Asteron Life Limited

Annual Report

For The Year Ended

30 June 2013

The Directors have pleasure in presenting the annual report of Asteron Life Limited (the "company"), incorporating the financial statements, statement of corporate governance and auditor's report for the year ended 30 June 2013.

Directors

The following persons were directors of the company for the whole of the period unless otherwise stated:

G T Ricketts (Chairman)
D A Carter
E S Edgar
G E Summerhayes

Information on directors in office at the date of this report

Geoffrey T Ricketts CNZM
LLB (Hons), FInstD
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 Heartland Bank Limited and a number of private companies. He is also chairman of Vero Insurance New Zealand Limited (a related company of Asteron Life Limited) and The Todd Corporation 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

Director since February 2012. Mr Carter is also the Managing Director of Asteron Life Limited and Executive General Manager of Suncorp Life New Zealand. He has over 20 years' experience in financial services, including banking, wealth management and life insurance and has served on numerous subsidiary boards and governance committees associated with financial services businesses.

Mr Carter joined Suncorp in 2006. His most recent role before moving to New Zealand was Executive General Manager Direct Distribution where he was responsible for the Group's Suncorp branded financial advice businesses and the emerging Direct Life business.

He is Deputy Chair of the Financial Services Council (NZ).

Sir Eion S Edgar KNZM
Bcom, FACA, LL.D (Hon)
Non-executive Director

Director since May 2012. Sir Eion has extensive corporate experience in New Zealand, with a strong background in investment, education, the arts, sport and philanthropy.

He is also a director of Vero Insurance New Zealand Limited, chairman of Forsyth Barr Group Limited, Queenstown Resort College Limited, the Winter Games NZ Charitable Trust and the Central Lakes Trust.

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
Non-executive Director

Mr Summerhayes was appointed to this Board in 2008.

Mr Summerhayes is the Chief Executive Officer of Suncorp Life, a leading life insurance and superannuation provider through the Suncorp, AAMI, GIO and APIA brands and to independent financial advisers through Asteron Life in Australia and New Zealand. He is an executive director and Chairman of Suncorp Portfolio Services Limited in Australia and a director of the Financial Services Council in Australia and co-chairs its Life Board Committee.

Mr Summerhayes has over 20 years' corporate experience. Prior to joining Suncorp, Mr Summerhayes held a number of senior executive roles at National Australia Bank in strategy, product and distribution. During the mid to late 1990's he was CEO of MLC Investments and held a number of executive positions at Lend Lease.

Directors' responsibility statement

The Directors are responsible for ensuring that the financial statements present fairly the financial position of the company as at 30 June 2013 and its' financial performance and cash flows for the year ended 30 June 2013.

The Directors consider that the financial statements of the company 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 facilitate compliance of the financial statements with the Financial Reporting Act 1993 and the Solvency Standard for Life Insurance Business issued by the Reserve Bank of New Zealand pursuant to the Insurance (Prudential Supervision) Act 2010.

The Directors have taken adequate steps to safeguard the assets of the company 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

The following directors have signed on behalf of the Board:

Director

Date 5 AUG 2013

Director

Date 5 AUG 2013

Asteron Life Limited ("the company") is a company incorporated in New Zealand. 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 public company listed on the Australian Stock Exchange.

The Board of the company is responsible for the corporate governance of the company in order to ensure that the interests of its policyholders and shareholder are protected.

This statement contains an outline of the principles, policies, procedures and practices that the Board and Management have implemented to govern the operations of the Board and company.

In establishing this corporate governance framework, the Board has had regard to its responsibilities at law and various governance standards, including the Corporate Governance framework of its ultimate parent, Suncorp Group Limited, the Governance Guidelines for Licensed Insurers issued by the Reserve Bank of New Zealand in June 2011, and Corporate Governance in New Zealand: Principles and Guidelines - A Handbook for Directors, Executives and Advisers, March 2004.

The Board is committed to the highest standards of ethical behaviour. It has adopted a constitution which sets out the rights, powers and duties of the company, the Board, each director and shareholder. Matters covered by the constitution include the appointment and removal of directors, the minimum number of directors, the quorum for Board meetings, meeting procedures, directors' interests, directors' remuneration and other benefits.

The company is required to give priority to the interests of policyholders of life policies. In the event of conflict between the interests of policyholders of life policies and the interests of the shareholder, the law requires the company to give priority to the interests of those policyholders over the interests of the shareholder.

There are four directors on the Board. The independent, non-executive directors on the Board are Mr Geoffrey Ricketts (Chairman of the Board) and Sir Eion Edgar. The other directors are Mr Geoffrey Summerhayes (a non-executive director who is also Chief Executive Officer of Suncorp Life in Australia) and Mr David Carter (an executive director who is also the Executive General Manager Suncorp Life New Zealand). Brief details of the directors' qualifications and experience are set out in the directors' report.

Board members are appointed in accordance with a documented process and all appointments are subject to shareholder approval. There is a formal procedure in place for evaluating the performance of the Board and individual directors.

The Board has also adopted a Charter which sets out its role, composition and responsibilities. The Board approves the strategic direction of the company, capital management policies and plans, the company's annual report and financial statements, risk appetite statement and business licence. The Board may also delegate certain powers, duties and responsibilities to one or more committees of the Board.

The Board has established an Audit and Risk Committee ("the BARC") to assist and support the Board in the conduct of certain of its duties and responsibilities. The primary role of the BARC is to assist the Board in fulfilling its statutory and fiduciary responsibilities with regard to the oversight of the company's financial and operating control environment. The terms of reference of the BARC are contained in a separate Board-approved charter. The members of the BARC are Sir Eion Edgar (Chairman of the BARC), Mr Geoffrey Ricketts and Mr Geoffrey Summerhayes. All of the members of the BARC are non-executive directors of the company and the majority are independent.

