

Asteron Life Limited

Annual Report

For the year ended

30 June 2012



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The Directors have pleasure in presenting the financial statements of Asteron Life Limited (the "company") and its subsidiaries (the "group") for the year ended 30 June 2012.

Directors

The following persons were Directors of the Company for the whole of the period unless otherwise stated:

G T Ricketts (Chairman)
S Carroll (resigned 10 February 2012)
D A Carter (appointed 1 February 2012)
P C Conroy (resigned 9 May 2012)
E S Edgar (appointed 1 May 2012)
G E Summerhayes

Information on directors in office at the date of this report

Geoffrey T Ricketts

LLB (Hons), FlntD

Chairman and Non-executive Director

Director since 1992. Mr Ricketts is a commercial lawyer with extensive experience in New Zealand and Australia.

He is also a non-executive director of Suncorp Group Limited, the ultimate parent company of Asteron Life Limited and a director of a number of private companies. He is chairman of Vero Insurance New Zealand Limited (a related company of Asteron Life Limited), The Todd Corporation Limited, Lion Pty Limited and Spotless Group Limited.

Mr Ricketts is a consultant to Russell Mcveagh, Solicitors, where he was a partner for over 25 years.

David A Carter

BCom, GDipFinPlanning, GDipAppFin

Executive Director and Executive General Manager, Suncorp Life NZ

Mr Carter has over 20 years' experience in financial services and, in particular, in adviser and distribution related roles.

He joined the Suncorp Group in April 2006 initially as Head of Dealerships, he later took on the role of EGM Advice Solutions. In 2009 Mr Carter was promoted to Executive General Manager Direct Distribution. He is a CPA and has post graduate qualifications in financial planning, and in finance and investment.

Sir Eion S Edgar

Bcom, FACA, LL.D (Hon), KNZM

Non-executive Director

Sir Eion has extensive corporate experience in New Zealand, with a strong background in investment, education, the arts, sport and philanthropy.

Sir Eion is the Chairman of the Asteron Life Limited Board Audit & Risk Committee.

He is Chairman of the Forsyth Barr Group Limited, Queenstown Resort College Limited, the Winter Games NZ Charitable Trust and the Central Lakes Trust. His other directorships include Vero Insurance New Zealand Limited (a related company of Asteron Life Limited).

His previous roles have included Chairman of the New Zealand Stock Exchange, director of the Reserve Bank of New Zealand and the Accident Compensation Corporation and Chancellor of the University of Otago.

Sir Eion is also Honorary President of the New Zealand Olympic Committee, a former National Business Review, New Zealander of the Year and has been inducted into the New Zealand Business Hall of Fame.

Geoffrey E Summerhayes

B.Bus; GMQ AGSM

Executive Director and Chief Executive Officer, Suncorp Life

Director since 2008. Mr Summerhayes joined Suncorp in May 2008 as Group Executive Suncorp Life. He has 19 years experience in banking and wealth management, holding senior executive roles with NAB, MLC and Lend Lease.

He has held directorships of many companies including MLC Limited, National Australia Financial Management Limited, MLC Hong Kong and Chairman of National Online Trading.

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 for the year ended 30 June 2012 and their financial performance and cash flows for the year ended 30 June 2012.

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

13 AUG 2012

The following Directors have signed on behalf of the Board:



Director

Date

13 AUG 2012



Director

Date

13 AUG 2012



Independent Auditor's Report

To the Shareholder of Asteron Life Limited

Report on the Company and Group Financial Statements

We have audited the accompanying financial statements of Asteron Life Limited ("the company") and the group, comprising the company and its subsidiaries, on pages 5 to 46. The financial statements comprise the statements of financial position as at 30 June 2012, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, for both the company and the group.

Director's Responsibility for the Company and Group Financial Statements

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

Auditor's Responsibility

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

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

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

Our firm has also provided other services to the company and group in relation to other audit related matters. Subject to certain restrictions, partners and employees of our firm may also deal with the company and group on normal terms within the ordinary course of trading activities of the business of 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 and group.

Opinion

In our opinion the financial statements on pages 5 to 46:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the company and the group as at 30 June 2012 and of the financial performance and cash flows of the company and the group for the year then ended.

Report on Other Legal and Regulatory Requirements

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

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

KPMG

16 August 2012

Auckland

Asteron Life Limited
Statements of financial position
as at 30 June 2012

(All amounts are in NZD thousands unless otherwise stated)

	Note	Group 2012	Group 2011	Parent 2012	Parent 2011
Assets					
Cash and cash equivalents	11	35,953	23,367	34,968	22,484
Trade and other receivables	12	8,324	10,369	8,212	10,214
Related party receivables	23(b)	2,564	11,334	4,520	13,059
Other assets	15	4,410	4,049	4,407	4,037
Current tax		16,285	5,759	16,769	6,125
Reinsurance and other recoveries receivables		28,459	20,154	28,459	20,154
Financial assets at fair value through profit or loss	14(b)	617,710	602,621	623,784	612,838
Disposal group classified as held for sale	14(c)	-	14,821	-	14,821
Reinsurance recoveries - policy liabilities	20(b)	15,157	11,606	15,157	11,606
Mortgage receivables	13	648	1,157	648	1,157
Deferred tax asset	10(b)(i.)	5,004	2,951	4,937	2,938
Plant and equipment	16	5,163	5,909	5,151	5,760
Intangible assets and goodwill	17(b)	324	737	324	665
Employee defined benefit schemes surplus	18	-	- 1,574	-	1,574
Total assets		740,001	716,408	747,336	727,432
Liabilities					
Bank overdrafts	11	95	1,393	95	1,870
Trade and other payables	19	6,662	8,118	6,304	8,078
Related party payables	23(b)	4,593	1,477	7,958	7,768
Employee benefit obligations	18(a)	2,432	1,805	2,423	1,765
Unearned premium liabilities		2,621	2,582	2,621	2,582
Outstanding claims liabilities		86,468	74,384	86,468	74,384
Policy liabilities	20(a)	155,703	198,030	155,703	198,030
Unvested policy liabilities		6,376	18,310	6,376	18,310
Deferred tax liability	10(b)	67,962	64,851	67,962	64,851
Employee defined benefit schemes deficit	18(a)	10,272	4,027	10,272	4,027
Total liabilities		343,184	374,977	346,182	381,665
Net assets		396,817	341,431	401,154	345,767
Equity					
Total share capital	21	234,906	190,798	234,906	190,798
Retained earnings		161,911	150,633	166,248	154,969
Shareholder's equity		396,817	341,431	401,154	345,767
Total Equity		396,817	341,431	401,154	345,767

For and on behalf of the Board of Directors



Director

Date 13 AUG 2012



Director

Date 13 AUG 2012

The notes on pages 9 to 46 are an integral part of these consolidated financial statements.



Asteron Life Limited
Statements of comprehensive income
for the year ended 30 June 2012
(All amounts are in NZD thousands unless otherwise stated)

	Note	Group 2012	2011	Parent 2012	2011
Revenue					
Premium revenue		151,567	143,415	151,567	143,415
Less: Outwards reinsurance expense		(24,812)	(25,431)	(24,812)	(25,431)
Net premium revenue	7	126,755	117,984	126,755	117,984
Investment revenue	7	32,042	56,486	33,738	54,636
Other revenue	7	6,044	7,230	155	-
Net revenue	7	164,841	181,700	160,648	172,620
Claims and expenses					
Claims expenses		97,204	- 81,279	97,204	81,279
Less: Reinsurance recoveries revenue		(25,738)	(14,865)	(25,738)	(14,865)
Net claims expenses	8	71,466	66,414	71,466	66,414
Acquisition expenses	8	43,069	43,478	41,820	41,934
Maintenance expense	8	29,935	31,000	28,309	27,339
Investment management expenses	8	2,890	2,953	1,995	2,052
Change in policy liabilities	20(a)	(17,062)	(3,515)	(17,062)	(3,515)
Change in unvested policy liabilities		(11,935)	1,230	(11,935)	1,230
Total management expenses and policy liability movements		46,897	75,146	43,127	69,040
Total net operating expenses	8	118,363	141,560	114,593	135,454
Results from operating activities		46,478	40,140	46,055	37,166
Profit before tax		46,478	40,140	46,055	37,166
Income tax credit	10	(1,618)	(5,297)	(2,042)	(2,926)
Profit after tax		48,096	45,437	48,097	40,092
Less: net loss from discontinued operations	32(b)	-	2,830	-	-
		48,096	42,607	48,097	40,092
Other comprehensive income					
Actuarial losses/(gains) on defined benefit plans		8,918	(600)	8,918	(600)
Contribution from Suncorp Group entity to defined benefit fund		(151)	-	(151)	-
Deferred tax movements		(1,949)	(67)	(1,949)	(67)
Total other comprehensive income net of tax		6,818	(667)	6,818	(667)
Total comprehensive income for the year	18(b)iv.	41,278	43,274	41,279	40,759
Total comprehensive income for the year attributable to:					
Owners of the company		41,278	43,558	41,279	40,759
Non-controlling interests of loss	32(b)	-	(284)	-	-
Total comprehensive income for the year		41,278	43,274	41,279	40,759

The notes on pages 9 to 46 are an integral part of these consolidated financial statements.



	Note	Contributed Capital	Common Control Reserve	Retained Profits	Non-Controlling Interests	Total Equity
Group						
Balance 1 July 2010		190,656	-	132,525	2,392	325,573
Total comprehensive income for the period						
Profit after tax		-	-	42,891	(284)	42,607
Other comprehensive income						
Actuarial net gains on defined benefit plans		-	-	667	-	667
Total comprehensive income for the year		-	-	43,558	(284)	43,274
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners:						
Share-based payments		142	-	-	-	142
Non-controlling interests		-	-	-	(2,108)	(2,108)
Dividends to equity holders		-	-	(25,450)	-	(25,450)
Total contributions by and distributions to owners		142	-	(25,450)	(2,108)	(27,416)
Balance as at 30 June 2011 / 1 July 2011	21	190,798	-	150,633	-	341,431
Total comprehensive income for the period						
Profit after tax		-	-	48,096	-	48,096
Other comprehensive income						
Actuarial net losses on defined benefit plans		-	-	(6,818)	-	(6,818)
Total comprehensive income for the period		-	-	41,278	-	41,278
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners:						
Share-based payments		108	-	-	-	108
Dividends to equity holders	22	-	-	(30,000)	-	(30,000)
Capital contributions		44,000	-	-	-	44,000
Total contributions by and distributions to owners		44,108	-	(30,000)	-	14,108
Balance as at 30 June 2012	21	234,906	-	161,911	-	396,817
Parent						
Balance at 1 July 2010		190,656	-	139,660	-	330,316
Total comprehensive income for the period						
Profit after tax		-	-	40,092	-	40,092
Other comprehensive income						
Actuarial net gains on defined benefit plans		-	-	667	-	667
Total comprehensive income for the period		-	-	40,759	-	40,759
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners:						
Share-based payments		142	-	-	-	142
Dividends to equity holders		-	-	(25,450)	-	(25,450)
Total contributions by and distributions to owners		142	-	(25,450)	-	(25,308)
Balance as at 30 June 2011 / 1 July 2011	21	190,798	-	154,969	-	345,767
Total comprehensive income for the period						
Profit after tax		-	-	48,097	-	48,097
Other comprehensive income						
Actuarial net losses on defined benefit plans		-	-	(6,818)	-	(6,818)
Total comprehensive income for the period		-	-	41,279	-	41,279
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners:						
Share-based payments		108	-	-	-	108
Dividends to equity holders	22	-	-	(30,000)	-	(30,000)
Capital contributions		44,000	-	-	-	44,000
Total contributions by and distributions to owners		44,108	-	(30,000)	-	14,108
Balance as at 30 June 2012	21	234,906	-	166,248	-	401,154

