation and withholding tax credits</b>				
Opening balance	-	-	-	-
Prior year adjustments	4	-	-	-
Taxation paid	-	-	-	-
Imputation credits attached to dividends received/(paid)	1,395	(6,828)	1,395	(6,828)
Withholding tax paid during the period	-	25	-	25
Transfer (to)/from policyholder credit account	(1,399)	6,803	(1,395)	6,803
<b>Closing balance</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Policyholders' credit account</b>				
Opening balance	37,260	44,544	37,260	44,544
Prior year adjustments	(1,567)	(481)	(1,567)	(481)
Transferred from/(to) imputation credit account	1,399	(6,803)	1,395	(6,803)
<b>Closing balance</b>	<b>37,092</b>	<b>37,260</b>	<b>37,088</b>	<b>37,260</b>

**12 Cash and cash equivalents**

	Group 2010	2009	Parent 2010	2009
<b>(a) Statements of financial position</b>				
Cash/(overdraft) at bank and in hand	(333)	1,171	(1,845)	(235)
Deposits at call	12,668	7,603	12,274	7,442
<b>Cash and cash equivalents</b>	<b>12,335</b>	<b>8,774</b>	<b>10,429</b>	<b>7,207</b>

The effective interest rate on deposits at call was 3% (2009: 2.5%). These deposits have an average maturity of 1 day (2009: 1 day).

**(b) Statements of cash flows**

Cash and bank overdrafts include the following for the purposes of the statements of cash flows:

Cash and cash equivalents	12,335	8,774	10,429	7,207
<b>Cash and cash equivalents for the Cash Flow Statements</b>	<b>12,335</b>	<b>8,774</b>	<b>10,429</b>	<b>7,207</b>

**13 Loans and receivables**

Mortgage loans	115,945	191,858	1,629	894
Impairment provision	(9,975)	(13,194)	(268)	(279)
<b>Total loans</b>	<b>105,970</b>	<b>178,664</b>	<b>1,361</b>	<b>615</b>
Trade receivables	4,274	9,520	1,976	7,350
Premiums due from policyholders	1,063	1,031	1,063	1,031
<b>Total trade and policyholder receivables</b>	<b>5,337</b>	<b>10,551</b>	<b>3,039</b>	<b>8,381</b>
<b>Amounts due from reinsurers</b>	<b>9,905</b>	<b>9,689</b>	<b>9,905</b>	<b>9,689</b>
<b>Total loans and receivables</b>	<b>121,212</b>	<b>198,904</b>	<b>14,305</b>	<b>18,685</b>
Current	80,570	65,929	12,943	17,879
Non-current	40,642	132,975	1,362	806
<b>Total loans and receivables</b>	<b>121,212</b>	<b>198,904</b>	<b>14,305</b>	<b>18,685</b>

**14 Financial assets at fair value through profit or loss**

Government/semi government securities	111,924	102,797	111,924	102,797
Other fixed interest securities	163,391	135,010	163,391	135,010
Discounted securities	53,774	73,301	53,230	72,985
Shares in other corporations	144,988	130,145	144,988	130,145
Derivatives	1,378	1,012	1,378	1,012
Policy and other loans	8,997	8,414	8,997	8,414
Unit trusts	136,702	148,974	136,702	148,974
Investments in subsidiaries	-	-	32,107	35,254
<b>Total other financial assets</b>	<b>621,154</b>	<b>599,653</b>	<b>652,717</b>	<b>634,591</b>
Current	347,611	359,250	347,067	358,934
Non-current	273,543	240,403	305,650	275,657
<b>Total</b>	<b>621,154</b>	<b>599,653</b>	<b>652,717</b>	<b>634,591</b>

**15 Other assets**

Accrued income	4,119	4,796	3,112	3,035
Prepayments	992	19	992	19
<b>Total</b>	<b>5,111</b>	<b>4,815</b>	<b>4,104</b>	<b>3,054</b>
Current	5,111	4,815	4,104	3,054
Non-current	-	-	-	-
<b>Total</b>	<b>5,111</b>	<b>4,815</b>	<b>4,104</b>	<b>3,054</b>

**16 Plant and equipment**

	Vehicles	Leasehold improve- ments	Computers	Furniture & Fittings	Total
<b>Group</b>					
<b>2010</b>					
<b>At cost</b>					
Opening balance	324	689	8,541	2,625	12,179
Additions	67	-	22	10	99
Disposals	-	-	(657)	(6)	(663)
Closing balance	391	689	7,906	2,629	11,615
<b>Accumulated depreciation</b>					
Opening balance	98	682	8,428	2,546	11,754
Depreciation expense	51	4	81	42	178
Disposals	-	-	(657)	(4)	(661)
Closing balance	149	686	7,852	2,584	11,271
<b>Closing balance of plant and equipment - net</b>	<b>242</b>	<b>3</b>	<b>54</b>	<b>45</b>	<b>344</b>
<b>2009</b>					
<b>At cost</b>					
Opening balance	352	890	8,885	3,230	13,357
Additions	-	-	49	34	83
Disposals	(28)	(201)	(393)	(639)	(1,261)
Closing balance	324	689	8,541	2,625	12,179
<b>Accumulated depreciation</b>					
Opening balance	68	879	8,723	3,116	12,786
Depreciation expense	48	4	98	69	219
Disposals	(18)	(201)	(393)	(639)	(1,251)
Closing balance	98	682	8,428	2,546	11,754
<b>Closing balance of plant and equipment - net</b>	<b>226</b>	<b>7</b>	<b>113</b>	<b>79</b>	<b>425</b>
<b>Parent</b>					
<b>2010</b>					
<b>At cost</b>					
Opening balance	324	689	8,442	2,401	11,856
Additions	34	-	1	1	36
Disposals	-	-	(657)	(6)	(663)
Closing balance	358	689	7,786	2,396	11,229
<b>Accumulated depreciation</b>					
Opening balance	98	682	8,345	2,350	11,475
Depreciation expense	47	4	58	14	123
Disposals	-	-	(654)	-	(654)
Closing balance	145	686	7,749	2,364	10,944
<b>Closing balance of plant and equipment - net</b>	<b>213</b>	<b>3</b>	<b>37</b>	<b>32</b>	<b>285</b>
<b>2009</b>					
<b>At cost</b>					
Opening balance	352	890	8,802	3,008	13,052
Additions	-	-	30	32	62
Disposals	(28)	(201)	(390)	(639)	(1,258)
Closing balance	324	689	8,442	2,401	11,856
<b>Accumulated depreciation</b>					
Opening balance	68	879	8,647	2,964	12,558
Depreciation expense	48	4	88	25	165
Disposals	(18)	(201)	(390)	(639)	(1,248)
Closing balance	98	682	8,345	2,350	11,475
<b>Closing balance of plant and equipment - net</b>	<b>226</b>	<b>7</b>	<b>97</b>	<b>51</b>	<b>381</b>