Various internal policies which form part of the company's compliance framework also apply to Directors. These include a Code of Conduct, Conflicts of Interest Policy, Securities Trading Policy and a Fit and Proper Policy.

KPMG

Independent auditor's report

To the Shareholder of Asteron Life Limited

Report on the financial statements

We have audited the accompanying financial statements of Asteron Life Ltd ("the company"), on pages 6 to 42. The financial statements comprise the statement of financial position as at 30 June 2013, 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.

Director's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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

KPMG

Opinion

In our opinion the financial statements on pages 6 to 42:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of the company as at 30 June 2013 and of its financial performance and cash flows for the year then ended.

Report on other legal and regulatory requirements

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

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

KPMG

12 August 2013

Auckland

	Note	2013	2012
Assets			
Cash and cash equivalents	11	13,012	34,968
Trade and other receivables	12	8,742	9,172
Related party receivables	27(b)	5,314	4,520
Other assets	15	3,316	4,407
Current tax		7,949	16,769
Reinsurance recoveries receivables	16	30,530	28,459
Financial assets at fair value through profit or loss	14	605,551	622,907
Reinsurance recoveries - policy liabilities	23(b)	10,243	15,157
Mortgage and other loan receivables	13	517	1,525
Deferred tax asset	10(b)(i.)	29,015	4,937
Plant and equipment	17	-	5,151
Intangible assets	18	-	324
Total assets		**714,189**	**748,296**
Liabilities			
Bank overdrafts	11	38	95
Trade and other payables	20	9,592	7,264
Related party payables	27(b)	8,630	7,958
Employee benefit obligations	19(a)	3,012	2,423
Financial liabilities at fair value through profit or loss	14	7,574	-
Unearned premium liabilities	21	4,412	2,621
Outstanding claims liabilities	22	92,550	86,468
Policy liabilities	23(a)	102,867	155,703
Unvested policy liabilities	24	20,283	6,376
Deferred tax liability	10(b)i.	77,753	67,962
Employee defined benefit schemes deficit	19(a)	5,159	10,272
Total liabilities		**331,870**	**347,142**
Net assets		**382,319**	**401,154**
Equity			
Total share capital	25	234,943	234,906
Retained earnings		147,376	166,248
Shareholder's equity		382,319	401,154
Total equity		**382,319**	**401,154**

For and on behalf of the Board of Directors

Director

Date 5 AUG 2013

Director

Date 5 AUG 2013

The notes on pages 10 to 42 are an integral part of these financial statements.

	Note	2013	2012
Revenue			
Premium revenue		161,925	151,567
Less: Outwards reinsurance premium expense		(26,642)	(24,812)
Net premium revenue	7	**135,283**	**126,755**
Investment revenue	7	59,924	33,738
Other revenue	7	99	155
Net revenue	7	**195,306**	**160,648**
Claims and expenses			
Claims expenses	8	93,762	97,204
Less: Reinsurance recoveries revenue	8	(23,285)	(25,738)
Net claims expenses	8	**70,477**	**71,466**
Acquisition expenses	8	62,789	41,820
Maintenance expense	8	27,798	28,309
Investment management expenses	8	2,086	1,995
Change in policy liabilities	23(a)	(16,000)	(17,062)
Change in unvested policy liabilities	24	13,907	(11,935)
Total management expenses and policy liability movements		**90,580**	**43,127**
Total net operating expenses	8	**161,057**	**114,593**
Results from operating activities		**34,249**	**46,055**
Profit before tax		**34,249**	**46,055**
Income tax credit	10	(7,599)	(2,042)
Profit after tax		**41,848**	**48,097**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Actuarial losses/(gains) on defined benefit plans	19(b)vi.	(3,861)	8,918
Contribution from Suncorp Group entity to defined benefit fund	19(b)vi.	-	(151)
Deferred tax movements	19(b)vi.	1,081	(1,949)
Total other comprehensive income net of tax		**(2,780)**	**6,818**
Total comprehensive income for the year		**44,628**	**41,279**
Total comprehensive income for the year attributable to:			
Owners of the company		44,628	41,279
Total comprehensive income for the year		**44,628**	**41,279**

The notes on pages 10 to 42 are an integral part of these financial statements.

	Note	Contributed Capital	Retained Profits	Total Equity
Balance as at 1 July 2011		**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	19(b)vi.	-	(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	19(c)	108	-	108
Dividends to equity holders	26	-	(30,000)	(30,000)
Capital contributions	25	44,000	-	44,000
Total contributions by and distributions to owners		**44,108**	**(30,000)**	**14,108**
Balance as at 30 June 2012	25	**234,906**	**166,248**	**401,154**
Total comprehensive income for the period				
Profit after tax		-	41,848	41,848
Other comprehensive income				
Actuarial net gains on defined benefit plans	19(b)vi.	-	2,780	2,780
Total comprehensive income for the period		**-**	**44,628**	**44,628**
Transactions with owners, recorded directly in equity				
Contributions by and distributions to owners:				
Share-based payments	19(c)	37	-	37
Dividends to equity holders	26	-	(63,500)	(63,500)
Capital contributions	25	-	-	-
Total contributions by and distributions to owners		**37**	**(63,500)**	**(63,463)**
Balance as at 30 June 2013	25	**234,943**	**147,376**	**382,319**

The notes on pages 10 to 42 are an integral part of these financial statements.