Statements of cash flows

for the year ended 30 June 2012

(All amounts are in NZD thousands unless otherwise stated)

Note	Group		Parent	
	2012	2011	2012	2011
Cash flows from operating activities				
Premiums received	163,360	156,711	163,360	156,711
Reinsurance premiums paid	(24,930)	(25,191)	(24,930)	(25,191)
Policy payments	(130,978)	(109,962)	(130,978)	(109,962)
Reinsurance and other recoveries received	25,481	16,644	25,481	16,644
Operating expenses paid	(35,143)	(42,905)	(28,785)	(40,684)
Agents commission and bonuses paid	(36,244)	(35,705)	(35,363)	(34,635)
Equity distributions received	8,452	7,131	10,677	7,131
Interest received	22,443	27,215	22,355	20,868
Other income received	889	2,728	776	523
Other revenue and fees received	6,139	7,230	-	-
Income tax refund/(paid) - see note below	1,695	1,563	1,607	-
Borrowing costs	-	(3,750)	-	-
Net cash flows from operating activities	1,164	1,709	4,200	(8,595)
Cash flows from investing activities				
Disposal of discontinued operations net of cash	-	13,272	-	18,972
Purchase of financial assets	(449,191)	(449,629)	(447,551)	(447,079)
Advances of policy loans	(1,329)	(1,215)	(1,329)	(1,215)
Advances of mortgage and other loans	(382)	(699)	(382)	(699)
Proceeds from the sale of financial assets	448,863	479,579	444,511	477,855
Repayments of policy loans	1,078	1,699	1,078	1,699
Repayments of mortgage and other loans	-	23,717	-	913
Proceeds from sale of plant and equipment	29	26	29	24
Payment for purchases of plant and equipment	(214)	(6,102)	(163)	(5,972)
Payments for purchase of Intangible assets	(134)	(268)	(134)	(268)
Net cash flows from investing activities	(1,280)	60,380	(3,941)	44,230
Cash flows from financing activities				
Proceeds from borrowings	-	-	-	-
Repayments of borrowings	-	(27,000)	-	-
Proceeds from share issues	44,000	-	44,000	-
Dividends paid	(30,000)	(25,450)	(30,000)	(25,450)
Net cash flows from financing activities	14,000	(52,450)	14,000	(25,450)
Net increase in cash and cash equivalents	13,884	9,639	14,259	10,185
Cash and cash equivalents at 1 July	21,974	12,335	20,614	10,429
Cash and cash equivalents at 30 June	35,858	21,974	34,873	20,614

Note:

The income tax refund/(paid) includes cash flows from tax loss offsets with group companies.

1 Reporting entity

Asteron Life Limited ("the company") and its subsidiaries (together "the group") operate 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 Asteron Centre, Level 13, 55 Featherston Street, 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 Group 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 1993 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, life investment contract assets and liabilities, disposal groups classified as held for sale and investments in subsidiaries.

(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**

No new reporting standards or interpretations were adopted during the year ended 30 June 2012.

ii. Standards not yet effective

The following reporting standards, amendment to standards and interpretations applicable to the group have been issued but are not yet effective:

NZ IAS 1 Presentation of Items of Other Comprehensive Income: Requires that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments are effective from 1 July 2012 and will not have any impact on the group's financial statements.

NZ IFRS 10 Consolidated Financial Statements: Prescribes that an investor must consolidate all entities where it has control. Control is defined as involving power, exposure to variability in returns and where there is a linkage between the two. Control is also to be assessed on a continuous basis. These amendments are effective for all financial statements from 1 January 2013. It is not expected that these amendments will have any impact on the group's financial statements.

NZ IFRS 11 Joint Arrangements: Joint arrangements are defined into either joint operations or joint ventures and then prescribes the accounting treatment for each. If the entity is defined as a joint operation then it is accounted for on a line by line basis whereas if it is a joint venture then it is accounted for using the equity method of accounting. The amendment is effective from 1 January 2013 and it is not expected that the amendment will have any impact on the group's financial statements.

NZ IFRS 12 Disclosure of Interests in Other Entities: There are expanded disclosures about subsidiaries, joint arrangements and associates. There are also new disclosures about unconsolidated structured entities. The amendment is effective from 1 January 2013 and it is not expected that the amendment will have an impact on the group's financial statements.

NZ IAS 19 Employee Benefits: Various amendments are effective from 1 January 2013 but the key ones being:

- All actuarial gains and losses to be recognised immediately in Other Comprehensive Income
- Revised basis of calculating finance costs for defined benefit schemes
- Additional disclosures for defined benefit schemes
- Amended definitions of short term and long term employee benefits
- Possible changes to the timing of recognition of termination benefits

A detailed analysis of the impact of the amendments is yet to be performed but it is not expected that the amendments will have a material impact on the group's financial statements.

NZ IAS 27 Separate Financial Statements: Refer to NZ IFRS 10 above.

NZ IAS 28 Investments in Associates and Joint ventures: Refer to NZ IFRS 11 above.

Annual Improvements to IFRSs 2009-2011 Cycle: The International Accounting Standards Board has published a number of non-urgent but necessary amendments to IFRS. The amendments are effective from 1 January 2013. A detailed analysis of the amendments is yet to be performed.

NZ IFRS 13 Fair Value Measurement: Sets out improvements to the definition of fair value and also sets out a single framework for measuring fair value and requires new disclosures. This standard would become mandatory for the group's 30 June 2014 financial statements. The potential effects on adoption of the amendments to the standard are yet to be determined.

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 measures and presents financial instruments. A detailed analysis of the impact is yet to be performed as the amendments are not effective until the group's 30 June 2015 financial statements.

3 Significant accounting policies

(a) Principles of consolidation

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.

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 from subsidiaries is included in the group's statement 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 and decreased by any impairment losses.

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.

iv. Non-current assets and disposal groups and discontinued operations

Non-current assets and disposal groups are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell. For an asset to be classified as held for sale, it must be available for immediate sale in its present condition and sale must be highly probable.

Disposal groups classified as held for sale are shown separately on the face of the statements of financial position.

A discontinued operation is a component of the group that has been disposed of or is classified as held for sale and that represents a separate major line of business, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the statement of comprehensive income for the current and prior periods, as if the operation had been discontinued from the start of the comparative year.

(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 statements of comprehensive income.

(c) Principles of life insurance business

The group's significant activity is the selling and administration of life insurance and life investment contracts. 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 the company.

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 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) 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.

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 arm's 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 Cash and cash equivalents

Cash and cash equivalents are measured at amortised cost and include 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.

iii. Trade and other 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.

iv. Mortgage receivables

The company holds mortgage loans. Performing mortgage loans are stated at amortised cost which 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.

v. 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 listed instruments, unlisted managed investment schemes, futures and forward foreign exchange contracts. Movements in the fair values between each reporting date, being the bid 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 is evaluated on a fair value basis for internal and external reporting in accordance with the investment strategy.

vi. 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 amortised cost, 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.

vii. Determination of fair value

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

- 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.

viii. 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.

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.

(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:

- Computers 33%
- Furniture & Fittings 10%-33%
- Leasehold Improvements 8%-20%
- 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 \$0.5m 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.

(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 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.

(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

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. Impairment losses, if any, recognised in respect of a CGU reduce the carrying amount of the other assets in the unit on a pro rata basis.

ii. 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.

iii. 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 in 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).

iv. Reversal of impairment

An impairment loss for an asset 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.

(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.

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 (refer to note 3(m)).

(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 are 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 comprehensive income, 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.

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.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. 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 financial guarantees have been incurred.

(n) Policy liabilities

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, ("PS3"). The increase/(decrease) in policy liabilities in the profit or loss in the statements 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 PS3. Policy liabilities are re-measured 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, 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 statements 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(l)(v.) above and recognised as equity.

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.

iv. 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, guarantees 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.

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 are recognised when they are declared in the financial reports of the subsidiaries. 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 other 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. Other income is recognised as revenue in the accounting period in which the services are rendered.

(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 and upon notification of the insured event, depending on the type of claim.

ii. Life investment contracts

Amounts paid to policyholders in respect of investment contracts are withdrawals and are recognised as a decrease in investment contract liabilities in the statements of financial position.

(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.

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

The group's life insurance business expenses comprise 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 part of the policyholder liability and determinations are released through the profit or loss in the statements of comprehensive income over the expected duration of the relevant policies, as part of the MOS determinations."

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 using the effective interest rate method.

(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.

The company, as a life insurer, is subject to a special tax regime.

Following the enactment of the Taxation (International Taxation, Life Assurance and Remedial Matters) Act 2009 on 6 October 2009, life risk business is taxed on a similar basis to non-life business under the new rules with effect from 1 July 2010. Essentially life risk business is taxed on its actual profit. There are transitional provisions for business in force at 1 July 2010, whereby certain classes of business in force are taxed on the previous rules.

Under the new rules life business taxable income is calculated as premiums less claims plus investment income less expenses and changes in policy reserves.

Income and deductions are recognised using ordinary tax principles, with the addition of special rules to deal with the unique timing and allocation issues inherent with life insurance products.

The new rules also extend the benefits of the PIE rules to people who save through life products.

For life business taxed under the old rules, taxable income is calculated either:

(i) under the life office base as:

I-E+U

Where

I

is investment income, including realised gains and losses

E

is expenses

U

is underwriting profit, made up of mortality, premium loading and discontinuance profit

or (ii) under 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 28%. As the life insurer is taxed as a proxy for the policyholders, returns to policyholders are tax-exempt.

The new rules apply to all business written after 30 June 2010, and the transitional provisions apply to stepped premium term policies in force at 1 July 2010 for a period of 5 years, and for level premium term policies in force at 1 July 2010 for the remainder of the duration of the policy.

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.

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 & 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 the next page.

(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 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 (only applicable to 2011 following the sale of GTFM in June 2011)

Mortgage loan portfolios were 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 made judgements as to whether there was any observable data indicating that there was a measurable decrease in the estimated future cash flows from a portfolio of mortgage loans before the decrease was 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 national or local economic conditions that correlate with defaults on assets in the group.

(e) Property market and timing of repayments (only applicable to 2011 following the sale of GTFM in June 2011)

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.