**17 Intangible assets**

	Group 2010	2009	Parent 2010	2009
<b>(a) Intangible assets - software</b>				
Opening balance	14,782	13,854	14,782	13,854
Additions	-	928	-	928
Disposals	(24)	-	(24)	-
<b>Closing balance</b>	<b>14,758</b>	<b>14,782</b>	<b>14,758</b>	<b>14,782</b>
Accumulated impairment and amortisation opening balance	12,364	11,959	12,364	11,959
Disposals	-	-	-	-
Amortisation	985	405	985	405
<b>Closing balance</b>	<b>13,349</b>	<b>12,364</b>	<b>13,349</b>	<b>12,364</b>
<b>Closing balance of software - net</b>	<b>1,409</b>	<b>2,418</b>	<b>1,409</b>	<b>2,418</b>
<b>(b) Intangible assets - other</b>				
Opening balance	120	-	-	-
Additions	-	120	-	-
Disposals	-	-	-	-
<b>Closing balance</b>	<b>120</b>	<b>120</b>	<b>-</b>	<b>-</b>
Accumulated impairment and amortisation opening balance	-	-	-	-
Disposals	-	-	-	-
Amortisation	24	-	-	-
<b>Closing balance</b>	<b>24</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Closing balance of other intangible assets - net</b>	<b>96</b>	<b>120</b>	<b>-</b>	<b>-</b>
<b>Closing balance of intangible assets - net</b>	<b>1,505</b>	<b>2,538</b>	<b>1,409</b>	<b>2,418</b>

In January 2009 management rights were acquired by a subsidiary company for \$120,000. This purchase price is to be amortised over a period of 5 years commencing 01 July 2009 being the period over which it is anticipated the economic benefits from this purchase will arise.

**18 Employee benefit obligations**

	Group 2010	2009	Parent 2010	2009
<b>(a) Balances</b>				
Defined benefit obligation asset	69	1,807	69	1,807
Defined benefit obligation (liability)	(3,795)	(3,776)	(3,795)	(3,776)
<b>Defined benefit obligation net (liability)/asset</b>	<b>(3,726)</b>	<b>(1,969)</b>	<b>(3,726)</b>	<b>(1,969)</b>
Defined benefit obligation net liability	3,726	1,969	3,726	1,969
Employee entitlements	1,534	1,200	1,489	1,162
<b>Total net benefit obligations</b>	<b>5,260</b>	<b>3,169</b>	<b>5,215</b>	<b>3,131</b>
Current	1,534	1,200	1,489	1,162
Non current	3,726	1,969	3,726	1,969
	<b>5,260</b>	<b>3,169</b>	<b>5,215</b>	<b>3,131</b>

**(b) Defined benefit superannuation commitments**

The group participates in two defined benefit superannuation funds, Vero and Asteron New Zealand Staff Pension Scheme and Guardian Assurance Superannuation Plan. Each superannuation scheme provides benefits to members on retirement, disability or death. All new employees are currently being given membership in defined contribution schemes rather than defined benefit schemes.

For the Guardian Assurance Superannuation Plan, the amount of the surplus recognised is restricted to an amount lower than the fair value of the plan assets less the present value of the defined benefit obligation \$69,000 (2009: \$1,895,000), in accordance with NZ IAS 19.

**i. Surplus/(deficit) position**

The following tables summarise the surplus or deficit position for each defined benefit scheme.

**18 Employee benefit obligations (continued)**  
**(b) Defined benefit superannuation commitments (continued)**  
**i. Surplus/(deficit) position (continued)**

	Surplus	(Deficit)	Net surplus /(deficit)
<b>Group and Parent</b>			
<b>2010</b>			
Vero and Asteron New Zealand Staff Pension Scheme	-	(3,795)	(3,795)
Guardian Assurance Superannuation Plan	69	-	69
<b>Total surplus/(deficit)</b>	<b>69</b>	<b>(3,795)</b>	<b>(3,726)</b>
<b>2009</b>			
Vero and Asteron New Zealand Staff Pension Scheme	-	(3,776)	(3,776)
Guardian Assurance Superannuation Plan	1,807	-	1,807
<b>Total surplus/(deficit)</b>	<b>1,807</b>	<b>(3,776)</b>	<b>(1,969)</b>

**ii. Aggregate amounts recognised in the statement of financial position**

	<b>Group</b>		<b>Parent</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Present value of defined benefit obligations	(36,017)	(37,352)	(36,017)	(37,352)
Fair value of the assets held by the plans	33,520	36,121	33,520	36,121
Adjustment in surplus for amount unable to be recognised under NZ IAS 19	-	(88)	-	(88)
Net (liability)/asset before adjustment for contributions tax	(2,497)	(1,319)	(2,497)	(1,319)
Adjustment for contributions tax	(1,229)	(650)	(1,229)	(650)
<b>Net (liability)/asset recognised in the statements in financial position</b>	<b>(3,726)</b>	<b>(1,969)</b>	<b>(3,726)</b>	<b>(1,969)</b>

The values of assets and liabilities shown above are the combined values of the two plans, one of which has a net surplus and the other a net deficit.

The group has no obligation to settle this liability with an immediate contribution or additional one off contributions. The group intends to continue to contribute to the defined benefit plans at a rate of 0% - 20% of salaries plus contributions of \$450,000 per annum (2009: \$450,000) in line with the actuary's latest recommendations.

**iii. Aggregate amounts recognised in profit after tax in the statements of comprehensive income**

Current service cost	126	144	126	144
Interest cost	1,522	1,606	1,522	1,606
Expected return on plan assets	(2,064)	(2,756)	(2,064)	(2,756)
Increase/(decrease) in allowance for contributions tax on net liability	(206)	(496)	(206)	(496)
Employer contributions	(96)	(121)	(96)	(121)
<b>Total (gain)/loss recognised in profit after tax in the statements of comprehensive income</b>	<b>(718)</b>	<b>(1,623)</b>	<b>(718)</b>	<b>(1,623)</b>
<b>Actual return/(deficit) on plan assets</b>	<b>(1,182)</b>	<b>(4,601)</b>	<b>(1,182)</b>	<b>(4,601)</b>

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the year end date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the prospective markets.

**iv. Aggregate amounts recognised in other comprehensive income the statements of comprehensive income**

Net actuarial loss/(gains) recognised in the year	1,746	8,617	1,746	8,617
Contributions tax	817	843	817	843
Movement in limitation of assets	(88)	(6,908)	(88)	(6,908)
<b>Total (gain)/loss recognised in other comprehensive income in the statements of comprehensive income before tax</b>	<b>2,475</b>	<b>2,552</b>	<b>2,475</b>	<b>2,552</b>
Deferred tax movement	17	(240)	17	(240)
<b>Total (gain)/loss recognised in other comprehensive income in the statements of comprehensive income after tax</b>	<b>2,492</b>	<b>2,312</b>	<b>2,492</b>	<b>2,312</b>

**v. Principal actuarial assumptions**

The principal assumptions used in the valuation of the defined benefit plans are as follows:

	<b>2010</b>	<b>2009</b>
	<b>%</b>	<b>%</b>
Discount rate (net of tax)	3.9	4.2
Expected return on plan assets (net of tax)	5.5	6.8
Future salary increases	4.0	4.0

(All amounts are in NZD thousands unless otherwise stated)

**18 Employee benefit obligations (continued)**  
**(b) Defined benefit superannuation commitments (continued)**  
**vi. Employer contributions**

Employer contributions to the defined benefit plans are based on recommendations by the plans' actuary. Actuarial assessments are made annually, and the last such assessment was made as at 30 June 2010.