	Note	2013	2012
Cash flows from operating activities			
Premiums received		173,903	163,360
Reinsurance premiums paid		(30,851)	(24,930)
Policy payments		(120,248)	(130,978)
Reinsurance recoveries received		24,899	25,481
Operating expenses paid		(38,563)	(28,785)
Agents commission and bonuses paid		(53,452)	(35,363)
Dividends received		6,232	10,677
Interest received		23,233	22,355
Other income received		99	776
Income tax refund/(paid) - see note below		(8,721)	1,607
Net cash flows from operating activities	30	**(23,469)**	**4,200**
Cash flows from investing activities			
Purchase of financial assets		(511,782)	(447,551)
Proceeds from the sale of financial assets		561,728	444,511
Proceeds from the sale of subsidiaries		9,278	-
Advances of policy loans		(627)	(1,329)
Advances of mortgage and other loans		(33)	(382)
Repayments of policy loans		1,062	1,078
Repayments of mortgage and other loans		938	-
Proceeds from sale of plant and equipment and intangible assets		4,586	29
Payment for purchases of plant and equipment and intangible assets		(80)	(297)
Net cash flows from investing activities		**65,070**	**(3,941)**
Cash flows from financing activities			
Proceeds from share issues		-	44,000
Dividends paid		(63,500)	(30,000)
Net cash flows from financing activities		**(63,500)**	**14,000**
Net increase in cash and cash equivalents		**(21,899)**	**14,259**
Cash and cash equivalents at 1 July		34,873	20,614
Cash and cash equivalents at 30 June	11(b)	**12,974**	**34,873**

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

The notes on pages 10 to 42 are an integral part of these financial statements.

1 Reporting entity

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

The company is incorporated in New Zealand with its registered office at 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.

Group financial statements were previously presented but are no longer required under New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") or the Financial Reporting Act 1993 as all subsidiaries were either sold or liquidated during the current year. Refer to note 38 for more information.

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 statement 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, Financial Reporting Act 1993 and the Insurance (Prudential Supervision) Act 2010.

The company is a profit oriented entity.

(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, employee benefits and other actuarily determined balances.

(c) Functional currency

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

(d) Rounding

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

(e) Comparative information

Certain comparative information has been re-classified in order to provide a more appropriate basis for comparison. The following items have been re-classified to reflect a more accurate description of the type of underlying transactions:

- The fair value hierachy of unit trusts investments has been re-classed from level 1 to level 2 due to these investments not being traded in an active market
- Tax losses have been re-classed from current tax to deferred tax due to the high probability of these tax losses being utilised after 12 months
- Other loans have been re-classed from financial assets at fair value through profit or loss and disclosed as mortgage and other loan receivables to better reflect the nature of these assets
- Claims handling expenses ("CHE") have been moved from death and terminal illness and disability and disclosed separately due to the inherent difficulty in classifying CHE between these 2 classes of expenses.

(f) New reporting standards or interpretations

i. Standards adopted during the period

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 a material impact on the company's financial statements.

No other new reporting standards or interpretations were adopted during the year ended 30 June 2013.

ii. Standards not yet effective

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

NZ IAS 19 Employee Benefits: Various amendments are effective for financial periods beginning from 1 January 2013 but the key ones are:

- 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.

The potential effects on adoption of the amendments are yet to be determined.

NZ IAS 32 Financial Instruments - Presentation: Amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the NZ IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply to gross settlement mechanisms that are not simultaneous. The amendment is effective for financial periods beginning from 1 January 2014 and it is not expected that this amendment will have any impact on the company's financial statements.

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. A detailed analysis of the impact is yet to be performed as the amendments are not effective until the company's 30 June 2016 financial statements.

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 will become mandatory for the company's 30 June 2014 financial statements. The potential effects on adoption of the amendments to this standard are yet to be determined.

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.

3 Significant accounting policies

(a) Foreign currency translation

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

(b) Principles of life insurance business

Under the Insurance (Prudential Supervision) Act 2010 ("IPSA") and related regulations, the company has established separate statutory and shareholder funds. The shareholder's entitlement to monies held in the statutory fund is subject to the distribution and transfer restrictions of IPSA.

The company'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 company'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 company are conducted within separate funds and are reported in aggregate in the profit or loss in the statement of comprehensive income, statement of financial position and statement of cash flows of the company.

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 company 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.

(c) Financial assets

A financial asset is recognised in the statement of financial position when the company 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, comprising cash and cash equivalents and policyholder, mortgage and other loan 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 company 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 statement of comprehensive income.

The company holds derivative financial instruments to hedge the company's assets and liabilities or as part of the company's investment activities. Derivatives include exchange rate and interest rate related contracts and fixed interest options.

All derivatives are initially recognised at fair value on trade date and transaction costs are recognised in profit or loss as incurred. Fair values are determined from quoted market prices where available; where quoted market prices are not available, discounted cash flow models, broker and dealer price quotations or option pricing models are used as appropriate. Derivatives are classified and accounted for as held for trading financial assets at fair value through profit or loss unless they qualify as a hedging instrument in an effective hedge relationship under hedge accounting. The company has not adopted hedge accounting.

Investments in subsidiary companies were carried at fair value. The fair value was based on the net asset value of the subsidiary. They were subsequently increased by any capital contributions and decreased by any impairment losses.

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, 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. Mortgage and other loans

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(g)) 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.

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 profit or loss in the statement of comprehensive income.

iv. **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 company has designated all assets backing policy liabilities as fair value through profit or loss in statement 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, forward foreign exchange contracts and short term investments. 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 statement of comprehensive income.
- Receivables comprise premium receivables, reinsurance and other recoveries, investment related receivables, distribution receivables and policyholder 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.

v. **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 statement of comprehensive income.