(f) 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****2012**

	Level 1	Level 2	Level 3	Total
Government/semi government securities	122,224	53,595	-	175,819
Other fixed interest securities	-	193,412	595	194,007
Discounted securities	-	29,011	-	29,011
Shares in other corporations	187,505	1,134	-	188,639
Unit trusts	20,782	-	-	20,782
Policy and other loans	-	-	9,145	9,145
Derivatives	-	307	-	307
Total financial assets at fair value through profit or loss	330,511	277,459	9,740	617,710
Life investment contract liabilities	-	(217,520)	-	(217,520)
	330,511	59,939	9,740	400,190

2011

Government/semi government securities	131,302	26,409	-	157,711
Other fixed interest securities	-	125,950	1,393	127,343
Discounted securities	-	67,078	-	67,078
Shares in other corporations	142,824	78	-	142,902
Unit trusts	111,323	1,260	-	112,583
Policy and other loans	-	-	8,513	8,513
Derivatives	-	1,312	-	1,312
Total financial assets at fair value through profit or loss	385,449	222,087	9,906	617,442
Life investment contract liabilities	-	(243,645)	-	(243,645)
	385,449	(21,558)	9,906	373,797

	Level 1	Level 2	Level 3	Total
Parent				
2012				
Government/semi government securities	122,224	53,395	-	175,619
Other fixed interest securities	-	193,213	595	193,808
Discounted securities	-	28,566	-	28,566
Shares in other corporations	187,505	1,134	-	188,639
Unit trusts	20,782	-	-	20,782
Policy and other loans	-	-	9,145	9,145
Derivatives	-	307	-	307
Investments in subsidiaries	-	-	6,918	6,918
Total financial assets at fair value through profit or loss	330,511	276,615	16,658	623,784
Life investment contract liabilities	-	(217,520)	-	(217,520)
	330,511	59,095	16,658	406,264
2011				
Government/semi government securities	131,302	26,409	-	157,711
Other fixed interest securities	-	125,950	1,393	127,343
Discounted securities	-	65,729	-	65,729
Shares in other corporations	142,824	78	-	142,902
Derivatives	111,323	1,260	-	112,583
Policy and other loans	-	-	8,513	8,513
Unit trusts	-	1,312	-	1,312
Investments in subsidiaries	-	-	11,566	11,566
Total financial assets at fair value through profit or loss	385,449	220,738	21,472	627,659
Life investment contract liabilities	-	(243,645)	-	(243,645)
	385,449	(22,907)	21,472	384,014

ii. Level 3 movements

	Group		Parent	
	2012	2011	2012	2011
Opening balance	9,906	10,285	21,472	42,392
Transfers into level 3	-	490	-	490
Fair value adjustments of investments through profit or loss	(484)	(385)	(484)	(385)
Fair value movements - investments in subsidiaries	-	-	(517)	978
Disposal of subsidiaries	-	-	(4,131)	(21,519)
Additions	2,028	1,215	2,028	1,215
Settlements	(1,710)	(1,699)	(1,710)	(1,699)
Closing balance	9,740	9,906	16,658	21,472

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

	2012		2011	
Fair value movement	+10%	-10%	+10%	-10%
Group				
Impact on profit or loss before tax	974	(974)	991	(991)
Impact on change in equity	974	(974)	991	(991)
Parent				
Impact on profit or loss before tax	1,666	(1,666)	2,147	(2,147)
Impact on change in equity	1,666	(1,666)	2,147	(2,147)

iv. Level 3 financial instruments

The group has three investments classified as level 3 at 30 June 2012.

(i) The group provided loans to policy owners secured against the policy surrender values. These loan values comprise 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 market observable inputs to the fair value of these loans.

(ii) The company has four entities that are subsidiary investments (refer note 23(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 market observable inputs into the fair value of the investments in the subsidiaries.

(iii) The group holds two parcels of mortgage backed bonds in a New Zealand residential mortgage structure with a carrying value of \$595k (2011 \$1.39m). These bonds are private placements for which there are 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 continued to be received as scheduled and the group's investments were 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 were independently monitored and rated on a regular basis by an international credit rating agency.

The group had four investments classified as level 3 at 30 June 2011.

(i) The group 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 invested in a related party mortgage fund unit trust (refer to note 23(d)(i)).

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 23(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 held nine parcels of mortgage backed bonds in two separate New Zealand residential mortgage structures, with a carrying value of \$1.39m, (2011 \$1.15m). 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 continued to be received as scheduled and the group's investments were 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 were 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 \$0.895m 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 2012. The actuarial valuation was prepared by Mr Daniel Wong, Appointed Actuary, FIAA FNZSA. The Appointed 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 Appointed Actuary based on the results of annual investigations into the experience of the company's in force business, industry experience data and data provided by the company'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 the government bond curve (2011: 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 2.49% and 4.91% (2011: 2.93% - 6.38%).

The discount rate for business with discretionary participating features is based on the market yield on backing assets. This yield was 5.0% in 2012 (2011: 6.7%) gross of tax and investment expenses.

ii. Inflation

Allowance for future inflation of 2.5% per annum (2011: 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 (2011: 2.5%). It is further assumed that the benefit indexation will be taken up by a percentage, determined in line with the company's recent experience, of the eligible policyholders.

iv. Rates of taxation

Rates of taxation have been assumed to be at 28% (2011: 28%)

The rate of GST has been assumed to be 15% (2011: 15%).

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 company'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.

	As at 30 June 2012	As at 30 June 2011
Males	85% IA9597	85% IA9597
Females	85% IA9597	85% 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 (2011: 75%-90%) for males and 70%-90% NZ9092 (2011: 70%-90%) for females.

Annuity mortality rates, which vary by age and sex, have been based on industry experience. They are set at 66% (2011: 67%) 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 50% and 130% IAD 89-93 (2011: Incidence between 50% and 150% IAD 89-93)
Termination between 30% and 90% IAD89-93 (2011: Termination between 30% and 95% 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	2012 %	2011 %
Lump sum risk	4-20	4-20
Disability income	4-20	4-20
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 of 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 company'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 company 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 company 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.

(d) Effects of changes in actuarial assumptions from 30 June 2011 to 30 June 2012

Assumption category	Effect on Present Value of Future Profit Margin Increase/(decrease)	Effect on Policy Liability Increase/(decrease)
Discount rates (risk business)	6,245	(11,444)
Mortality and morbidity	1,598	139
Lapse and surrender rates	(1,943)	-
Maintenance expenses	4,918	37
Total	10,818	(11,268)

(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)
As at 30 June 2012		
Change in mortality and morbidity	+10%	1,322
	-10%	(1,322)
Change in lapse rate	+10%	-
	-10%	-
Change of expense assumption	+10%	(33)
	-10%	33
As at 30 June 2011		
Change in mortality and morbidity	+10%	1,315
	-10%	(1,315)
Change in lapse rate	+10%	-
	-10%	-
Change of expense assumption	+10%	(35)
	-10%	35

6 Risk management & 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. Governance**

The company has appointed to the Board of Directors (Board) two independent Directors to provide effective governance over the operations of the company and to ensure that the interest of its policyholders and shareholder are protected.

The Board has recently established a Board Audit and Risk Committee ("BARC") comprising the two external directors and an executive director. The role of the BARC is to assist the Board to fulfil its statutory, fiduciary and regulatory responsibilities with respect to oversight of the financial and operational control environment.

The company has a Chief Risk Office that design, implement and manage the ongoing company risk frameworks and related policies. The Chief Risk Office also advises and partners with the Company in the execution of risk frameworks and practices. The Chief Risk Office is led by the Chief Risk Officer, a member of the Senior Leadership Team, who is charged with the overall accountability for the Risk Management Framework and overall risk management capability.

The BARC is supported by an Operational Risk and Compliance Committee ("ORCC"). The role of the ORCC is to monitor and report on all areas of operational risk matters within the company. The ORCC is a management committee and comprises all the members of the company's senior leadership team and meets monthly.

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.

A Breach Committee exists to determine whether actual and potential compliance issues/events constitute a reportable breach. The Breach Committee reports to the ORCC.

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.

(b) 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.

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 company's approach to life insurance risk and risk management.

Capital allocation and solvency requirements

Capital requirements are measured by reference to RBNZ Solvency Standard for Life Insurance Business with which the group is obliged to comply.

Solvency

Solvency margin requirements established by RBNZ 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' available capital over the minimum solvency capital, each element being determined with the applicable standard. This margin must be maintained throughout the period, not just at the period end and at any time within the next three years. These solvency requirements also take into account specific risks faced by the company.

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.

(c) 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.

(d) 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.

(e) 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.
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.

(f) 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.

(g) 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.

Group and Parent	Australian	International	NZ	Totals
2012				
Exposure in NZD	12,472	4,373	79,220	96,065
Profit / (Loss)				
+ 20% market value movement on financial assets	1,796	630	11,408	13,834
- 20% market value movement on financial assets	(1,796)	(630)	(11,408)	(13,834)
Equity				
+ 20% market value movement on financial assets	1,796	630	11,408	13,834
- 20% market value movement on financial assets	(1,796)	(630)	(11,408)	(13,834)
2011				
Exposure in NZD	11,955	1,459	107,245	120,659
Profit / (Loss)				
+ 25% market value movement on financial assets	1,674	204	15,014	16,892
- 25% market value movement on financial assets	(1,674)	(204)	(15,014)	(16,892)
Equity				
+ 25% market value movement on financial assets	1,674	204	15,014	16,892
- 25% market value movement on financial assets	(1,674)	(204)	(15,014)	(16,892)

Prior to 31 May 2011, the group's mortgage assets market risk arose from open positions in interest rates and exposure to the property market, which exposed it to general and specific market movements. The group only advanced loans 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.

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
2012						
Trade and other payables	6,662	-	-	-	-	6,662
Related party payables	4,593	-	-	-	-	4,593
Outstanding claims liabilities	17,477	-	-	68,991	-	86,468
Policy liabilities	7,182	17,301	(86,302)	-	217,522	155,703
Unvested policy liabilities	-	-	-	6,376	-	6,376
	35,914	17,301	(86,302)	75,367	217,522	259,802
2011						
Trade and other payables	8,118	-	-	-	-	8,118
Related party payables	1,477	-	-	-	-	1,477
Outstanding claims liabilities	21,913	-	-	52,471	-	74,384
Policy liabilities	48,090	112,063	(205,770)	-	243,647	198,030
Unvested policy liabilities	-	-	-	18,310	-	18,310
	79,598	112,063	205,770	70,781	243,647	300,319
Parent						
2012						
Trade and other payables	6,304	-	-	-	-	6,304
Related party payables	7,958	-	-	-	-	7,958
Outstanding claims liabilities	17,477	-	-	68,991	-	86,468
Policy liabilities	7,182	17,301	(86,302)	-	217,522	155,703
Unvested policy liabilities	-	-	-	6,376	-	6,376
	38,921	17,301	(86,302)	75,367	217,522	262,809

	1 year or less	1 to 5 years	Over 5 years	No term	Investment contracts	Total
2011						
Trade and other payables	8,078	-	-	-	-	8,078
Related party payables	7,768	-	-	-	-	7,768
Outstanding claims liabilities	21,913	-	-	52,471	-	74,384
Policy liabilities	48,090	112,063	(205,770)	-	243,647	198,030
Unvested policy liabilities	-	-	-	18,310	-	18,310
	85,849	112,063	205,770	70,781	243,647	306,570

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.

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 requirements of the Reserve Bank of New Zealand Solvency Standard for Life Insurance Business (2011: The Professional Standard 5.01 issued by the New Zealand Society of Actuaries). 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 27.