The objective of funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable. To achieve this objective, the actuary uses the Projected Unit Credit (PUC) Method to determine the present value of the defined benefit obligation, the related current service cost and any past service cost.

Actuarial recommendation of the employer contribution rates together with associated actuarial assumptions used to determine the rates are summarised in the table on next page.

	2010 %	2009 %
	20% of members' salaries plus fixed contributions of \$450,000 per annum (all gross of contribution tax)	20% of members' salaries plus fixed contributions of \$450,000 per annum (all gross of contribution tax)
Employer Contribution rate		
- Vero and Asteron New Zealand Staff Pension Scheme	20.0	20.0
- Guardian Assurance Superannuation Plan	-	-
Discount rate	3.9	4.2
Expected return on plan assets	5.5 to 6.0	5.5 to 6.0
Future salary increases	4.0	4.0

**vii. Historical Summary**

	2010	2009	2008	2007
Present value of defined benefit obligations	(36,017)	(37,352)	(36,941)	(37,075)
Fair value of the assets held by the plans	33,520	36,121	43,240	40,550
Adjustment in surplus for amount unable to be recognised under NZ IAS 19	-	(88)	(6,996)	(3,574)
Net (liability)/asset before adjustment for contributions tax	(2,497)	(1,319)	(697)	(99)
Adjustment for contributions tax	(1,229)	(650)	(343)	(49)
<b>Net (liability)/asset in the Statements of Financial Positions</b>	<b>(3,726)</b>	<b>(1,969)</b>	<b>(1,040)</b>	<b>(148)</b>

**(c) Share-based compensation plans**

Following the acquisition of Promina Group by Suncorp-Metway in March 2007, the employees of the company obtained the right to participate in two Suncorp-Metway Limited (SML) share plans. Shares required for the above share plans are acquired by an unrelated special purpose trustee and/or custodial companies in ordinary trading on the Australian Securities Exchange.

Features of the plans are as follows:

**i. Exempt employee share plan ("EESP")**

Eligibility	Employees (other than participants in the EPSP) having completed 12 months' service (or less at the discretion of the SML Board).
Basis of Share Offers	Each eligible employee can receive shares up to a maximum value of A\$1,000 in any one year. The value of shares to be offered each year is determined by the SML Board based on the Suncorp-Metway Group's overall performance.
Price	The price of shares acquired for any offer is based on the Volume Weighted Average Price of SML's shares over a five day period preceding the date of the offer.
Vesting	Fully vested, not subject to forfeiture.
Performance Criteria	Shares offered to employees under this Plan are not subject to individual performance criteria.
Minimum holding period	Three years from date of allocation, or upon cessation of employment.
Plan Maximum Limit	Shares must not be issued under this Plan if the number to be issued would exceed 5% of total shares on issue for SML when aggregated with the number of shares acquired or issued during the previous five years pursuant to any employee share or option Plan of SML.
Dividend entitlements	Full entitlement from the date that shares are allotted to participants.
Voting rights	Participating employees have the right to vote shares from the date the shares are held by the employee in the Plan.

During the year ended 30 June 2010 \$198,000 was accrued in relation to the 2010 EESP grants (2009: \$nil in relation to 2009 grants).

(All amounts are in NZD thousands unless otherwise stated)

**18 Employee benefit obligations - continued**

**(c) Share-based compensation plans (continued)**

**ii. Executive performance share plan ("EPSP")**

Eligibility	Executive Officers.
Basis of share offers	Offers under this Plan can be made on commencement of employment however offers are also made on an annual basis. The value of shares offered is determined by the SML Board based on the participating Executive Officer's level of remuneration and individual performance. Share offers are subject to performance criteria.
Price	The price of shares acquired for any offer is based on the Volume Weighted Average Price of SML's shares over a five day period preceding the date of the offer.
Vesting	Vesting of shares is subject to satisfaction of performance criteria over the performance period.
Performance criteria	<p>The criteria is based on total shareholder returns ("TSR") achieved by the Suncorp-Metway Group over a performance period compared to the TSR of a comparator group comprising the Top 50 Industrial companies in the S&amp;P/ASX 100, excluding listed property trusts. No shares are vested unless the group's TSR ranking at the end of a performance period is above the 50th percentile of the comparator group.</p> <p>If the SML Group's TSR ranking is less than the 50th percentile no shares will vest, at the 50th percentile 50% of shares will vest and at or above the 75th percentile 100% of the shares will vest. Between the 50th and 75th percentiles, an additional 2% of the shares will vest for each 1% increase (on a straight line basis) in the group's TSR ranking above the 50th percentile.</p> <p>A performance period generally commences on the date of offer to participate in the Plan and the first performance measurement point is three years after the offer date. The Executive Officer has the right to elect to receive an allocation of shares at the end of the performance period, based on the performance result described above, or extend the performance period a further two years.</p> <p>If the Executive Officer elects to accept the year three performance result, any shares subject to that same offer that are not allocated are forfeited.</p> <p>After year three, performance measurements are undertaken on a six monthly basis, in March and September each year, up to the end of year five. Executive Officers electing to extend the performance period from three to five years waive their right to make any further election in regard to acceptance of a performance result (and therefore cannot have shares allocated) until the end of year five. The Executive Officer's entitlement to an allocation of shares at the end of year five will be based on the highest performance measurement result recorded at any of the prescribed performance measurement points over the period from the end of year three to the end of year five inclusive. Shares not allocated at the end of year five are forfeited.</p>
Minimum holding period	No minimum holding period applies once shares have been allocated unless otherwise determined by the SML Board.
Plan maximum limit	Shares must not be issued under this Plan if the number to be issued would exceed 5% of total shares on issue for SML when aggregated with the number of shares acquired or issued during the previous five years pursuant to any employee share or option Plan of SML.
Dividend entitlements	Full entitlement from date of allocation (vesting).
Voting rights	Voting rights are held by the Plan Trustee until shares have vested with the participating employee.

The amount included in the net profit in the statements of comprehensive income in relation to the deferred ordinary shares allocated under EPSP for the year ended 30 June 2010 was \$142,000 (2009: \$115,000).