A provision for impairment of receivables is established when there is objective evidence that the company 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.

vi. **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.

vii. **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 company 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 company has transferred substantially all risks and rewards of ownership.

(d) **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 statement 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 company does not have any finance leases.

(e) **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 company 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 company 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 company 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 company. 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 statement 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.

(f) **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 company 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 statement 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 statement 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 company. Where the asset is deemed to have an indefinite life, it is not amortised but tested for impairment at least on an annual basis.

(g) **Impairment**

Assets of the company 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 statement 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 statement 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 company'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 statement 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 statement of comprehensive income, only to the extent that it increases the asset back to its original carrying amount before any impairment was recorded.

(h) **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 company 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 statement 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.

(i) 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 statement 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 company contributes to both defined contribution and defined benefit superannuation schemes. Contributions are charged to profit or loss in the statement 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 company'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 statement 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 statement 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 a notional government bond (2012: 10 year government bond) 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 statement of comprehensive income.

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

iii. Other long term employee benefits

Long service leave
A liability for long service leave is recognised in the statement 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.

Annual Leave
A liability for annual leave which will not be settled within 12 months after the reporting date is recognised in the statement of financial position. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

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 company 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 company 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 profit or loss in the statement 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 of generally three to five years. The value of these long-term incentives is recognised as an expense in the profit or loss in the statement 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 company 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 statement 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.

(j) Provisions

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

- the company 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 company enters into financial arrangements to provide financial support, the company considers these to be insurance arrangements or financial guarantees, as applicable. The company treats the insurance arrangements as contingent liabilities until such time as it becomes probable that the company 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.

(k) 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 statement of comprehensive income is also calculated on a MoS basis.

ii. Life insurance policy liabilities

Policy liabilities, arising from life insurance contracts, are measured at the net present value of estimated future cash flows in accordance with PS3. Policy liabilities are re-measured periodically and changes are recognised in profit or loss in the statement 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 company 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 profit or loss in the statement of comprehensive income, which is based on the valuation of the linked assets, subject to a minimum of current surrender value.

(l) 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.

(m) Contingent liabilities and assets

Contingent liabilities are not recognised in the statement 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 statement 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.

(n) 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 statement of financial position. Premiums received in respect of life investment contracts are recognised as an increase in the investment contract liability in the statement 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.

(o) Claims expense

i. Life insurance contracts

Claims are recognised as an expense in profit or loss in the statement 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 statement of financial position.

(p) 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.

(q) Basis of expense apportionment for the company's life insurance business

The company'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.

(r) 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 statement of financial position as part of the policyholder liability and determinations are released through profit or loss in the statement of comprehensive income over the expected duration of the relevant policies, as part of the Margin on Service ("MOS") determinations.

All other costs are expensed as incurred.

ii. Life investment contracts

Acquisition costs and all other costs are expensed as incurred.

(s) 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 statement of financial position approach, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the statement of financial position. Current and deferred taxes attributable to amounts recognised in other comprehensive income are recognised in other 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.

(t) 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 profit or loss in the statement 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 company 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 below.

(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 of policyholders and other amounts arising from regulatory interventions;
- Persistency experience, which affects the company'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 company may not receive amounts due to it and these amounts can be reliably measured. Impairment is measured as the difference between the carrying amount and present value of estimated future cash flows.

(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 company 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 company 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 19.

(d) 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 company'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 company 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 assumptions that are supported by market observable inputs, either directly (i.e. as transactional prices) or indirectly (i.e. derived from transactional 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 via broker quotes, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

For financial instruments not quoted in active markets, the company uses valuation techniques such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

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 company uses the discounted cashflow method in determining the fair value of the unlisted and/or illiquid debt and equity securities. The potential effect of using reasonable possible alternative assumptions based on a change in the relevant valuation inputs is not considered to be significant for the company.

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

	Level 1	Level 2	Level 3	Total
2013				
Designated				
Government/semi government securities	94,268	33,883	-	128,151
Other fixed interest securities	14,330	171,060	551	185,941
Discounted securities	-	127,478	-	127,478
Shares in other corporations	123,714	465	-	124,179
Unit trusts	-	31,958	-	31,958
Policyholder loans	-	-	7,833	7,833
Held for trading				
Interest rate swaps	-	(7,574)	-	(7,574)
Derivatives	-	11	-	11
Total net financial assets at fair value through profit or loss	232,312	357,281	8,384	597,977
Life investment contract liabilities	-	(217,558)	-	(217,558)
	232,312	139,723	8,384	380,419

		Level 1	Level 2	Level 3	Total
2012					
Designated					
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	-	-	187,505
Unit trusts	(see note below)	-	21,916	-	21,916
Policyholder loans		-	-	8,268	8,268
Investments in subsidiaries		-	-	6,918	6,918
Held for trading					
Derivatives		-	307	-	307
Total financial assets at fair value through profit or loss		309,729	297,397	15,781	622,907
Life investment contract liabilities		-	(217,520)	-	(217,520)
		309,729	79,877	15,781	405,387

Note : The fair value hierachy of unit trusts investments has been re-classed from level 1 to level 2 due to these investments not being traded in an active market.

ii. **Level 3 movements**

	2013	2012
Opening balance	15,781	21,472
Re-class of other loans	-	(877)
Fair value adjustments of investments through profit or loss	(479)	(484)
Fair value movements - investments in subsidiaries	-	(517)
Disposal of subsidiaries	(6,918)	(4,131)
Additions	-	2,028
Settlements	-	(1,710)
Closing balance	8,384	15,781

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.