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
Group					
2012					
Financial asset exposure in NZD	28,157	358,820	52,936	29	-
Profit / (Loss)					
+1.5% market value movement on financial assets	304	(10,554)	572	-	-
-1.0% market value movement on financial assets	(203)	7,474	(381)	-	-
Equity					
+1.5% market value movement on financial assets	304	(10,554)	572	-	-
-1.0% market value movement on financial assets	(203)	7,474	(381)	-	-
2011					
Financial asset exposure in NZD	15,266	293,312	43,203	339	-
Profit / (Loss)					
+1.5% market value movement on financial assets	160	(12,330)	454	4	-
-0.6% market value movement on financial assets	(64)	5,651	(181)	(1)	-
Equity					
+1.5% market value movement on financial assets	160	(12,330)	454	4	-
-0.6% market value movement on financial assets	(64)	5,651	(181)	(1)	-
Parent					
2012					
Financial asset exposure in NZD	27,171	357,976	52,824	29	-
Profit / (Loss)					
+1.5% market value movement on financial assets	293	(10,562)	570	-	-
-1.0% market value movement on financial assets	(196)	7,480	(380)	-	-
Equity					
+1.5% market value movement on financial assets	293	(10,562)	570	-	-
-1.0% market value movement on financial assets	(196)	7,480	(380)	-	-
2011					
Financial asset exposure in NZD	13,907	291,962	43,048	339	-
Profit / (Loss)					
+1.5% market value movement on financial assets	146	(12,330)	452	4	-
-0.6% market value movement on financial assets	(58)	5,439	(181)	(1)	-
Equity					
+1.5% market value movement on financial assets	146	(12,330)	452	4	-
-0.6% market value movement on financial assets	(58)	5,439	(181)	(1)	-

(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).

(h) 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.



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	Total
Group and parent		
2012		
Financial asset exposure in NZD	12,838	12,838
Profit / (Loss)		
+15% market value movement on financial assets	1,387	1,387
-15% market value movement on financial assets	(1,387)	(1,387)
Equity		
+15% market value movement on financial assets	1,387	1,387
-15% market value movement on financial assets	(1,387)	(1,387)
2011		
Financial asset exposure in NZD	13,049	13,049
Profit / (Loss)		
+10% market value movement on financial assets	1,370	1,370
-10% market value movement on financial assets	(1,370)	(1,370)
Equity		
+10% market value movement on financial assets	1,370	1,370
+10% market value movement on financial assets	(1,370)	(1,370)

The group has no foreign currency liabilities (2011: nil).

(i) 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 certain 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.

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 \$80 million (2011: \$67 million) are therefore not included in the two below sets of schedules.

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

	Credit rating				Non investment grade	Other not rated	Total
	AAA	AA	A	BBB			
Group							
2012							
Cash and cash equivalents	-	13,311	13,229	-	-	1,617	28,157
Loans and receivables	-	4,832	-	-	-	4,488	9,320
Related party receivables	-	-	-	-	-	2,564	2,564
Other assets	-	-	-	-	-	3,873	3,873
Reinsurance recoveries - outstanding claims liabilities	-	28,459	-	-	-	-	28,459
Financial assets	542	261,153	62,289	14,022	8,268	12,575	358,849
Reinsurance recoveries - policy liabilities	-	-	15,157	-	-	-	15,157
	542	307,755	90,675	14,022	8,268	25,117	446,379

	Credit rating					Other not rated	Total
	AAA	AA	A	BBB	Non investment grade		
2011							
Cash and cash equivalents	-	15,350	-	-	-	(84)	15,266
Loans and receivables	-	8,126	-	-	-	3,315	11,441
Related party receivables	-	-	-	-	-	11,334	11,334
Other assets	-	-	-	-	-	4,049	4,049
Reinsurance recoveries - outstanding claims liabilities	-	20,154	-	-	-	-	20,154
Financial assets	124,719	115,005	44,903	6,511	8,513	2,513	302,164
Reinsurance recoveries - policy liabilities	-	-	11,606	-	-	-	11,606
	124,719	158,635	56,509	6,511	8,513	21,127	376,014
Parent							
2012							
Cash and cash equivalents	-	13,311	13,229	-	-	631	27,171
Loans and receivables	-	4,832	-	-	-	4,376	9,208
Related party receivables	-	-	-	-	-	4,520	4,520
Other assets	-	-	-	-	-	3,870	3,870
Reinsurance recoveries - outstanding claims liabilities	-	28,459	-	-	-	-	28,459
Financial assets	542	261,153	62,299	14,022	8,268	11,721	358,005
Reinsurance recoveries - policy liabilities	-	-	15,157	-	-	-	15,157
	542	307,755	90,685	14,022	8,268	25,118	446,390
2011							
Cash and cash equivalents	-	15,074	-	-	-	(1,167)	13,907
Loans and receivables	-	8,126	-	-	-	3,160	11,286
Related party receivables	-	-	-	-	-	13,059	13,059
Other assets	-	-	-	-	-	4,037	4,037
Reinsurance recoveries - outstanding claims liabilities	-	20,154	-	-	-	-	20,154
Financial assets	124,719	115,005	44,903	6,511	8,513	1,163	300,814
Reinsurance recoveries - policy liabilities	-	-	11,606	-	-	-	11,606
	124,719	158,359	56,509	6,511	8,513	20,252	374,863

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						Total
	Neither past due nor impaired	0-3 mths	3-6 mths	6-12 mths	> 12 mths	Impaired	
Group							
2012							
Loans and receivables	6,461	2,742	98	-	19	-	9,320
Related party receivables	2,564	-	-	-	-	-	2,564
Other assets	3,873	-	-	-	-	-	3,873
Reinsurance recoveries - outstanding claims liabilities	28,459	-	-	-	-	-	28,459
Reinsurance recoveries - policy liabilities	15,157	-	-	-	-	-	15,157
	56,514	2,742	98	-	19	-	59,373
2011							
Loans and receivables	8,442	2,748	151	100	-	-	11,441
Related party receivables	11,334	-	-	-	-	-	11,334
Other assets	4,049	-	-	-	-	-	4,049
Reinsurance recoveries - outstanding claims liabilities	20,154	-	-	-	-	-	20,154
Reinsurance recoveries - policy liabilities	11,606	-	-	-	-	-	11,606
	55,585	2,748	151	100	-	-	58,584
Parent entity							
2012							
Loans and receivables	6,349	2,742	98	-	19	-	9,208
Related party receivables	4,520	-	-	-	-	-	4,520
Other assets	3,870	-	-	-	-	-	3,870
Reinsurance recoveries - outstanding claims liabilities	28,459	-	-	-	-	-	28,459
Reinsurance recoveries - policy liabilities	15,157	-	-	-	-	-	15,157
	58,355	2,742	98	-	19	-	61,214

	Neither past due nor impaired	Past due but not impaired financial assets				Impaired	Total
		0-3 mths	3-6 mths	6-12 mths	> 12 mths		
2011							
Loans and receivables	8,287	2,748	151	100	-	-	11,286
Related party receivables	13,059	-	-	-	-	-	13,059
Other assets	4,037	-	-	-	-	-	4,037
Reinsurance recoveries - outstanding claims liabilities	20,154	-	-	-	-	-	20,154
Reinsurance recoveries - policy liabilities	11,606	-	-	-	-	-	11,606
	57,143	2,748	151	100	-	-	60,142

Mortgage loans

The parent invests in mortgage loans to agents. Prior to 31 May 2011, the group invested in mortgage loans through a controlled entity, the GTFM Mortgage Fund. The total carrying value and amounts provided for impaired loans are shown in the table below.

	Group		Parent	
	2012	2011	2012	2011
Summary of provisions				
Against individually impaired	34	38	34	38
Against past due but not impaired	11	-	11	-
Collective provisions	103	219	103	219
Total impairment provisions	148	257	148	257
Summary of carrying values				
Neither past due nor impaired				
Carrying amount	751	1,376	751	1,376
Individually impaired				
Gross amount	45	38	45	38
Specific provision	(34)	(38)	(34)	(38)
Carrying amount	11	-	11	-
Past due but not impaired				
Less than 30 days	(11)	-	(11)	-
31 to 60 days	-	-	-	-
61 to 90 days	-	-	-	-
Over 90 days	-	-	-	-
Carrying amount	(11)	-	(11)	-
Collective provision	(103)	(219)	(103)	(219)
Total carrying amount of mortgages	648	1,157	648	1,157

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

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

Collateral held

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

(j) 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.

Prior to 31 May 2011, the fund had 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 were matched to individual fixed rate loans and matured on the date the fixed interest rate period expired.

At 30 June 2012, the notional amount of interest rate swaps was \$nil (2011 \$nil).

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 2012 and as at 30 June 2011 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		Parent	
		2012	2011	2012	2011
	Premium revenue				
	Total premium revenue	163,416	156,833	163,416	156,833
	Less:				
	Savings product premiums disclosed as a change in policy liabilities (Note 20)	(11,849)	(13,418)	(11,849)	(13,418)
	Premium revenue disclosed in statements of comprehensive income	151,567	143,415	151,567	143,415
	Outwards reinsurance premium expense	(24,812)	(25,431)	(24,812)	(25,431)
	Net premium revenue disclosed in statements of comprehensive income	126,755	117,984	126,755	117,984
	Investment revenue				
	Interest received:				
	Interest income - government and local body securities	32	8,377	32	8,377
	Interest income - debentures, notes, term and call deposits	21,504	12,529	21,444	12,479
	Interest - mortgage and other	1,266	833	1,245	806
	Dividends received	8,358	6,972	10,758	6,972
	Sundry	889	748	776	523
	Movement in financial assets at fair value through profit or loss:				
	Movement in value of subsidiaries	-	-	(517)	978
	Changes in net fair value of investments	(7)	27,027	-	24,501
	Net investment revenue	32,042	56,486	33,738	54,636
	Movement in financial assets at fair value through profit or loss includes the following movements in derivatives.				
	Profit/(loss) on sale	671	(1,337)	671	(1,337)
	Changes in fair value	(306)	438	(306)	438
	Total investment revenue derivatives	365	(899)	365	(899)
	Other revenue				
	Fees from management of superannuation schemes and unit trusts	5,382	6,132	-	-
	Commission	507	1,098	-	-
	Sundry	155	-	155	-
	Total other revenue	6,044	7,230	155	-
	Net revenue	164,841	181,700	160,648	172,620
8	Net operating expenses	Group		Parent	
		2012	2011	2012	2011
	Claims expenses				
	Death and terminal illness	48,503	43,640	48,503	43,640
	Disability	35,797	24,249	35,797	24,249
	Annuities	1,823	1,966	1,823	1,966
	Maturities	8,813	9,920	8,813	9,920
	Surrenders and withdrawals	39,822	33,088	39,822	33,088
	Gross claims expenses	134,758	112,863	134,758	112,863
	Less:				
	Savings product claims disclosed as a change in policy liabilities (Note 20)	(37,554)	(31,584)	(37,554)	(31,584)
	Claims expense disclosed in statements of comprehensive income	97,204	81,279	97,204	81,279
	Reinsurance recoveries	(25,738)	(14,865)	(25,738)	(14,865)
	Net claims expense disclosed in statements of comprehensive income	71,466	66,414	71,466	66,414
	Acquisition expenses				
	Management expenses	19,959	20,344	18,681	18,806
	Commission	23,110	23,134	23,139	23,128
	Total acquisition expenses	43,069	43,478	41,820	41,934
	Maintenance expenses				
	Management expenses	17,438	18,958	16,108	16,361
	Commission	12,811	12,042	11,901	10,978
	Other	(314)	-	300	-
	Total maintenance expenses	29,935	31,000	28,309	27,339
	Investment management expenses	2,890	2,953	1,995	2,052

The subsidiary SAL Re Limited sold its brokerage book of business on 29 June 2012. The sale price was \$870,000 for a gain on sale of \$614,000 less a provision of \$300,000 in relation to guarantees provided to the subsidiary company.