**19 Trade and other payables**

	Group 2010	2009	Parent 2010	2009
<b>Payables</b>				
Trade creditors and accruals	5,831	4,933	6,128	5,086
Amounts due to reinsurers	1,905	1,972	1,905	1,972
Other creditors and provisions	1,004	2,977	946	1,052
<b>Total payables</b>	<b>8,740</b>	<b>9,882</b>	<b>8,979</b>	<b>8,110</b>
Current	8,740	9,882	8,979	8,110
Non-current	-	-	-	-
<b>Total trade and other payables</b>	<b>8,740</b>	<b>9,882</b>	<b>8,979</b>	<b>8,110</b>

**20 Financial liabilities - external**

Drawdown facility	89,400	158,700	-	-
<b>Total financial liabilities - external</b>	<b>89,400</b>	<b>158,700</b>	<b>-</b>	<b>-</b>
Current	89,400	158,700	-	-
Non Current	-	-	-	-
<b>Total financial liabilities - external</b>	<b>89,400</b>	<b>158,700</b>	<b>-</b>	<b>-</b>

**20 Financial liabilities - external (continued)**

A drawdown facility of \$89.4m (2009: \$158.7m) to a subsidiary (GTfM Mortgage Fund) was in place at 30 June 2010, of which \$89.4m (2009: \$158.7m) had been drawn down at balance date. The facility automatically reduces with each loan repayment and therefore equates to the outstanding loan balance at any time.

The loan facility has been provided by ANZ National Bank Limited ("ANZ National"). Interest is charged at New Zealand Bank Bill reference rate (BKBm) plus 235 basis points. While the loan is due to mature on 8 September 2010, it has been agreed with ANZ National to extend the loan facility for a further 2 month period to 8 November 2010, on the same terms and conditions as the loan maturing on 8 September 2010. Suncorp-Metway Limited has agreed to provide a loan facility for a 12 month period maturing on 8 November 2011.

Under the terms of the ANZ National loan facility agreement the fund must comply with interest cover and leverage ratios. The fund has complied with these ratios at all times during the period ended 30 June 2010.

The facility drawn down on 8 September 2009 is secured over the assets of the fund, and up to \$30.0 million of the assets of the company's shareholder fund.

The following collateral has been pledged as security for the loan facility:

- General Security Deed over all the assets and undertakings of the fund in favour of ANZ National.
- Specific Security Deed of \$30.0 million granted by Asteron Life Limited in favour of ANZ National.
- A guarantee of \$33.6 million granted by Suncorp-Metway Limited in favour of ANZ National.
- An interest top-up to a maximum of \$6.0million in any 12 month period granted by Asteron Life Limited in favour of ANZ National.

**21 Policy liabilities**

**(a) Reconciliation of movements in policy liabilities**

**Investment contract policy liabilities**

	Group 2010	2009	Parent 2010	2009
Opening gross policy liabilities	246,383	309,484	246,383	309,484
Net decrease as shown in the profit or loss in the statements of comprehensive income	14,317	(27,734)	14,317	(27,734)
Investment contract contributions recognised in policy liabilities	13,243	15,560	13,243	15,560
Investment contract withdrawals recognised in policy liabilities	(27,151)	(50,927)	(27,151)	(50,927)
<b>Closing investment contract policy liabilities</b>	<b>246,792</b>	<b>246,383</b>	<b>246,792</b>	<b>246,383</b>

**Insurance contract policy liabilities**

Opening gross policy liabilities	8,005	46,929	8,005	46,929
Net increase as shown in the profit or loss in the statements of comprehensive income	(22,869)	(38,241)	(22,869)	(38,241)
Increase/(decrease) in liabilities ceded under reinsurance	(1,231)	2,405	(1,231)	2,405
Deferred tax movement	(2,200)	(3,088)	(2,200)	(3,088)
<b>Closing life insurance policy liabilities</b>	<b>(18,295)</b>	<b>8,005</b>	<b>(18,295)</b>	<b>8,005</b>

**Total policy liabilities**

Opening gross policy liabilities	254,388	356,413	254,388	356,413
Net increase as shown in the profit or loss in the statements of comprehensive income	(8,552)	(65,975)	(8,552)	(65,975)
Investment contract contributions recognised in policy liabilities	13,243	15,560	13,243	15,560
Investment contract withdrawals recognised in policy liabilities	(27,151)	(50,927)	(27,151)	(50,927)
Increase/(decrease) in liabilities ceded under reinsurance	(1,231)	2,405	(1,231)	2,405
Deferred tax movement	(2,200)	(3,088)	(2,200)	(3,088)
<b>Closing policy liabilities</b>	<b>228,497</b>	<b>254,388</b>	<b>228,497</b>	<b>254,388</b>
Current	6,433	10,508	6,433	10,508
Non-current	222,064	243,880	222,064	243,880
<b>Total</b>	<b>228,497</b>	<b>254,388</b>	<b>228,497</b>	<b>254,388</b>

**(b) Liabilities ceded under reinsurance**

Opening balance	16,627	14,222	16,627	14,222
Increase/(decrease) in reinsurance assets reflected in the profit or loss in the statements of comprehensive income	(1,231)	2,405	(1,231)	2,405
<b>Closing balance</b>	<b>15,396</b>	<b>16,627</b>	<b>15,396</b>	<b>16,627</b>
Current	4,693	4,643	4,693	4,643
Non-current	10,703	11,984	10,703	11,984
<b>Closing net policy liabilities</b>	<b>213,101</b>	<b>237,761</b>	<b>213,101</b>	<b>237,761</b>

**(c) Components of insurance contract policy liabilities**

Future policy benefits *	1,082,597	1,030,436	1,082,597	1,030,436
Future bonuses	12,445	-	12,445	-
Future expenses	455,873	280,796	455,873	280,796
Planned margin over future expenses	356,375	263,934	356,375	263,934
Balance of future premiums	(1,634,334)	(1,279,750)	(1,634,334)	(1,279,750)
Net policy liabilities	272,956	295,416	272,956	295,416
Deferred tax liability (Note 11(b))	(59,855)	(57,655)	(59,855)	(57,655)
Net policy liabilities	213,101	237,761	213,101	237,761
Reinsurance ceded receivable	15,396	16,627	15,396	16,627
<b>Gross policy liabilities</b>	<b>228,497</b>	<b>254,388</b>	<b>228,497</b>	<b>254,388</b>
<b>Policy liabilities</b>	<b>228,497</b>	<b>254,388</b>	<b>228,497</b>	<b>254,388</b>

(All amounts are in NZD thousands unless otherwise stated)

**21 Policy liabilities (continued)**

**(c) Components of insurance contract policy liabilities (continued)**

	Group 2010	2009	Parent 2010	2009
Policy liabilities subject to capital guarantees	17,254	19,169	17,254	19,169

\* Future policy benefits include bonuses vested in policyholders in current and prior periods.

**(d) Analysis of profit after income tax expense in the statements of comprehensive income**

Life insurance profit after income tax expense arose from:

Planned margins of revenues over expenses released	28,840	29,502	28,840	29,502
Difference between actual and assumed experience	2,766	(1,354)	2,766	(1,354)
Reversal of capitalised loss	92	(142)	92	(142)
Movement in value of subsidiaries	1,175	557	(1,954)	(2,398)
Investment earnings on assets in excess of policyholder liabilities	3,709	(6,069)	4,425	(2,729)
Total comprehensive income attributed to non-controlling interests	193	434	-	-

**Profit after income tax expense in the statements of comprehensive income**

<b>36,775</b>	<b>22,928</b>	<b>34,169</b>	<b>22,879</b>
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Further details of actuarial policies and methods are provided in note 5.