	2013		2012	
Fair value movement	**+10%**	**-10%**	**+10%**	**-10%**
Impact on profit or loss before tax	838	(838)	1,578	(1,578)
Impact on change in equity	838	(838)	1,578	(1,578)

iv. **Level 3 financial instruments**

(i) The company 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 holds two parcels of mortgage backed bonds in a New Zealand residential mortgage structure with a carrying value of $551,000 (2012: $595,000). 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 of these bonds is a key driver of the fair value and the interest margin and fair value carried reflects this. No security specific assumptions, uncertainties or discount rates are applied to the valuation of these bonds compared to other comparable float rate securities that are either actively or not actively traded. All interest income continued to be received as scheduled and the company's investments are intended to be held to maturity. The unknown factor with these products focuses on the repayment process and is dependant on the repayment behaviour of the mortgages within the appropriate structures and therefore bonds remain in place for the life of the underlying mortgages.

(iii) The company had three entities that were subsidiary investments (refer note 27(d)(i)). The financial statements for these subsidiaries were prepared monthly and the net performance movement was recorded by the company. Periodically there was also an impairment test performed on each subsidiary as an entity. There were no market observable inputs into the fair value of the investments in the subsidiaries.

During the year, the company sold or liquidated all of its subsidiaries.

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 2013. 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 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 2.68% and 5.36% (2012: 2.49% - 4.91%).

The discount rate for business with discretionary participating features is based on the market yield on backing assets. This yield was 5.1% in 2013 (2012: 5.0%) gross of tax and investment expenses.

ii. Inflation

Allowance for future inflation of 2.5% per annum (2012: 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 (2012: 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% (2012: 28%)

The rate of GST has been assumed to be 15% (2012: 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 2013	As at 30 June 2012
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 (2012 : 75%-90%) for males and 70%-90% NZ9092 (2012 : 70%-90%) for females.

Annuitant mortality rates, which vary by age and sex, have been based on industry experience. They are set at 66% (2012: 66%) 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 89% IAD 89-93 (2012: Incidence between 50% and 130% IAD 89-93).
Termination between 30% and 90% IAD89-93 (2012: Termination between 30% and 90% 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	2013 %	2012 %
Lump sum risk	4-22	4-20
Disability income	4-18	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 2012 to 30 June 2013

Assumption category	Effect on Present Value of Future Profit Margin Increase/(decrease)	Effect on Policy Liability Increase/(decrease)
Discount rates (risk business)	(14,906)	(2,961)
Mortality and morbidity	(2,540)	-
Lapse and surrender rates	(32,271)	-
Maintenance expenses	1,712	-
Branding costs	7,571	-
Other	(2,116)	-
Total	(42,550)	(2,961)

(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 2013		
Change in mortality and morbidity	+10%	(1,976)
	-10%	1,976
Change in lapse rate	+10%	-
	-10%	-
Change of expense assumption	+10%	-
	-10%	-
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

6 Risk management & financial instruments

The company'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 company has implemented a detailed risk management programme to identify and mitigate those risks.

(a) The company's risk management roles and responsibilities

i. Governance

The company is governed in accordance with the statement of corporate governance included within the annual report.

The Board of the company has established an Audit and Risk Committee (BARC) to assist it to fulfill its statutory and fiduciary responsibilities with regard to the oversight of the company's financial and operating 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 and Compliance programs and overall risk management capability.

The BARC is supported by the SLNZ 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. General risk

The company's financial condition and operating activities are affected by a number of key risks. The company has implemented risk and compliance management frameworks to provide the organisation with processes for mitigating risks and managing compliance obligations related to key legislative requirements. Development of a general compliance framework expressly covering all relevant regulatory obligations is scheduled to be completed by 30 June 2014.

The company's risk management recognises the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

The company has a structured risk management program in place in respect of all key risks. The universe of risks includes credit, market, and liquidity. One of the key objectives of the framework is to ensure sufficient liquidity is maintained at all times to meet the company's obligations, including its settlement of insurance liabilities to optimise investment.

The BARC has delegated authority from the Asteron Life Limited Board to approve and oversee the processes used to identify, evaluate and manage risk and recommends the risk appetite to the Board. Management has the primary responsibility and accountability for embedding the risk management program within the business operations of the company. Management oversees and approves the principles, policies, limits, frameworks and processes used by the company to identify, assess, monitor and control/mitigate risk.

The company has in place a structured approach to risk profiling. Each Executive Manager contributes to completing the organisational risk profile every six months. The Managing Director is accountable for the accuracy of organisational risk profile and ensuring it is completed. The CRO function is accountable for providing a consolidation, coordination, monitoring, oversight and challenge function with regard to the risk profile. Recognising that risk profiles change over time, management is required to monitor and manage the organisational risk profile on an ongoing basis.

The key risks addressed by the risk management framework include:

- Operational Risk – the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
- Compliance Risk – the risk of legal or regulatory breaches or sanctions, financial loss, or loss to reputation which the company may suffer as a result of its failure to comply with all applicable legal and regulatory requirements.
- Credit risk - the risk that a borrower or counterparty will not meet its obligations in accordance with agreed terms. Credit risk arises as a result of receivables due from policyholdersowners and intermediaries, the placement of reinsurance programs with counterparties and investment in financial instruments.
- Market risk - Market risk arises from the risk of adverse movements in interest rates, foreign exchange rates, equity prices, credit spreads commodity prices and market volatilities.
- Liquidity risk - the risk that the company will be unable to service its cash flow obligations today or in the future. Liquidity risk arises from the requirement to make claims payments and other financial obligations in a timely manner.

iii. Life insurance risk

The life insurance and investment activities of the company 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 company are actively managed to ensure they satisfy policyholders' risk and reward objectives and do not adversely affect the company's ability to pay benefits and claims when due. Compliance and operational risks are controlled and monitored to maintain the efficiency of the company 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 company's underwriting manual that includes limits to delegated authority and signing powers.