(All amounts are in NZD thousands unless otherwise stated)

9 Operating profit

10 Taxation

(a) Income tax credit

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:

The income tax rate changed from 30% to 28% with effect from the 2012 financial year. The new 28% rate was used in deferred tax calculations at 30 June 2011, and has been used in both current and deferred tax calculations in this financial year.

(b) Deferred tax

i. 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.



	Group 2012	2011	Parent 2012	2011
ii. The gross movement of the deferred tax account is as follows				
Opening balance	61,900	53,301	61,913	52,632
Deferred tax in policyholder liabilities	3,111	4,996	3,111	4,996
Charge through other comprehensive income	(1,949)	(67)	(1,949)	(67)
Statement of comprehensive income charge	(104)	1,579	(50)	4,352
De-consolidate subsidiary deferred tax balance on disposal	-	2,091	-	-
Closing balance	62,958	61,900	63,025	61,913

iii. Deferred tax liabilities/(assets) are comprised of the following				
Accrued expenses and provisions	(4,312)	(2,776)	(4,275)	(2,776)
Unrealised (loss)/gains on investments	(569)	157	(569)	157
Provision for impairment of mortgage loans	(30)	(72)	(30)	(72)
Depreciable and amortisable assets	(93)	(260)	(63)	(247)
Deferred tax in policyholder liabilities (note 10(b) (v) and 20(c))	67,962	64,851	67,962	64,851
Net deferred tax liability	62,958	61,900	63,025	61,913

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				
	Group 2012	2011	Parent 2012	2011
Policyholders' credit account				
Opening balance	-	37,092	-	37,088
Opening balance transfer to Policyholder ICA	1,011	-	1,011	-
Taxation paid/(refund)	8,545	-	8,545	-
Imputation credits attached to dividends received/(paid)	1,139	-	1,139	-
Other credits/(debits)	(95)	-	(95)	-
Transferred from/(to) consolidated imputation group	-	(37,092)	-	(37,088)
Closing balance	10,600	-	10,600	-

Imputation Credit Group

Suncorp Group Holdings (NZ) Limited (SGHNZL) is the representative entity of a consolidated imputation group ("ICA Group").

With a deemed effective date of 1 April 2010 various entities within the Suncorp NZ economic group joined this ICA Group.

All the members of the SGHNZL ICA Group have access to the accumulated imputation credits contained within this ICA Group.

ICA Group	Suncorp Group Holdings (NZ) Limited	Suncorp Group Services NZ Limited
Balance at the beginning of the year	80,145	80,145
Opening balance transfer to Policyholder ICA	(947)	(947)
Taxation paid	(2,979)	(2,979)
Imputation credits attached to dividends received	5,541	5,541
Other credits/(debits)	(1,789)	(1,789)
Closing balance	79,971	79,971

Non SGHNZL ICA Group imputation balances

Balance at the beginning of the year	16,806	698
Taxation paid	1,203	70
Imputation credits attached to dividends received	(7,164)	(544)
Other credits/(debits)	(2,336)	-
Balance at the end of the year	8,509	224

Imputation credits available within the SGHNZL group

Balances from above:		
ICA Group	79,971	79,971
Non ICA Group	8,509	224
Balance at the end of the year	88,480	80,195

11	Cash and cash equivalents				
		Group		Parent	
		2012	2011	2012	2011
(a)	Statements of financial position				
	Cash at bank and on hand	1,683	1,381	698	775
	Deposits at call	34,270	21,986	34,270	21,709
	Cash and cash equivalents	35,953	23,367	34,968	22,484
	The effective interest rate on deposits at call was 2.5% (2011: 3%). These deposits have an average maturity of 1 day (2011: 1 day).				
	Bank overdrafts	(95)	(1,393)	(95)	(1,870)
	Bank overdrafts	(95)	(1,393)	(95)	(1,870)
(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	35,953	23,367	34,968	22,484
	Bank overdrafts	(95)	(1,393)	(95)	(1,870)
	Cash and cash equivalents for the Cash Flow Statements	35,858	21,974	34,873	20,614
12	Trade and Other Receivables				
		Group		Parent	
		2012	2011	2012	2011
	Trade receivables	2,450	473	2,356	564
	Premiums due from policyholders	1,036	1,112	1,036	1,112
	Provision for doubtful debts	(348)	(340)	(348)	(340)
	Total trade and policyholder receivables	3,138	1,245	3,044	1,336
	Amounts due from reinsurers	4,832	8,126	4,832	8,126
	Other receivables	354	998	336	752
	Total trade and other receivables	8,324	10,369	8,212	10,214
	Current	8,324	10,369	8,212	10,214
	Non-current	-	-	-	-
	Total trade and other receivables	8,324	10,369	8,212	10,214
13	Mortgage receivables				
		Group		Parent	
		2012	2011	2012	2011
	Unimpaired mortgages	717	1,338	717	1,338
	Specific impaired mortgages	34	38	34	38
	Provision for impairment of mortgages	(103)	(219)	(103)	(219)
	Total Mortgage Receivables	648	1,157	648	1,157
14	Financial assets				
(a)	Financial assets at fair value through profit or loss				
		Group		Parent	
		2012	2011	2012	2011
	Government /semi government securities	175,819	157,711	175,619	157,711
	Other fixed interest securities	194,007	127,343	193,808	127,343
	Discounted securities	29,011	67,078	28,566	65,729
	Shares in other corporations	188,639	142,902	188,639	142,902
	Unit trusts	20,782	97,762	20,782	97,762
	Policy and other loans	9,145	8,513	9,145	8,513
	Derivatives	307	1,312	307	1,312
	Total	617,710	602,621	616,866	601,272
(b)	Investments in subsidiaries				
	Investment in subsidiaries	-	-	6,918	11,566
	Total	-	-	6,918	11,566
	Total financial assets at fair value through profit or loss	617,710	602,621	623,784	612,838
	Current	286,123	315,297	292,396	325,514
	Non-current	331,587	287,324	331,388	287,324
	Total	617,710	602,621	623,784	612,838

Investment in subsidiaries was reduced largely due to capital repurchased by one subsidiary. Refer to note 23(d)(iii).

		Group		Parent		
		2012	2011	2012	2011	
(c)	Disposal group classified as held for sale					
	Unit trusts	-	14,821	-	14,821	
	Total disposal group classified as held for sale	-	14,821	-	14,821	
	Current	-	14,821	-	14,821	
	Non-current	-	-	-	-	
	Total	-	14,821	-	14,821	
15	Other assets					
		Group		Parent		
		2012	2011	2012	2011	
	Accrued income	4,296	3,898	4,293	3,886	
	Prepayments	114	150	114	150	
	Sundry assets	-	1	-	1	
	Total	4,410	4,049	4,407	4,037	
	Current	4,410	4,049	4,407	4,037	
	Non-current	-	-	-	-	
	Total	4,410	4,049	4,407	4,037	
16	Plant and equipment					
		Vehicles	Leasehold improve- ments	Computers	Furniture & Fittings	Total
	Group					
	2012					
	At cost					
	Opening balance	435	5,393	8,091	3,479	17,398
	Additions	74	51	36	60	221
	Disposals	(66)	-	(5)	(17)	(88)
	Closing balance	443	5,444	8,122	3,522	17,531
	Accumulated depreciation					
	Opening balance	184	905	7,893	2,507	11,489
	Depreciation expense	68	449	97	226	840
	Disposals	(34)	-	(4)	(5)	(43)
	Impairment	-	82	-	-	82
	Closing balance	218	1,436	7,986	2,728	12,368
	Closing balance of plant and equipment - net	225	4,008	136	794	5,163
	2011					
	At cost					
	Opening balance	391	689	7,906	2,629	11,615
	Additions	76	4,704	248	1,074	6,102
	Disposals	(32)	-	(63)	(224)	(319)
	Closing balance	435	5,393	8,091	3,479	17,398
	Accumulated depreciation					
	Opening balance	149	686	7,852	2,584	11,271
	Depreciation expense	59	219	102	137	517
	Disposals	(24)	-	(61)	(214)	(299)
	Closing balance	184	905	7,893	2,507	11,489
	Closing balance of plant and equipment - net	251	4,488	198	972	5,909
	Parent					
	2012					
	At cost					
	Opening balance	402	5,281	8,031	3,455	17,169
	Additions	74	51	38	59	222
	Disposals	(33)	-	-	(15)	(48)
	Closing balance	443	5,332	8,069	3,499	17,343
	Accumulated depreciation					
	Opening balance	175	895	7,842	2,497	11,409
	Depreciation expense	64	429	92	223	808
	Disposals	(21)	-	-	(4)	(25)
	Closing balance	218	1,324	7,934	2,716	12,192
	Closing balance of plant and equipment - net	225	4,008	135	783	5,151

	Vehicles	Leasehold improve- ments	Computers	Furniture & Fittings	Total
2011					
At cost					
Opening balance	358	689	7,786	2,396	11,229
Additions	76	4,592	245	1,059	5,972
Disposals	(32)	-	-	-	(32)
Closing balance	402	5,281	8,031	3,455	17,169
Accumulated depreciation					
Opening balance	145	686	7,749	2,364	10,944
Depreciation expense	54	209	93	133	489
Disposals	(24)	-	-	-	(24)
Closing balance	175	895	7,842	2,497	11,409
Closing balance of plant and equipment - net	227	4,386	189	958	5,760

17 **Intangible assets and goodwill**

	Group 2012	2011	Parent 2012	2011
(a) Intangible assets - software				
Opening balance	14,089	14,758	14,089	14,758
Additions	134	268	134	268
Disposals	-	(937)	-	(937)
Closing balance	14,223	14,089	14,223	14,089
Accumulated impairment and amortisation opening balance	13,424	13,349	13,424	13,349
Disposals	-	(732)	-	(732)
Amortisation	475	807	475	807
Closing balance	13,899	13,424	13,899	13,424
Closing balance of software - net	324	665	324	665
(b) Intangible assets - other				
Opening balance	120	120	-	-
Additions	-	-	-	-
Disposals	-	-	-	-
Closing balance	120	120	-	-
Accumulated impairment and amortisation opening balance	48	24	-	-
Disposals	-	-	-	-
Amortisation	24	24	-	-
Impairment	48	-	-	-
Closing balance	120	48	-	-
Closing balance of other intangible assets - net	-	72	-	-
Closing balance of all intangible assets - net	324	737	324	665

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. Following the closure of this business, the intellectual property rights ceased to have any value and the unamortised balance has been written off.

18 **Employee benefit obligations**

	Group 2012	2011	Parent 2012	2011
(a) Balances				
Defined benefit obligation asset	-	1,574	-	1,574
Defined benefit obligation (liability)	(10,272)	(4,027)	(10,272)	(4,027)
Defined benefit obligation net liability	(10,272)	(2,453)	(10,272)	(2,453)
Defined benefit obligation net liability	10,272	2,453	10,272	2,453
Employee entitlements	2,432	1,805	2,423	1,765
Total net benefit obligations	12,704	4,258	12,695	4,218
Current	2,432	1,805	2,423	1,765
Non current	10,272	2,453	10,272	2,453
Total net benefit obligations	12,704	4,258	12,695	4,218

(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 (the plans). 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 \$Nil (2011: \$1,574,000), in accordance with NZ IAS 19.