**22 Contributed capital and retained earnings**

118,342,450 (2009: 112,480,000) ordinary shares	145,230	145,230	145,230	145,230
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**Total contributed ordinary capital**

<b>145,230</b>	<b>145,230</b>	<b>145,230</b>	<b>145,230</b>
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**Preference shares**

45,000,000 (2009: 45,000,000) specified preference shares	45,000	45,000	45,000	45,000
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**Total preference shares**

<b>45,000</b>	<b>45,000</b>	<b>45,000</b>	<b>45,000</b>
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Shareholder contribution under employee share plans

426	284	426	284
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**Total share capital**

<b>190,656</b>	<b>190,514</b>	<b>190,656</b>	<b>190,514</b>
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Each ordinary and preference share is entitled to one vote. The shares do not have a par value.

Ordinary shares entitle the holder to participate in dividends in proportion to the amounts paid or credited as paid on account of the nominal value of the shares and the proceeds on winding up of the company in proportion to the shares held by the holder.

The dividends on the redeemable preference shares are payable at the discretion of the company. Similarly, the redeemable preference shares are redeemable at the discretion of the company. In the event of liquidation of the company, the holder of the redeemable preference shares do not participate in any distribution of profits or assets of the company.

On 26 June 2009 5,862,450 ordinary shares were issued to Suncorp Group New Zealand Limited for a consideration of \$17,500,000. The consideration was provided by the reinvestment of a dividend of \$17,500,000 paid to Suncorp Group New Zealand Limited on 26 June 2009.

	Group 2010	2009	Parent 2010	2009
The movements in the shareholder contributions under the employee share plans are:				
Balance at beginning of the year	284	169	284	169
Contributions under Exempt Employee Share Plan	-	-	-	-
Contributions under Executive Performance Share Plan	142	115	142	115
<b>Balance at the end of the year</b>	<b>426</b>	<b>284</b>	<b>426</b>	<b>284</b>

**23 Dividends**

**Ordinary shares**

No dividend was paid for the year to June 2010.

-	-	-	-
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Dividend of 15.58 cents per fully paid ordinary share, paid June 2009.

-	17,500	-	17,500
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**Total dividends declared or paid**

-	<b>17,500</b>	-	<b>17,500</b>
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## 24 Related parties

Transactions with related parties are conducted on an arms-length basis in the normal course of business under normal commercial terms and conditions.

The group has the following related entities whom with they may have transacted business with over the financial period.

### (a) Holdings and activities

		Equity holding 2010 %	2009 %
Principal Activity			
<b>Parent</b>			
Suncorp-Metway Limited	Ultimate Australian holding company		
Suncorp Group Services NZ Limited	Ultimate New Zealand holding company		
Suncorp Group New Zealand Limited	Direct New Zealand holding company		
<b>Subsidiaries</b>			
Asteron Retirement Investment Limited	Trustee services	100	100
Asteron Trust Services Limited	Trustee services	100	100
SAL Re Limited	Financial advisor	100	100
GTFM Mortgage Fund	Mortgage fund	90	90
All subsidiaries are incorporated in New Zealand			
<b>Other associates of Suncorp-Metway Limited</b>			
AA Life Services Limited	Life insurance		
<b>Other subsidiaries of Suncorp-Metway Limited</b>			
Asteron Life Limited (Australia)	Life insurance		
NZGT Financial Services Limited	Investment vehicle		
Promequity Limited - NZ Branch	NZ Branch		
Suncorp Group Holdings (NZ) Limited	Holding company of General Insurance Business		
The New Zealand Guardian Trust Company Limited and its subsidiaries	Trust and asset management		
Tyndall Investment Management New Zealand Limited	Asset management		
Vero Insurance Limited (Australia)	General insurance		
Vero Insurance New Zealand Limited	General insurance		
Vero Liability Insurance Limited	General insurance		
<b>Managed funds and unit trusts of the company</b>			
- Asteron Asian Sharemarket Growth Trust	Unit trusts		
- Asteron Corporate Bond Trust	Unit trusts		
- Asteron New Zealand Fixed Interest Trust	Unit trusts		
- Asteron Socially Responsible Trust	Unit trusts		
<b>Managed funds and unit trusts of the ultimate parent company</b>			
- NZGT Mortgage Trust - class B Mezzanine Notes	Group Investment Funds		
- The Guardian Cash Plus Mortgage Units Fund	Group Investment Funds		
- The Guardian Mortgage Fund	Group Investment Funds		
- The New Zealand Guardian Trust Property Fund	Group Investment Funds		
- The New Zealand Guardian Trust Wholesale Mortgage Fund	Group Investment Funds		

### (b) Summary balances

	Group		Parent	
	2010	2009	2010	2009
<b>Related party receivables</b>				
Parent and ultimate parent (refer 24(c)(i))	12	-	12	-
Subsidiaries (refer 24(d)(ii))	-	-	3,324	4,583
Other refer (24(e)(ii))	3,730	4,007	1,997	3,347
	<u>3,742</u>	<u>4,007</u>	<u>5,333</u>	<u>7,930</u>
<b>Related party payables</b>				
Parent and ultimate parent (refer 26(c)(i))	81	-	81	-
Subsidiaries (refer 26(d)(ii))	-	-	4,323	4,935
Other (refer 26(e)(ii))	7,874	8,012	9,360	10,945
	<u>7,955</u>	<u>8,012</u>	<u>13,764</u>	<u>15,880</u>

### (c) Parent and ultimate parent

#### i. Balances

<b>Related party receivables</b>				
Suncorp Group New Zealand Limited	12	-	12	-
<b>Total related party receivables</b>	<u>12</u>	<u>-</u>	<u>12</u>	<u>-</u>
<b>Related party payables</b>				
Suncorp Group Services NZ Limited	81	-	81	-
<b>Total related party payables</b>	<u>81</u>	<u>-</u>	<u>81</u>	<u>-</u>

(All amounts are in NZD thousands unless otherwise stated)

24

(c) Parent and ultimate parent (continued)

(All amounts are in NZD thousands unless otherwise stated)