Portfolio of Risks
The company writes insurance policies covering mortality and morbidity risks. The performance of the company and its ability to write business depends on its ability to manage this risk exposure. The company 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 company 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 company'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 company purchases reinsurance to manage exposure to accepted insurance risk. The level of reinsurance cover has historically been high relative to the size of the company'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 company's capital 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 company strives to maintain this spread by adjusting the interest-crediting rates at contractually specified intervals. The company'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 company 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 company's maximum exposure to any individual life is capped.

Concentrations of risk by product type are managed through monitoring the company'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 company 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 company 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 company 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 company 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 company's life insurance business has been discussed in the preceding sections. This section provides an explanation of the other aspects to which the company is affected by financial risks.

(g) Market risk

The company 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 company 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 company has developed investment guidelines to manage the company's exposure to equity price risk primarily by setting benchmarks for asset mix.

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

The company 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 company is exposed.

	Australian	International	NZ	Total
2013				
Exposure in NZD	1,892	9,847	17,071	28,810
Profit / (Loss)				
+ 20% market value movement on financial assets	272	1,418	2,458	4,148
- 20% market value movement on financial assets	(272)	(1,418)	(2,458)	(4,148)
Equity				
+ 20% market value movement on financial assets	272	1,418	2,458	4,148
- 20% market value movement on financial assets	(272)	(1,418)	(2,458)	(4,148)
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)

ii. Liquidity risk

The company 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

	1 year or less	1 to 5 years	Over 5 years	No term	Investment contracts	Total
2013						
Bank overdrafts	38	-	-	-	-	38
Trade and other payables	9,216	-	-	-	376	9,592
Related party payables	5,823	-	-	-	2,807	8,630
Outstanding claims liabilities	30,245	28,336	33,896	-	73	92,550
Policy liabilities	(15,315)	(19,462)	(79,915)	-	217,559	102,867
Interest rate swap - net settled	(2,548)	767	9,355	-	-	7,574
Unvested policy liabilities	-	-	-	20,283	-	20,283
	27,459	9,641	(36,664)	20,283	220,815	241,534

	1 year or less	1 to 5 years	Over 5 years	No term	Investment contracts	Total
2012						
Bank overdrafts	95	-	-	-	-	95
Trade and other payables	7,264	-	-	-	-	7,264
Related party payables	7,958	-	-	-	-	7,958
Outstanding claims liabilities	26,055	25,734	34,679	-	-	86,468
Policy liabilities	7,182	17,301	(86,302)	-	217,522	155,703
Unvested policy liabilities	-	-	-	6,376	-	6,376
	48,554	43,035	(51,623)	6,376	217,522	263,864

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 company 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 company's exposure to such risk. These matching procedures are not 100% effective. The company 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. This includes satisfying solvency requirements, which in turn includes consideration of how assets and liabilities are matched. The company enters into interest rate swap contracts for the purpose of extending the duration (weighted average time to maturity) of the fixed interest investments held to match the duration of the underlying policy liabilities that they back.

A change in interest rate impacts the fair value of the company's fixed rate and non interest bearing assets, and its interest rate swaps. Fair value changes impact on profit or loss or equity only where the instruments are carried at fair value.

Fair value sensitivity due to changes in interest rates (based on the assets held at balance date) on the company's fixed rate assets and interest rate swaps is disclosed below.

Details of the company's solvency is disclosed in note 31.

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 company is exposed. The exposure of derivative financial instruments to interest rate risk is on the notional value of the derivative contracts as disclosed in the table below.

(Note: the 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).

Interest rate risk schedules

	Cash	Interest bearing investment assets	Loans and receivables	Derivative financial instruments (notional value)	Financial liabilities (notional value)	Total
2013						
Financial asset exposure in NZD	7,994	401,421	17,738	1,123	200,000	628,276
Profit / (Loss)						
+1.5% movement variable	72	(9,182)	6	-	(16,767)	(25,871)
-1.0% movement in variable	(48)	8,981	(4)	-	11,178	20,107
Equity						
+1.5% movement variable	72	(9,182)	6	-	(16,767)	(25,871)
-1.0% movement in variable	(48)	8,981	(4)	-	11,178	20,107
2012						
Financial asset exposure in NZD	27,171	357,976	52,824	6,471	-	444,442
Profit / (Loss)						
+1.5% movement variable	293	(10,562)	570	-	-	(9,699)
-1.0% movement in variable	(196)	7,480	(380)	-	-	6,904
Equity						
+1.5% movement variable	293	(10,562)	570	-	-	(9,699)
-1.0% movement in variable	(196)	7,480	(380)	-	-	6,904

(h) **Currency risk**

The company 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 company also invests in certain New Zealand Dollar denominated unit trusts that have underlying exposures to other foreign currencies. The company has no direct exposure to foreign currency risk associated with these investments

The company 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 company's overseas financial assets are denominated in the following currencies.

Overseas financial assets converted to NZD

	Australia AUD	Total
2013		
Financial asset exposure in NZD	**885**	**885**
Profit/(Loss)		
+15% movement in variable	(83)	(83)
-15% movement in variable	112	112
Equity		
+15% movement in variable	(83)	(83)
-15% movement in variable	112	112
2012		
Financial asset exposure in NZD	**12,838**	**12,838**
Profit/(Loss)		
+15% movement in variable	1,387	1,387
-15% movement in variable	(1,387)	(1,387)
Equity		
+15% movement in variable	1,387	1,387
-15% movement in variable	(1,387)	(1,387)

The company has no foreign currency liabilities (2012: nil).