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

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

	Surplus	(Deficit)	Net deficit
Group and Parent			
2012			
Vero and Asteron New Zealand Staff Pension Scheme	-	(5,448)	(5,448)
Guardian Assurance Superannuation Plan	-	(4,824)	(4,824)
Total deficit	-	(10,272)	(10,272)
2011			
Vero and Asteron New Zealand Staff Pension Scheme	-	(4,027)	(4,027)
Guardian Assurance Superannuation Plan	1,574	-	1,574
Total surplus/(deficit)	1,574	(4,027)	(2,453)

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

	Group 2012	2011	Parent 2012	2011
Present value of defined benefit obligations	(40,154)	(36,516)	(40,154)	(36,516)
Fair value of the assets held by the plans	33,272	35,349	33,272	35,349
Adjustment in surplus for amount unable to be recognised under NZ IAS 19	-	(477)	-	(477)
Net liability before adjustment for contributions tax	(6,882)	(1,644)	(6,882)	(1,644)
Adjustment for contributions tax	(3,390)	(809)	(3,390)	(809)
Net liability recognised in the statements of financial position	(10,272)	(2,453)	(10,272)	(2,453)

The values of assets and liabilities shown above are the combined values of the two plans.

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 a lump sum contribution of \$142,000 (2011: \$144,000) to the Vero and Asteron New Zealand Staff Pension Scheme 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	176	187	176	187
Interest cost	1,294	1,355	1,294	1,355
Expected return on plan assets	(2,024)	(1,914)	(2,024)	(1,914)
Decrease in allowance for contributions tax on net liability	(273)	(185)	(273)	(185)
Employer contributions	(121)	(110)	(121)	(110)
Total gain recognised in profit after tax in the statements of comprehensive income	(948)	(667)	(948)	(667)
Actual return/(profit) on plan assets	120	4,073	120	4,073

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 in the statements of comprehensive income**

Net actuarial loss/(gains) recognised in the year	6,451	(878)	6,451	(878)
Contributions tax	2,944	(199)	2,944	(199)
Movement in limitation of assets	(477)	477	(477)	477
Contribution from Suncorp Group entity to defined benefit fund	(151)	-	(151)	-
Total (gain)/loss recognised in other comprehensive income in the statements of comprehensive income before tax	8,767	(600)	8,767	(600)
Deferred tax movement	(1,949)	(67)	(1,949)	(67)
Total (gain)/loss recognised in other comprehensive income in the statements of comprehensive income after tax	6,818	(667)	6,818	(667)

v. **Principal actuarial assumptions**

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

	2012 %	2011 %
Discount rate (net of tax)	2.5	3.7
Expected return on plan assets (net of tax)	5.5	5.5
Future salary increases	3.5	4.0



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 2012.

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 below.

	2012 %	2011 %
	20% of members' salaries plus fixed contribution of \$750,000 per annum (all gross of contribution tax)	20% of members' salaries plus fixed contribution 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	2.5	3.9
Expected return on plan assets	5.5 to 6.0	5.5 to 6.0
Future salary increases	3.5	4.0

vii. Historical Summary

	2012	2011	2010	2009	2008
Present value of defined benefit obligations	(40,154)	(36,516)	(36,017)	(37,352)	(36,941)
Fair value of the assets held by the plans	33,272	35,349	33,520	36,121	43,240
Adjustment in surplus for amount unable to be recognised under NZ IAS 19	-	(477)	-	(88)	(6,996)
Net liability before adjustment for contributions tax	(6,882)	(1,644)	(2,497)	(1,319)	(697)
Adjustment for contributions tax	(3,390)	(809)	(1,229)	(650)	(343)
Net liability in the Statements of financial position	(10,272)	(2,453)	(3,726)	(1,969)	(1,040)

(c) Share-based compensation plans

The employees of the company obtained the right to participate in two Suncorp Group Limited (SGL) 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 SGL 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 SGL Board based on SGL group's overall performance.
Price	The price of shares acquired for any offer is based on the Volume Weighted Average Price of SGL'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 SGL when aggregated with the number of shares acquired or issued during the previous five years pursuant to any employee share or option Plan of SGL.
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 2012 \$180,000 was accrued in relation to the 2011 EESP grants (2011: \$132,000 in relation to 2011 grants).

ii. Executive performance share plan ("EPSP")

Eligibility	Executive Officers. 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 SGL Board based on the participating Executive Officer's level of remuneration and individual performance.
Basis of share offers	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 SGL'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 SGL over a performance period compared to the TSR of a comparator group comprising the Top 50 Industrial companies in the S&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 SGL'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 SGL'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 SGL 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 SGL when aggregated with the number of shares acquired or issued during the previous five years pursuant to any employee share or option Plan of SGL.
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 2012 was \$108,000 (2011: \$142,000).

19 Trade and other payables

	Group 2012	2011	Parent 2012	2011
Trade creditors and accruals	3,708	5,306	3,532	5,291
Amounts due to reinsurers	1,982	2,100	1,982	2,100
Other creditors	972	712	790	687
Total trade and other payables	6,662	8,118	6,304	8,078
Current	6,662	8,118	6,304	8,078
Non-current	-	-	-	-
	6,662	8,118	6,304	8,078

20 Policy liabilities

(a) Reconciliation of movements in policy liabilities

	Group 2012	2011	Parent 2012	2011
Investment contract policy liabilities				
Opening balance	243,645	246,792	243,645	246,792
Net (increase) / decrease as shown in profit or loss in the statement of comprehensive income	(420)	15,019	(420)	15,019
Investment contract contributions recognised in policy liabilities	11,849	13,418	11,849	13,418
Investment contract withdrawals recognised in policy liabilities	(37,554)	(31,584)	(37,554)	(31,584)
Closing investment contract policy liabilities	217,520	243,645	217,520	243,645
Life insurance contract policy liabilities				
Opening balance	(45,615)	(18,295)	(45,615)	(18,295)
Net decrease as shown in profit or loss in the statement of comprehensive income	(16,642)	(18,534)	(16,642)	(18,534)
Increase / (decrease) in liabilities ceded under reinsurance	3,551	(3,790)	3,551	(3,790)
Deferred tax movement	(3,111)	(4,996)	(3,111)	(4,996)
Closing life insurance policy liabilities	(61,817)	(45,615)	(61,817)	(45,615)

	Group 2012	2011	Parent 2012	2011
Total gross policy liabilities				
Opening balance	198,030	228,497	198,030	228,497
Net decrease as shown in profit or loss in the statement of comprehensive income	(17,062)	(3,515)	(17,062)	(3,515)
Investment contract contributions recognised in policy liabilities	11,849	13,418	11,849	13,418
Investment contract withdrawals recognised in policy liabilities	(37,554)	(31,584)	(37,554)	(31,584)
Decrease in liabilities ceded under reinsurance	3,551	(3,790)	3,551	(3,790)
Deferred tax movement	(3,111)	(4,996)	(3,111)	(4,996)
Closing policy liabilities	155,703	198,030	155,703	198,030
Current	(8,831)	(4,750)	(8,831)	(4,750)
Non-current	164,534	202,780	164,534	202,780
Total	155,703	198,030	155,703	198,030
(b) Liabilities ceded under reinsurance				
Opening balance	11,606	15,396	11,606	15,396
Increase / (decrease) in liabilities ceded under reinsurance	3,551	(3,790)	3,551	(3,790)
Closing liabilities ceded under reinsurance	15,157	11,606	15,157	11,606
Current	4,531	7,121	4,531	7,121
Non-current	10,626	4,485	10,626	4,485
Total	15,157	11,606	15,157	11,606
Closing net policy liabilities	140,546	186,424	140,546	186,424
(c) Components of life insurance contract liabilities				
Future policy benefits*	1,131,026	1,028,203	1,131,026	1,028,203
Future bonuses	-	14,790	-	14,790
Future expenses	559,467	488,016	559,467	488,016
Future profit margins	372,217	340,874	372,217	340,874
Balance of future premiums	(1,854,202)	(1,620,608)	(1,854,202)	(1,620,608)
Net policy liabilities excluding deferred tax	208,508	251,275	208,508	251,275
Deferred tax liability	(67,962)	(64,851)	(67,962)	(64,851)
Net policy liabilities including deferred tax	140,546	186,424	140,546	186,424
Life insurance reinsurance ceded	15,157	11,606	15,157	11,606
Gross policy liabilities	155,703	198,030	155,703	198,030
Less: investment contracts	(217,520)	(243,645)	(217,520)	(243,645)
Insurance contract policy liabilities	(61,817)	(45,615)	(61,817)	(45,615)
Policy liabilities subject to capital guarantees	14,949	15,807	14,949	15,807
* Future policy benefits include bonuses vested in policy owners in current and prior periods.				
(d) Analysis of profit after income tax expense contributed by life insurance in the statement of comprehensive income				
Life Insurance profit after income tax expense arose from:				
Planned margins of revenues over expenses released	28,720	27,343	28,720	27,343
Difference between actual and assumed experience	1,925	(615)	1,925	(615)
Reversal of capitalised loss	(168)	(95)	(168)	(95)
Movement in net asset value of subsidiaries	1,884	978	1,884	979
Investment earnings on assets in excess of policy holder liabilities	15,735	14,712	15,736	12,480
Net profit attributed to non-controlling interests	-	284	-	-
Profit after income tax expense contributed by life insurance in the statement of comprehensive income	48,096	42,607	48,097	40,092
21 Contributed capital and retained earnings				
	Group 2012	2011	Parent 2012	2011
Opening contributed capital (118,342,450 ordinary shares)	145,230	145,230	145,230	145,230
Ordinary shares issued 8 May 2012 (27,000,000 ordinary shares)	27,000	-	27,000	-
Ordinary shares issued 29 June 2012 (17,000,000 ordinary shares)	17,000	-	17,000	-
Total contributed ordinary capital (162,342,450 ordinary shares)	189,230	145,230	189,230	145,230

(All amounts are in NZD thousands unless otherwise stated)

	Group 2012	2011	Parent 2012	2011
Preference shares				
45,000,000 (2011: 45,000,000) specified preference shares	45,000	45,000	45,000	45,000
Total preference shares	45,000	45,000	45,000	45,000
Shareholder contribution under employee share plans	676	568	676	568
Total share capital	234,906	190,798	234,906	190,798

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.

The movements in the shareholder contributions under the employee share plans are:

Balance at beginning of the year	568	426	568	426
Contributions under Executive Performance Share Plan	108	142	108	142
	-	-	-	-
Balance at the end of the year	676	568	676	568

22

Dividends	Group 2012	2011	Parent 2012	2011
Ordinary shares				
Dividend of 25.35 cents per fully paid ordinary share, paid August 2011	30,000	-	30,000	-
Dividend of 5.49 cents per fully paid ordinary share, paid October 2010	-	6,500	-	6,500
Dividend of 16.13 cents per fully paid ordinary share, paid June 2011	-	18,950	-	18,950
Total dividends declared or paid	30,000	25,450	30,000	25,450

23

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 2012	2011
Principal Activity	%	%
Parent		
Suncorp Group 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
Subsidiaries		
Asteron Retirement Investment Limited	100	100
Asteron Trust Services Limited	100	100
SAL Re Limited	100	100
GTFM Mortgage Fund	-	-
All subsidiaries are incorporated in New Zealand		

In the prior year the group has an investment in Asteron Corporate Bond Trust ("the Trust") in which it held seventy four per cent of the units on issue. The Trust was wound up in September 2011 and as a result the group had classified its holding in the units of the Trust as a disposal group held for sale in the financial statements for the year ended 30 June 2011.