	Group		Parent	
	2010	2009	2010	2009
ii. Transactions				
<u>Accounting and administrative costs received/(paid)</u>				
Suncorp Group Services NZ Limited	(981)	-	(981)	-
<u>Life and disability premiums received</u>				
Suncorp Group Services NZ Limited	1	-	1	-
<u>Income tax transfers received/(paid)</u>				
Suncorp Group New Zealand Limited	12	-	12	-
Suncorp Group Services NZ Limited	94	-	94	-
<u>Dividend paid</u>				
Suncorp Group New Zealand Limited	-	(17,500)	-	(17,500)
(d) Subsidiaries				
i. Investment				
			Parent	
			2010	2009
			%	%
Asteron Retirement Investment Limited			100	100
Asteron Trust Services Limited			100	100
SAL Re Limited			100	100
GTfM Mortgage Fund			90	90
All subsidiaries are incorporated in New Zealand				
ii. Balances				
			Parent	
			2010	2009
Related party receivables				
Asteron Trust Services Limited			833	1,753
SAL Re Limited			2,189	2,830
GTfM Mortgage Fund			302	-
Total related party receivables			3,324	4,583
Related party payables				
Asteron Retirement Investment Limited			4,323	2,814
Asteron Trust Services Limited			-	2,121
Total related party payables			4,323	4,935
iii. Transactions				
<u>Management fees and commission received</u>				
Asteron Retirement Investment Limited			3,668	4,804
Asteron Trust Services Limited			585	404
SAL Re Limited			7	-
<u>Rebate management fees paid</u>				
Asteron Retirement Investment Limited			(586)	(532)
Asteron Trust Services Limited			(328)	(311)
<u>Commission paid</u>				
SAL Re Limited			(475)	(605)
<u>Accounting and administrative costs received/(paid)</u>				
SAL Re Limited			(38)	(164)
<u>Net loan payments received/(advanced)</u>				
Asteron Trust Services Limited			750	1,787
SAL Re Limited			(95)	(517)
GTfM Mortgage Fund			-	54,743
<u>Interest on loan received</u>				
GTfM Mortgage Fund			-	1,462
<u>Distributions received</u>				
The New Zealand Guardian Trust Wholesale Mortgage Fund (in wind up)			-	266
<u>Repayment of units received</u>				
The New Zealand Guardian Trust Wholesale Mortgage Fund (in wind up)			-	26,500
<u>Payment for acquisition of units</u>				
GTfM Mortgage Fund			-	(31,500)

(All amounts are in NZD thousands unless otherwise stated)

24	Related parties (continued)				
(d)	Subsidiaries (continued)				
iii.	Transactions (continued)				
	<i>Income tax transfers received/(paid)</i>				
	Asteron Retirement Investment Limited			1,166	-
(e)	Other				
i.	Investments				
	<b>Unit Trusts managed by Tyndall Investment Management New Zealand Limited</b>				
	- Tyndall Global Fixed Interest Fund			23,988	-
	- Tyndall Option Fund			814	-
	- Tyndall Wholesale Aggressive Australasian Equity Fund			1,676	-
	- Tyndall Wholesale Multi Manager Global Equity Fund – Unhedged			3,071	-
	<b>Group investment funds managed by Guardian Trust</b>				
	- The Guardian Cash Plus Mortgage Units Fund			9	10
	- The Guardian Mortgage Fund			578	542
	- The New Zealand Guardian Trust Property Fund			-	8,487
	<b>Unit trusts managed by Asteron Trust Services:</b>				
	- Asteron Asian Sharemarket Growth Trust			822	774
	- Asteron Corporate Bond Trust			13,661	12,253
	- Asteron New Zealand Fixed Interest Trust			4,107	5,910
	- Asteron Socially Responsible Trust			736	680
	<b>Unit trusts managed by Guardian Trust</b>				
	- GTFM Mortgage Fund			21,520	23,258
ii.	Balances				
		<b>Group</b>		<b>Parent</b>	
		<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>Related party receivables</b>				
	<b>Fellow subsidiaries</b>				
	Promequity Limited - NZ Branch	546	-	564	-
	The New Zealand Guardian Trust Company Limited	210	-	210	-
	<b>Group superannuation plans</b>				
	Asteron Superplan	2,645	386	925	-
	Superplus Capital Guaranteed Lump Sum Superannuation Plan	24	658	18	603
	Superplus Capital Guaranteed Pension Superannuation Plan	3	143	-	113
	Commercial Union General Insurance Staff Pension Scheme	2	-	2	-
	Superplus Equity Linked Lump Sum Superannuation Plan	-	263	-	231
	Superplus Equity Linked Pension Superannuation Plan	170	2,385	148	2,228
	RIG Superannuation Fund	3	-	3	-
	Shield Superannuation Plan	-	51	-	51
	Vero & Asteron NZ Staff Pension Scheme	6	-	6	-
	<b>Group unit trust</b>				
	Asteron Asian Sharemarket Growth Trust	121	121	121	121
		<b>3,730</b>	<b>4,007</b>	<b>1,997</b>	<b>3,347</b>
	<b>Related party payables</b>				
	<b>Fellow subsidiaries</b>				
	Promequity Limited - NZ Branch	-	2	-	2
	Suncorp Group Services NZ Limited	-	707	-	707
	The New Zealand Guardian Trust Company Limited	-	47	-	45
	Tyndall Investment Management New Zealand Limited	22	35	22	35
	Vero Insurance Limited (Australia)	660	-	660	-
	Vero Insurance NZ Limited	6,092	5,980	6,092	5,980
	<b>Group superannuation plans</b>				
	Asteron Superannuation Fund	1,066	1,241	2,547	2,683
	Asteron Superplan	-	-	-	1,493
	Superplus Equity Linked Lump Sum Superannuation Plan	34	-	39	-
		<b>7,874</b>	<b>8,012</b>	<b>9,360</b>	<b>10,945</b>

(All amounts are in NZD thousands unless otherwise stated)

24 Related parties (continued)  
(e) Other (continued)

iii. Transactions

	Group		Parent	
	2010	2009	2010	2009
<u>Accounting and administrative costs received/(paid)</u>				
AA Insurance Limited	-	72	-	72
Asteron Life Limited (Australia)	-	(5)	-	(5)
Suncorp Equities NZ Limited	-	(5)	-	(5)
Suncorp Group Services NZ Limited	-	(1,545)	-	(1,545)
The New Zealand Guardian Trust Company Limited	(1,602)	(1,359)	(1,602)	(1,359)
Tyndall Investment Management New Zealand Limited	(282)	-	(282)	-
Vero Insurance Limited (Australia)	(8,488)	(8,671)	(8,488)	(8,671)
Vero Insurance NZ Limited	(1,304)	(835)	(1,304)	(835)
<u>Indemnity fee payable by the fund</u>				
The New Zealand Guardian Trust Company Limited	-	(1,057)	-	(1,057)
<u>Income Tax and Foreign Investment Tax Credits (FITC) transfers received/(paid)</u>				
Suncorp Group Services NZ Limited	-	228	-	228
<u>Life and disability premiums received</u>				
AA Life Services Limited	5	-	5	-
Pronequity Limited - NZ Branch	2	-	2	-
The New Zealand Guardian Trust Company Limited	241	-	241	-
Tyndall Investment Management NZ Ltd	20	-	20	-
Vero Insurance NZ Limited	438	42	438	42
<u>Amount receivable under indemnity in respect of capital and interest losses in the fund</u>				
The New Zealand Guardian Trust Company Limited	3,248	3,035	3,248	3,035
<u>Investment management fee received/(paid)</u>				
Tyndall Investment Management New Zealand Limited	(1,343)	(1,160)	(1,343)	(1,160)
<u>Management fees received/(paid)</u>				
The New Zealand Guardian Trust Company Limited	838	-	838	-
Tyndall Investment Management New Zealand Limited	-	(480)	-	(480)
<u>Repayment of Mezzanine Notes received</u>				
NZGT Mortgage Trust (in wind up)	-	5,000	-	5,000
<u>Accounting and administrative costs received/(paid)</u>				
AA Life Services Limited	1,207	1,300	1,207	1,300
<u>Commission received/(paid)</u>				
AA Life Services Limited	(8,213)	(6,005)	(8,213)	(6,005)

iv. Notes

A special purpose fund, the GTFM Mortgage Fund ("the fund"), was set up in June 2008 to purchase part of the mortgage portfolio of the NZGT Mortgage Trust. At 30 June 2010 Asteron held 90% (2009: 90%) of the units in the fund and exercised control over the fund under the provisions of the Trust Deed. As at 30 June 2010 the fund has mortgage loan investments of \$105 million (2009: \$178 million) after impairment provisions of \$10 million (2009: \$16 million).