(i) Credit risk

Credit risk is the risk that a counterparty will cause a financial loss to the company by failing to discharge an obligation. Credit risk to the company 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 company to credit risk principally consist of cash, debtors, discounted securities, government and local body securities, sovereign debt, fixed interest securities and mortgage loans.

The company 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 $72 million (2012: $78 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						
	AAA	AA	A	BBB	Non investment grade	Other not rated	Total
2013							
Cash and cash equivalents	-	7,825	169	-	-	-	7,994
Loans and receivables	-	6,061	-	-	-	2,483	8,544
Related party receivables	-	-	-	-	-	5,314	5,314
Other assets	-	-	-	-	-	2,885	2,885
Reinsurance recoveries - outstanding claims liabilities	-	30,530	-	-	-	-	30,530
Financial assets - interest bearing securities and derivatives	85,031	226,598	63,231	6,597	7,833	12,142	401,432
Reinsurance recoveries - policy liabilities	-	-	10,243	-	-	-	10,243
	85,031	**271,014**	**73,643**	**6,597**	**7,833**	**22,824**	**466,942**
2012							
Cash and cash equivalents	-	13,311	13,229	-	-	631	27,171
Loans and receivables	-	4,832	-	-	-	5,336	10,168
Related party receivables	-	-	-	-	-	4,520	4,520
Other assets	-	-	-	-	-	3,870	3,870
Reinsurance recoveries - outstanding claims liabilities	-	28,459	-	-	-	-	28,459
Financial assets - interest bearing securities and derivatives	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**	**26,078**	**447,350**

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					
	Neither past due nor impaired	0-3 mths	3-6 mths	6-12 mths	> 12 mths	Impaired	Total
2013							
Loans and receivables	4,410	2,916	460	758	-	-	8,544
Related party receivables	5,314	-	-	-	-	-	5,314
Other assets	2,885	-	-	-	-	-	2,885
Reinsurance recoveries - outstanding claims liabilities	30,530	-	-	-	-	-	30,530
Reinsurance recoveries - policy liabilities	10,243	-	-	-	-	-	10,243
	53,382	**2,916**	**460**	**758**	**-**	**-**	**57,516**

	Neither past due nor impaired	0-3 mths	3-6 mths	6-12 mths	> 12 mths	Impaired	Total
2012							
Loans and receivables	7,309	2,742	98	-	19	-	10,168
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
	59,315	**2,742**	**98**	**-**	**19**	**-**	**62,174**

Mortgage and other loans receivable

The company invests in mortgage and other loans to agents. The total carrying value and amounts provided for impaired loans are shown in the table below.

	2013	2012
Summary of provisions		
Against individually impaired	-	34
Against past due but not impaired	-	11
Collective provisions	-	103
Total impairment provisions	**-**	**148**
Summary of carrying values		
Neither past due nor impaired		
Carrying amount	517	751
Individually impaired		
Gross amount	-	45
Specific provision	-	(34)
Carrying amount	-	11
Past due but not impaired		
Less than 30 days	-	(11)
31 to 60 days	-	-
61 to 90 days	-	-
Over 90 days	-	-
Carrying amount	-	(11)
Collective provision	-	(103)
Total carrying amount of mortgages and other loans receivable	**517**	**648**

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

(j) Derivatives

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

The company uses derivatives for portfolio management purposes. They are used as an alternative where longer duration physical assets are not readily available, 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.

At 30 June 2013, the notional amount of interest rate swaps held by the company was $200,000,000 (2012: $Nil). The fair value of interest rate swaps held by the company was $7,573,806 (2012: $Nil). The interest rate swap contracts with a notional value of $110,000,000 and $90,000,000 were entered into with Bank of New Zealand and Westpac Banking Corporation respectively. The Standard and Poors credit ratings of both counterparties as at balance date were AA-.

The interest rate swaps are held to extend the duration of the fixed interest portfolio by approximately 4 years to closely mirror the duration of the policy liabilities that they are backing.

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

The most commonly used derivatives by the company are interest rate swaps and foreign currency forward 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 company 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.

7 Revenue

	2013	2012
Premium revenue		
Total premium revenue	172,295	163,416
Less:		
Savings product premiums disclosed as a change in policy liabilities (Note 23)	(10,370)	(11,849)
Premium revenue disclosed in statement of comprehensive income	**161,925**	**151,567**
Outwards reinsurance premium expense	(26,642)	(24,812)
Net premium revenue disclosed in statement of comprehensive income	**135,283**	**126,755**

		2013	2012
Investment revenue			
Interest received:			
Interest income - interest bearing securities	(see note 1 below)	22,086	21,476
Interest income - mortgage and other	(see note 2 below)	57	1,245
Dividends received	(see note 1 below)	6,067	10,758
Sundry investment income	(see note 2 below)	-	776
Movement in financial assets at fair value through profit or loss:			
Fair value gain/(loss) of subsidiaries until date of sale/liquidation		894	(517)
Changes in net fair value of investments		30,820	-
Net investment revenue		**59,924**	**33,738**
Movement in financial assets at fair value through profit or loss above includes the following movements in derivatives.			
Profit/(loss) on sale		21,160	671
Changes in fair value		9,660	(306)
Total investment revenue derivatives		**30,820**	**365**
Other revenue			
Sundry income		99	155
Total other revenue		**99**	**155**
Net revenue		**195,306**	**160,648**

Note 1: The income received from these categories has been generated by financial assets at fair value through profit or loss.
Note 2: The income received from these categories has been generated by financial assets at amortised cost.