Other associates of Suncorp Group Limited

AA Life Services Limited

Life insurance

Other subsidiaries of Suncorp Group Limited

AA Insurance Limited
Asteron Life Limited (Australia)
NZGT Financial Services Limited
(Fellow subsidiary until its sale on 14 March 2011)
Promerquity Limited - NZ Branch
Suncorp Group Holdings (NZ) Limited
Suncorp Mortgage Company NZ Limited
Guardian Trust and its subsidiaries
(Fellow subsidiary until its sale on 14 March 2011)
Tyndall Investment Management New Zealand Limited
(Fellow subsidiary until its sale on 28 February 2011)
Vero Insurance Limited (Australia)
Vero Insurance New Zealand Limited and its subsidiaries

General insurance
Life insurance
Investment vehicle

NZ Branch
Holding company of General Insurance Business
Administration of mortgages and loans
Trust and asset management

Asset management

General insurance
General insurance



		Equity holding	
		2012	2011
Principal Activity		%	%
Managed funds and unit trusts of the company (The Asteron Unit Trust was wound up during the year ended 30 June 2012)			
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		
Managed funds and unit trusts of the ultimate parent company			
(Managed by fellow subsidiary Guardian Trust until its sale on 14 March 2011)			
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
		2012	2011
Related party receivables			
Parent and ultimate parent (refer 23(c)(i.))		320	58
Subsidiaries (refer 23(d)(ii.))		-	-
Other (refer 23(e)(ii.))		2,244	11,276
		2,564	11,334
Related party payables			
Parent and ultimate parent (refer 23(c)(i.))		52	253
Subsidiaries (refer 23(d)(ii.))		-	-
Other (refer 23(e)(ii.))		4,541	1,224
		4,593	1,477
(c) Parent and ultimate parent			
i. Balances			
Related party receivables			
Suncorp Group New Zealand Limited		320	58
		320	371
Total related party receivables		320	58
		320	371
Related party payables			
Suncorp Group Services NZ Limited		52	253
		52	253
Total related party payables		52	253
		52	253
ii. Transactions			
<u>Accounting and administrative costs received/(paid)</u>			
Suncorp Group New Zealand Limited		3,233	1,478
Suncorp Group Services NZ Limited		(923)	(803)
<u>Dividend (paid)</u>			
Suncorp Group New Zealand Limited		(30,000)	(25,450)
<u>Interest on loan (paid)</u>			
Suncorp-Metway Limited		-	(1,856)
<u>Loan establishment fee (paid)</u>			
Suncorp-Metway Limited		-	(146)
<u>Management fees received/(paid)</u>			
Suncorp Group New Zealand Limited		(973)	(267)
<u>Settlement of liabilities on behalf</u>			
Suncorp Group New Zealand Limited		446	-
Suncorp Group Services NZ Limited		110	-
<u>Share based (paid) / received</u>			
Suncorp Group New Zealand Limited		108	-
<u>Ordinary shares (issued)/received & capital repurchased</u>			
Suncorp Group New Zealand Limited		(44,000)	-
<u>Tax loss, tax surplus, FITC transfers received/(paid)</u>			
Suncorp Group New Zealand Limited		(303)	5
(d) Subsidiaries			
i. Investment			
		Parent	
		2012	2011
		%	%
Asteron Retirement Investment Limited		100	100
Asteron Trust Services Limited		100	100
SAL Re Limited		100	100
Asteron Corporate Bond Trust - classified as a disposal group held for sale		-	74
All subsidiaries are incorporated in New Zealand			



ii. Balances

	Parent	
	2012	2011
Related party receivables		
Asteron Trust Services Limited	1	1,097
SAL Re Limited	1,495	2,289
Asteron Retirement Investment Limited	629	-
Total related party receivables	2,125	3,386
Related party payables		
Asteron Retirement Investment Limited	-	4,810
Total related party payables	-	4,810

iii. Transactions

<u>Accounting and administrative costs received/(paid)</u>		
SAL Re Limited	58	(64)
<u>Commission paid</u>		
SAL Re Limited	(64)	(109)
<u>Dividends (paid) / received</u>		
Asteron Retirement Investment Limited	2,400	-
<u>Management fees and commission received</u>		
Asteron Retirement Investment Limited	2,586	3,433
Asteron Trust Services Limited	81	333
<u>Net loan payments received/(advanced)</u>		
SAL Re Limited	-	(95)
<u>Rebate management fees paid</u>		
Asteron Retirement Investment Limited	-	(605)
Asteron Trust Services Limited	-	(359)
<u>Settlement of liabilities on behalf</u>		
SAL Re Limited	68	-
<u>Ordinary shares (issued)/received & capital repurchased</u>		
Asteron Retirement Investment Limited	4,131	-

(e) Other

i. Investments

Unit trusts managed by Asteron Trust Services (wound up during the year ended 30 June 2012)

Asteron Asian Sharemarket Growth Trust	-	883
Asteron Corporate Bond Trust	-	14,821
Asteron New Zealand Fixed Interest Trust	-	4,444
Asteron Socially Responsible Trust	-	748

ii. Balances

	Group		Parent	
	2012	2011	2012	2011
Related party receivables				
Fellow subsidiaries				
Promequity Limited - NZ Branch	-	1	-	1
Suncorp Mortgage Company NZ Limited	7	13	7	13
Vero Insurance Limited (Australia)	-	191	-	191
Vero Insurance New Zealand Limited and its subsidiaries	-	7,303	-	7,255
Group superannuation plans				
Asteron Superplan	-	2,347	-	514
Superplus Capital Guaranteed Lump Sum Superannuation Plan	347	257	315	240
Superplus Capital Guaranteed Pension Superannuation Plan	566	354	548	344
Superplus Equity Linked Lump Sum Superannuation Plan	87	27	65	15
Superplus Equity Linked Pension Superannuation Plan	1,163	725	1,067	671
Shield Superannuation Plan	74	58	73	58
	2,244	11,276	2,075	9,302
Related party payables				
Fellow subsidiaries				
Vero Insurance Limited (Australia)	739	-	739	-
Vero Insurance New Zealand Limited and its subsidiaries	1,171	-	1,164	-
Group superannuation plans				
Asteron Superannuation Fund	1,110	1,222	2,603	2,703
Asteron Superplan	1,521	-	3,400	-
Commercial Union General Insurance Staff Pension Scheme	-	2	-	2
	4,541	1,224	7,906	2,705

iii. Transactions

	Group		Parent	
	2012	2011	2012	2011
<u>Accounting and administrative costs received/(paid)</u>				
AA Life Services Limited	1,950	1,241	1,950	1,241
Asteron Superannuation Fund	641	-	-	-
Asteron Superplan	4,376	-	-	-
Commercial Union General Insurance Staff Pension Scheme	15	5	15	5
RIG Superannuation Fund	20	10	20	10
Shield Superannuation Plan	1	-	-	-
Suncorp Mortgage Company NZ Limited	70	(426)	70	22
Superplus Capital Guaranteed Lump Sum Superannuation Plan	37	-	-	-
Superplus Capital Guaranteed Superannuation Plan	22	-	-	-
Superplus Equity Linked Lump Sum Superannuation Plan	24	-	-	-
Superplus Equity Linked Pension Superannuation Plan	102	-	-	-
The New Zealand Guardian Trust Company Limited	-	653	-	653
Tyndall Investment Management New Zealand Limited	-	52	-	52
Asteron unit trusts	-	(125)	-	(125)
Vero & Asteron NZ Staff Pension Scheme	(50)	-	(50)	-
Vero Insurance Limited (Australia)	(5,454)	(9,061)	(5,454)	(9,061)
Vero Insurance New Zealand Limited and its subsidiaries	(1,836)	(1,845)	(1,836)	(1,845)
<u>Commission received/(paid)</u>				
AA Life Services Limited	(9,766)	(6,824)	(9,766)	(6,824)
<u>General insurance premiums paid</u>				
Vero Insurance New Zealand Limited and its subsidiaries	(64)	(61)	(64)	(61)
<u>Investment management fee received/(paid)</u>				
Tyndall Investment Management New Zealand Limited	-	(1,186)	-	(745)
<u>Life and disability premiums received</u>				
AA Insurance Limited	63	95	63	95
AA Life Services Limited	5	6	5	6
Promequity Limited - NZ Branch	1	2	1	2
The New Zealand Guardian Trust Company Limited	-	171	-	171
Tyndall Investment Management NZ Ltd	-	25	-	25
Vero Insurance New Zealand Limited and its subsidiaries	235	436	235	436
<u>Management fees received/(paid)</u>				
Asteron unit trusts	149	-	-	-
GTFM Mortgage Fund	(73)	-	-	-
The New Zealand Guardian Trust Company Limited	-	(184)	-	-
<u>Settlement of liabilities on behalf</u>				
Suncorp Mortgage Company NZ Limited	31	-	31	-
<u>Tax loss, tax surplus, FITC transfers received/(paid)</u>				
AA Insurance Limited	(3,436)	-	(3,436)	-
GTFM Mortgage Fund	(134)	-	-	-
Guardian Trust Superannuation Trustees Limited	-	679	-	-
NZGT Superannuation Trustees Limited	-	64	-	-
The New Zealand Guardian Trust Company Limited	-	(53)	-	(53)
Tyndall Investment Management New Zealand Limited	-	943	-	-
Vero Insurance New Zealand Limited and its subsidiaries	(394)	8,034	(429)	7,262
<u>Liabilities transferred</u>				
The New Zealand Guardian Trust Company Limited	-	(178)	-	-

24 Directors and executive remuneration

	Group		Parent	
	2012	2011	2012	2011
The remuneration of the key management team are				
Short-term employee benefits	2,830	2,371	2,830	2,371
Post-employment benefits	76	65	76	65
Termination benefits	69	-	69	-
Share based payments	108	142	108	142
Total	3,083	2,578	3,083	2,578

GE Summerhayes, GT Ricketts and ES Edgar are remunerated by Suncorp Group Limited, the ultimate parent.

25 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		Parent	
	2012	2011	2012	2011
<u>Audit services</u>				
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	442	401	442	401
- managed fund audit fees	118	196	118	196
KPMG - Prior years				
- statutory audit fee	-	-	-	-
- managed fund audit fees	-	-	-	-
Total remuneration for audit services	560	597	560	597

	Group		Parent	
	2012	2011	2012	2011
Other assurance services				
Prospectuses for managed funds				
- current year	-	-	-	-
- prior year	-	-	-	-
Total remuneration for other assurance services	-	-	-	-
Total remuneration of auditors	560	597	560	597

All audit fees are paid by the company.