On 9 June 2008 the fund acquired part of the mortgage portfolio of the NZGT Mortgage Trust for a consideration of \$57.8m. The consideration represented mortgage loan principal of \$57.1m and accrued interest of \$0.7m. The New Zealand Guardian Trust Company Limited ("Guardian Trust"), a fellow subsidiary, has fully indemnified the fund for all principal and interest losses arising on this specific loan portfolio. As at 30 June 2010 the fund recognised a provision of \$3.2m (2009: \$1.1m) to cover principal and interest losses that may arise under this indemnity. During the period ended 30 June 2010, the Trustee of the Fund, Guardian Trust paid interest losses realised on these loans of \$0.6m (2009: \$0.1m) there is provision remaining of \$3.6m (2009: \$1.0m) to cover any further realised principal and interest losses on the remaining balance of the specified loans of \$25.1m (2009: \$33.7m) as at 30 June 2010.

On 11 July 2008 the fund purchased the equity and Class C to E Mezzanine notes from external investors in the NZGT Mortgage Trust for a consideration of \$13.6m. The consideration represented face value of the notes of \$13.1m and accrued interest of \$0.5m.

On 9 September 2008 the fund purchased the balance of the mortgage loan portfolio of the NZGT Mortgage Trust for a consideration of \$137.4m being mortgage loan principal of \$134.9m and accrued interest of \$2.5m. The Trustee of the Fund, Guardian Trust has provided an indemnity to compensate the fund for any principal and interest losses incurred on nine specific loans with a maximum indemnity payment for principal and interest losses of \$3.0m. During the period ended 30 June 2010 Guardian Trust paid principal and interest losses realised on these loans of \$0.6m (2009: \$2.7m) leaving a no provision, (2009: \$0.4m).

(All amounts are in NZD thousands unless otherwise stated)

**24 Related parties (continued)**  
**(e) Other (continued)**  
**iv. Notes (continued)**

On 19 September 2008 the fund purchased the residual mortgage portfolio of the special purpose Group Investment Fund (GIF), NZGT Wholesale Mortgage Fund (GIF5) for a consideration of \$106m, being mortgage loan principal of \$105.3m and accrued interest of \$0.7m. GIF 5 had been set up in July 2004 to enable the Group to invest in mortgages, and at 19 September 2008 the Group held 90% and The New Zealand Guardian Trust Company Limited ("NZGT") held the remaining 10% of the units in the GIF and exercised control over the GIF under the provisions of a Trust Deed.

The GIF 5 and the NZGT Mortgage Trust have both been wound up.

During the period the Trustee of the Fund, Guardian Trust has paid no facility fee in 2010, (2009: \$0.8m) for the loan facility provided by ANZ National Bank Limited and a fee of \$0.7m (2009: \$0.6m) in consideration for the guarantee provided by Suncorp-Metway Limited, the ultimate parent company of the Trustee. Refer to note 20 for details of the borrowings.

The group has provided a Specific Security Deed of \$30.0 million in favour of ANZ National as part of the security for the loan facility to the fund. The deed pledges shareholder investment assets up to a value of \$30.0m.

**25 Directors and executive remuneration**

	Group 2010	2009	Parent 2010	2009
The remuneration of the key management team are:				
Short-term employee benefits	2,296	2,030	2,296	2,030
Post-employment benefits	66	85	66	85
Share based payments	142	115	142	115
<b>Total</b>	<b>2,504</b>	<b>2,230</b>	<b>2,504</b>	<b>2,230</b>

GE Summerhayes was remunerated by Suncorp-Metway Limited, the ultimate parent.  
BD Connor is remunerated by The New Zealand Guardian Trust Company Limited, a fellow subsidiary.  
GT Ricketts is remunerated by Suncorp-Metway Limited as a Director.

**26 Remuneration of auditors**

During the period the following fees were paid or payable for services provided by the auditor of the group, and its related parties:

	Group 2010	2009	Parent 2010	2009
<b>Audit services</b>				
Fees paid or payable to audit firms:				
Audit or review of financial reports of the company or any entity in the group				
KPMG - Current year				
- statutory audit fee	481	584	481	584
- managed fund audit fees	241	227	241	131
KPMG - Prior years				
- statutory audit fee	-	-	-	-
- managed fund audit fees	39	105	39	105
<b>Total remuneration for audit services</b>	<b>761</b>	<b>916</b>	<b>761</b>	<b>820</b>
<b>Other assurance services</b>				
Prospectuses for managed funds				
- current year	7	27	7	27
- prior year	9	4	9	4
<b>Total remuneration for other assurance services</b>	<b>16</b>	<b>31</b>	<b>16</b>	<b>31</b>
<b>Total remuneration of auditors</b>	<b>777</b>	<b>947</b>	<b>777</b>	<b>851</b>

All audit fees are paid by parent entity

**27 Reconciliation of net profit for the year to net cash flows from operating activities**

<b>Operating profit after income tax and before minority interest</b>	<b>36,968</b>	<b>23,362</b>	<b>34,169</b>	<b>22,879</b>
Investment revenue - net changes in market value	(24,759)	58,922	(21,100)	65,909
Impairment of mortgage loans	9,788	12,731	-	-
Profit attributable to minority interests	(193)	(434)	-	-
Depreciation expense	178	219	123	165
Amortisation of intangibles	1,009	405	985	405
Loss/(Profit) on disposal of plant and equipment	2	4	2	5
Loss/(Profit) on disposal of software	24	-	24	-
Defined benefit scheme recovery	(735)	(1,383)	(735)	(1,383)

KPMG

**27 Reconciliation of net profit for the year to net cash flows from operating activities (continued)**

	Group 2010	2009	Parent 2010	2009
<b>(Increase)/decrease in working capital</b>				
Receivables (excluding loans)	5,263	(6,523)	7,723	(2,455)
Reinsurance recoveries - outstanding claims	(3,396)	(3,681)	(3,396)	(3,681)
Reinsurance recoveries - policy liabilities	1,231	(2,405)	1,231	(2,405)
Other assets	(296)	1,064	(1,050)	1,081
Outstanding claims	3,043	10,777	3,043	10,777
Unearned premiums	260	(45)	260	(45)
Employee benefit obligations	334	(301)	327	(291)
Accounts payable/provisions	(1,199)	4,316	(1,247)	5,036
Taxation	4,310	(16,182)	5,700	(15,003)
Life insurance policy liabilities	(25,178)	(102,999)	(25,178)	(102,999)
<b>Less items classified as investment activities:</b>				
Increase in investment receivables	(5,225)	3,029	(5,225)	3,029
Decrease in investment payables	(938)	(26)	(935)	587
<b>Net cash flow from operating activities</b>	<b>491</b>	<b>(19,150)</b>	<b>(5,279)</b>	<b>(18,389)</b>

**28 Solvency requirements**

The minimum equity required to meet solvency requirements over and above total liabilities in the statements of financial position

	Parent 2010	2009
The shareholder equity exceeds these minimum requirements by:	255,671	244,579

**29 Contingent liabilities and assets**

The company has provided a written undertaking to its wholly owned subsidiary SAL Re Limited to provide ongoing financial support in order to enable the subsidiary to continue to carry out its business operations.