26 Reconciliation of net profit for the year to net cash flow from operating activities

	Group		Parent	
	2012	2011	2012	2011
Operating profit after income tax and before minority interest	48,096	42,891	48,097	40,092
Investment revenue - net changes in market value	7	(27,027)	217	(25,479)
Impairment of mortgage loans	-	6,278	-	-
Other revenue	(155)	-	(155)	-
Profit attributable to minority interests	-	(284)	-	-
Depreciation expense	842	517	808	489
Amortisation of intangibles	547	831	475	807
Loss/(Profit) on disposal of plant and equipment	-	(7)	-	(16)
Loss/(Profit) on disposal of software	8	205	7	205
Profit on sale of subsidiary business	250	-	-	-
Defined benefit scheme recovery	(1,099)	(606)	(1,099)	(606)
Share based payments	108	142	108	142
(Increase)/decrease in working capital	12,082	(2,719)	14,955	(4,996)
Receivables (excluding loans)	(8,304)	(546)	(8,304)	(546)
Reinsurance recoveries - outstanding claims	(3,551)	3,790	(3,551)	3,790
Reinsurance recoveries - policy liabilities	(358)	753	(366)	67
Outstanding claims	12,085	3,414	12,085	3,414
Unearned premiums	39	416	39	416
Employee benefit obligations	627	271	658	276
Accounts payable/provisions	(645)	(6,043)	(963)	(6,897)
Taxation	(3,087)	8,374	(2,658)	9,188
Life insurance policy liabilities	(54,262)	(29,236)	(54,262)	(29,236)
Less items classified as investment activities	(1,837)	(549)	(1,657)	(549)
Increase in investment receivables	(1,837)	(549)	(1,657)	(549)
Decrease in investment payables	(229)	844	(234)	844
Net cash flow from operating activities	1,164	1,709	4,200	(8,595)

27 Solvency requirements

(a) Capital management policies and objectives

The Board's policy is to maintain a strong capital base to protect policyholders' and creditors' interests and meet the regulatory requirements whilst still creating shareholder value.

From 31 December 2012 the company is required to maintain a solvency margin of \$0 for the life fund, i.e. from this date, the Actual Solvency Capital as determined under the Solvency Standard for Life Insurance Business (the solvency standard) issued by the Reserve Bank of New Zealand (2011: The Professional Standard 5.01 issued by the New Zealand Society of Actuaries) should be at or above the minimum solvency capital. From the same date, the company is also required to retain a minimum fixed capital of at least \$5 million. Fixed capital is the minimum amount of Actual Solvency Capital that the company is required to hold at all times.

During the year ended 30 June 2012 the company complied with all externally imposed capital requirements.

The company has embedded in its capital management framework, the necessary tests to ensure continuous and full compliance with the solvency standard.

The Board Audit and Risk Committee oversees the capital computations and maintains the optimal capital structure by advising the Board on dividend payments and share issues. In addition, the company manages its required level of capital through analysis and optimisation of the company's product and asset mix, reinsurance program, catastrophe exposure and investment strategy.

The comparative year solvency disclosures have been recalculated under the new Standard for comparability disclosure purposes. The prior year solvency calculation determined under The New Zealand Society of Actuaries Professional Standard Number PS5.01 resulted in a minimum equity requirement of \$274.9million.

(b) Capital composition

The company manages its capital by considering both regulatory and economic capital. The primary source of capital used by the company is total equity attributable to owners. Total equity attributable to owners equates to "capital" as defined in the solvency standard

Regulatory capital

Regulatory capital is made up of two components, actual solvency capital and minimum solvency capital and is calculated as follows:

	Parent	
	2012	2011
Actual solvency capital	388,297	329,023
Minimum solvency capital	342,029	282,999
Solvency margin	46,268	46,024

28 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.

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 advisers 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.

29 Commitment for expenditure**Capital commitments**

There are no capital commitments.

Lease commitments

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

	Group		Parent	
	2012	2011	2012	2011
Not later than one year	2,658	2,796	2,634	2,704
Later than one year but not later than 5 years	10,512	11,016	10,478	10,814
Later than 5 years	9,377	12,151	9,377	12,151
Total	22,547	25,963	22,489	25,669

30 Subsequent events

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 2012.

31 Disaggregated information**Group****2012****Assets**

Investment assets, cash, and cash equivalents

Other assets

Total assets**Liabilities**

Policy liabilities

Unvested policy benefits

Other liabilities

Retained profits attributable to shareholders

Share capital

Total liabilities and equity**Performance**

Risk premium revenue

Reinsurance recoveries

Investment revenue

Other revenue

Risk claims expense

Reinsurance outwards

Operating expenses

(Increase)/decrease in policy liabilities

Gain on sale of investment in subsidiaries

Operating surplus before tax in the Statements of comprehensive income

Income tax expense

Total operating surplus after tax in the Statements of comprehensive income**Group****2011****Assets**

Investment assets, cash, and cash equivalents

Other assets

Total assets

	Unit linked	Shareholder	Total
Investment assets, cash, and cash equivalents	173,326	480,337	653,663
Other assets	22,368	63,970	86,338
Total assets	195,694	544,307	740,001
Policy liabilities	172,523	(16,820)	155,703
Unvested policy benefits	-	6,376	6,376
Other liabilities	2,688	178,417	181,105
Retained profits attributable to shareholders	20,483	141,428	161,911
Share capital	-	234,906	234,906
Total liabilities and equity	195,694	544,307	740,001
Risk premium revenue	-	151,567	151,567
Reinsurance recoveries	-	25,738	25,738
Investment revenue	4,644	27,398	32,042
Other revenue	-	6,044	6,044
Risk claims expense	-	(97,204)	(97,204)
Reinsurance outwards	-	(24,812)	(24,812)
Operating expenses	(2,326)	(73,568)	(75,894)
(Increase)/decrease in policy liabilities	1,461	27,536	28,997
Gain on sale of investment in subsidiaries	-	-	-
Operating surplus before tax in the Statements of comprehensive income	3,779	42,699	46,478
Income tax expense	(2,529)	4,147	1,618
Total operating surplus after tax in the Statements of comprehensive income	1,250	46,846	48,096
Investment assets, cash, and cash equivalents	201,204	424,784	625,988
Other assets	32,587	57,833	90,420
Total assets	233,791	482,617	716,408

	Unit linked	Shareholder	Total
Liabilities			
Policy liabilities	195,718	2,312	198,030
Unvested policy benefits	-	18,310	18,310
Other liabilities	18,839	139,798	158,637
Retained profits attributable to shareholders	19,233	131,400	150,633
Share capital	-	190,798	190,798
Total liabilities and equity	233,790	482,618	716,408
Performance			
Risk premium revenue	-	143,415	143,415
Reinsurance recoveries	-	14,865	14,865
Investment revenue	18,560	37,926	56,486
Other revenue	-	7,230	7,230
Risk claims expense	-	(81,279)	(81,279)
Reinsurance outwards	-	(25,431)	(25,431)
Operating expenses	(2,298)	(75,133)	(77,431)
Increase/(decrease) in policy liabilities	(12,720)	15,005	2,285
Finance costs	-	-	-
Operating surplus before tax in the Statements of comprehensive income	3,542	36,598	40,140
Income tax expense	(2,269)	7,566	5,297
Profit from continuing operations after tax	1,273	44,164	45,437
Loss from discontinued operations	-	(2,830)	(2,830)
Operating surplus after tax in the Statements of comprehensive income	1,273	41,334	42,607
Non controlling interest	-	284	284
Total operating surplus after tax in the Statements of comprehensive income	1,273	41,618	42,891

32 Discontinued operations

- (a) In June 2011 the Directors entered into a sale agreement with Suncorp Mortgage Company NZ Limited to dispose of the company's holding in GTFM Mortgage Fund Limited ("GTFM"). The company held 90% of the units issued by GTFM.

The disposal was completed on 30 June 2011 and GTFM is shown below as a discontinued operation.

The consideration for the sale was \$18,972,000, equal to the net assets of GTFM, as at 31 May 2011, multiplied by the company's 90% share of the units issued by GTFM.

	Group
Financial performance of discontinued operation for the 11 months period to 31 May 2011	2011
Revenue:	
Interest income	5,274
Other income	1,980
Total revenue	7,254
Interest	(3,750)
Custodian fees	(37)
Other expenses	(926)
Net impairment loss	(6,278)
Expenses	(10,991)
Gross loss	(3,737)
Loss before tax from discontinued operation	(3,737)
Income tax benefit	907
Loss for the year from discontinued operation	(2,830)
Loss attributable to the company	(2,546)
Non-controlling interests loss	(284)
Loss for the year from discontinued operation	(2,830)

(c) Cash flow information for the 11 months period to 31 May 2011

The net cash flows of GTFM are as follows:

Operating activities	6,243
Investing activities	25,938
Financing activities	(27,000)
Net cash inflow/(outflow)	5,181

(d) Assets and liabilities of discontinued operation

The major classes of assets and liabilities of GTFM at effective date of disposal were:

Assets	
Mortgage loans	75,526
Cash and cash equivalents	5,700
Receivables	310
Income tax and deferred tax	3,000
	84,536
Liabilities	
Borrowings	62,400
Other payables	1,056
	63,456
Net assets attributable to discontinued operations	21,080

	Group 2011
Consideration received	18,972
Less net assets disposed of	(21,080)
Non-controlling interest	-
Gain on disposal	(2,108)
Income tax expense	-
Gain after income tax	(2,108)
Net cash inflow on disposal	
Cash consideration	18,972
Less cash and cash equivalents disposed of	(5,700)
Reflected in consolidated statement of cash flows	13,272

33 Other information

The registered office of the company is:

Level 13 Asteron Centre, 55 Featherston Street, Wellington, New Zealand
Mailing Address: PO Box 894, Wellington, New Zealand
Phone: (04) 495 8837
Fax: (04) 470 8921
email: administration@asteron.co.nz

New Zealand Companies Office details:

Company Number: 18153
Incorporated: 30 January 1904

Appointed Actuary's Report

To the Board of Directors of Asteron Life Limited

Background

This report has been prepared by Daniel Wong FIAA FNZSA, Appointed Actuary of Asteron Life Limited ("the company").

The purpose of this report is to provide information to the Board and management regarding the review I have undertaken in relation to actuarial information (as described in section 77 of the Insurance (Prudential Supervision) Act 2010) in, or used in the preparation of, the company and group financial statements.

This report has not been prepared with any additional purposes in mind and the results and opinions contained within may not be applicable or appropriate for other purposes.

Report on the review of actuarial information in, or used in the preparation of, the company and group financial statements

I have reviewed the actuarial information in, or used in the preparation of financial statement of the company and the group, comprising the company and its subsidiaries. The financial statements comprise the statements of financial position as at 30 June 2012, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, for both the company and the group.

Directors' responsibility for the company and group financial statements

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

Appointed Actuary's responsibility

My responsibility is to review the actuarial information in, or used in the preparation of, the company and group financial statements. My review involves:

- Ascertaining the completeness of the actuarial information
- Evaluating the accuracy and appropriateness of the actuarial information
- Providing an opinion of whether the solvency margins for the company and its statutory fund(s) are maintained at the balance date.

Notwithstanding the above, in accordance with the conditions set out in the company's provisional licence issued by the Reserve Bank of New Zealand on 23 February 2012, requirements to maintain a solvency margin for the company and its statutory fund(s) do not come into effect until 31 December 2012.

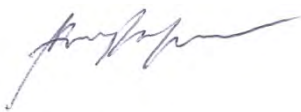
Hence I will not provide opinion on solvency margins as at 30 June 2012 in this report.

I am an employee of the company and have no other relationship with, or interest in, the company and group.

Opinion

In accordance with the requirements of sections 77 and 78 of the Insurance (Prudential Supervision) Act 2010, I report that:

- I have obtained all the information and explanations that I have required; and
- In my opinion and from an actuarial perspective:
 - the actuarial information contained in the company and group financial statements has been appropriately included
 - the actuarial information contained in the company and group financial statements has been accurate and used appropriately



Daniel Wong
Appointed Actuary
20 August 2012