The ANZ National facility drawn down on 8 September 2009 is secured over the assets of the fund, and up to \$30.0 million of the assets of the company's shareholder fund.

The following collateral has been pledged as security for the loan facility:

- General Security Deed over all the assets and undertakings of the fund in favour of ANZ National.
- Specific Security Deed of \$30.0 million granted by Asteron Life Limited in favour of ANZ National.
- A guarantee of \$33.6 million granted by SML in favour of ANZ National.
- An interest top-up to a maximum of \$6.0million in any 12 month period granted by Asteron Life Limited in favour of ANZ National.

Under the terms of its contracts with advisers the group has agreed that it would acquire the entitlement of individual retiring advisers to future income streams from renewal commission should the adviser themselves be unable to find an approved buyer within 6 months of the date that the agreement ends. The liability for future renewal commission is contained in the group's policy liabilities, and therefore these potential transactions do not result in any change to the group's net assets or profit and loss. In practice these transactions are not frequent and management do not consider that the consequent acceleration of the timing of underlying cash flows material.

**30 Commitments for expenditure**

**Capital commitments**

The company has granted a specific security deed of \$30.0 million in favour of ANZ National as security for the loan facility from the bank to the fund. (2009: \$30.0 million).

The group has incurred capital expenditure of \$3m at 30 June 2010. This commitment relates to the fitting and costs for the new Wellington premises that group will occupy in 2011 (2009: \$Nil).

**Lease commitments**

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	Group 2010	2009	Parent 2010	2009
Not later than one year	2,144	1,711	2,060	1,478
Later than one year but not later than 5 years	8,341	2,386	8,322	2,314
Later than 5 years	13,111	1,662	13,111	1,662
<b>Total</b>	<b>23,596</b>	<b>5,759</b>	<b>23,493</b>	<b>5,454</b>

### 31 Subsequent events

The company directors declared a dividend of \$6.5m on the 16th of August 2010, payable to the shareholder.

There has not been any other matter or circumstance that has arisen since the end of the reporting year that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs as at 30 June 2010.

### 32 Disaggregated information

	Unit linked business	Shareholder and other business	Total
<b>Group</b>			
<b>2010</b>			
<b>Assets</b>			
Investment assets, cash, and cash equivalents	229,099	404,390	633,489
Other assets	4,977	170,544	175,521
<b>Total assets</b>	<b>234,076</b>	<b>574,934</b>	<b>809,010</b>
<b>Liabilities</b>			
Policy liabilities	197,456	31,041	228,497
Unvested policy benefits	-	17,079	17,079
Other liabilities	18,660	219,201	237,861
Retained profits attributable to shareholders	17,960	114,565	132,525
Share capital	-	190,656	190,656
Non controlling interests	-	2,392	2,392
<b>Total liabilities and equity</b>	<b>234,076</b>	<b>574,934</b>	<b>809,010</b>
<b>Performance</b>			
Risk premium revenue	-	132,114	132,114
Reinsurance recoveries	-	17,799	17,799
Investment revenue	18,411	48,698	67,109
Other revenue	-	8,748	8,748
Risk claims expense	-	(77,406)	(77,406)
Reinsurance outwards	-	(24,109)	(24,109)
Operating expenses	(2,446)	(87,790)	(90,236)
(Increase)/decrease in policy liabilities	(10,611)	18,449	7,838
Finance costs	-	(6,153)	(6,153)
<b>Operating surplus before tax in the statements of comprehensive income</b>	<b>5,354</b>	<b>30,350</b>	<b>35,704</b>
Income tax expense	(3,599)	4,670	1,071
<b>Operating surplus after tax in the statements of comprehensive income</b>	<b>1,755</b>	<b>35,020</b>	<b>36,775</b>
Non controlling interest	-	193	193
<b>Total operating surplus after tax in the statements of comprehensive income</b>	<b>1,755</b>	<b>35,213</b>	<b>36,968</b>
<b>Group</b>			
<b>2009</b>			
<b>Assets</b>			
Investment assets, cash, and cash equivalents	214,504	393,923	608,427
Other assets	13,231	239,050	252,281
<b>Total assets</b>	<b>227,736</b>	<b>632,972</b>	<b>860,708</b>
<b>Liabilities</b>			
Policy liabilities	194,726	59,662	254,388
Unvested policy benefits	-	16,366	16,366
Other liabilities	17,525	281,281	298,806
Retained profits attributable to shareholders	15,485	82,564	98,049
Share capital	-	190,514	190,514
Non controlling interest	-	2,585	2,585
<b>Total liabilities and equity</b>	<b>227,736</b>	<b>632,972</b>	<b>860,708</b>
<b>Performance</b>			
Risk premium revenue	-	122,314	122,314
Reinsurance recoveries	-	25,769	25,769
Investment revenue	(21,588)	25,017	3,429
Other revenue	-	9,795	9,795
Risk claims expense	-	(89,562)	(89,562)
Reinsurance outwards	-	(22,416)	(22,416)
Operating expenses	(2,220)	(89,460)	(91,680)
Increase/(decrease) in policy liabilities	29,397	37,552	66,949
Finance costs	-	(14,285)	(14,285)
<b>Operating surplus before tax in the statements of comprehensive income</b>	<b>5,588</b>	<b>4,725</b>	<b>10,313</b>
Income tax expense	(3,155)	15,770	12,615
<b>Operating surplus after tax in the statements of comprehensive income</b>	<b>2,433</b>	<b>20,495</b>	<b>22,928</b>
Non controlling interest	-	434	434
<b>Total operating surplus after tax in the statements of comprehensive income</b>	<b>2,433</b>	<b>20,929</b>	<b>23,362</b>

**33 Other information**

**The registered office of the company is:**

Asteron House, 139 The Terrace, Wellington, New Zealand

Mailing Address: PO Box 894, Wellington, New Zealand

Phone: (04) 495 8837

Fax: (04) 470 8921

email: [administration@asteron.co.nz](mailto:administration@asteron.co.nz)

**New Zealand Companies Office details:**

Company Number: 18153

Incorporated: 30 January 1904