8 Net operating expenses

	2013	2012
Claims expenses		
Death and terminal illness	53,618	48,454
Disability	23,820	35,466
Annuities	1,683	1,823
Maturities	10,188	8,813
Surrenders and withdrawals	36,663	39,822
Claims handling expenses	310	380
Gross claims expenses	**126,282**	**134,758**
Less:		
Savings product claims disclosed as a change in policy liabilities (Note 23)	(32,520)	(37,554)
Claims expense disclosed in statement of comprehensive income	**93,762**	**97,204**
Reinsurance recoveries	(23,285)	(25,738)
Net claims expense disclosed in statement of comprehensive income	**70,477**	**71,466**
Acquisition expenses		
Management expenses	21,986	18,681
Commission expenses	40,803	23,139
Total acquisition expenses	**62,789**	**41,820**
Maintenance expenses		
Management expenses	15,409	16,108
Commission expenses	12,689	11,901
Other	(300)	300
Total maintenance expenses	**27,798**	**28,309**
Investment management expenses	**2,086**	**1,995**
Change in unvested policy liabilities (note 24)	13,907	(11,935)
Change in net policy liability benefits (note 23(a))	(16,000)	(17,062)
Total net operating expenses including movement in policy liabilities	**161,057**	**114,593**

9 Other expenses

	Note	2013	2012
Loss on disposal of plant and equipment		11	-
Loss on disposal of intangible assets		-	7
Depreciation of plant and equipment	17	746	808
Operating lease rental expenses		2,064	1,898
Employee leave entitlements		1,203	658
Impairment and amortisation of intangible assets	18	212	475
Movement in provision for bad and doubtful debt		148	45
Contributions to defined contribution superannuation schemes		449	496
Contributions to defined benefit superannuation schemes	19(b)v.	140	121
Current year exempt employee share plan grant	19	159	180
Current year executive employee share plan grant	19	37	108
Movement in provision for post retirement employee benefits	19(b)v.	(1,252)	(948)

10 Taxation

(a) Income tax credit

	2013	2012
Current tax (credit)/expense	17,831	(1,473)
Deferred tax (credit)/expense	(24,976)	(313)
Prior period tax (credit)/expense	(454)	(256)
Income tax credit	**(7,599)**	**(2,042)**

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.

Profit before income tax expense	**34,249**	**46,055**
Prima facie income tax @ 28% (2012: 28%)	9,590	12,895
Tax effect of amounts which are not deductible/assessable in calculating taxable income.		
Difference due to life insurance tax basis	(6,157)	(15,935)
Non-taxable gains/(losses) on revaluation of financial assets	(9,137)	3,611
Non-allowable expenses and other items	32	(43)
Gross up of fully imputed dividend income	422	-
Non-taxable dividends	-	(1,204)
Imputation credits on dividends and other credits received	(1,506)	(1,589)
Other	(389)	479
Income tax adjusted for differences	**(7,145)**	**(1,786)**
Under/(over) provision in prior periods	(454)	(256)
Income tax expense	**(7,599)**	**(2,042)**

(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.

	2013	2012
After more than 12 months	27,609	3,474
Within 12 months	1,406	1,463
Total deferred tax asset	**29,015**	**4,937**
Deferred tax liabilities to be settled		
Greater than 12 months	-	-
Policyholder liabilities	77,734	67,962
Within 12 months	19	-
Total deferred tax liability	**77,753**	**67,962**
Net deferred tax liability	**48,738**	**63,025**

ii. **The gross movement of the deferred tax account is as follows**

Opening balance	63,025	61,913
Deferred tax movement in policyholder liabilities	9,772	3,111
Charged through other comprehensive income	1,081	(1,949)
Charged through profit or loss	(25,140)	(50)
Closing balance	**48,738**	**63,025**

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

Accrued expenses and provisions	(2,831)	(4,275)
Unrealised (loss)/gains on investments	18	(569)
Provision for impairment of mortgage loans	-	(30)
Depreciable and amortisable assets	(34)	(63)
Deferred tax losses carried forward	(26,149)	-
Deferred tax in policyholder liabilities (note 10(b)v. and 23(c))	77,734	67,962
Net deferred tax liability	**48,738**	**63,025**

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

	2013	2012
Policyholders' credit account		
Opening balance	10,600	-
Opening balance transfer to Policyholder ICA	-	1,011
Taxation paid/(refund)	8,820	8,545
Imputaion credits attached to dividends received/(paid)	1,221	1,139
Other credits/(debits)	-	(95)
Transferred from/(to) consolidated imputation group	-	-
Closing balance	**20,641**	**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	79,970	79,970
Opening balance transfer to Policyholder ICA	-	-
Transfer begining balance to ICA Group	-	-
Taxation paid	(699)	(699)
Imputation credits attached to dividends received	5,602	5,602
Other credits/(debits)	(97)	(97)
Closing balance	**84,776**	**84,776**
Non SGHNZL ICA Group imputation balances		
Balance at the beginning of the year	8,509	224
Taxation paid	2,506	75
Imputation credits attached to dividends received	(5,102)	-
Other credits/(debits)	(66)	-
Balance at the end of the year	5,847	299
Imputation credits available within the SGHNZL group		
Balances from above:		
ICA Group	84,776	84,776
Non ICA Group	5,847	299
Balance at the end of the year	90,623	85,075

11 Cash and cash equivalents

(a) Statement of financial position

	2013	2012
Cash at bank and on hand	1,403	698
Deposits at call	11,609	34,270
Cash and cash equivalents	**13,012**	**34,968**
Bank overdrafts	(38)	(95)
Bank overdrafts	**(38)**	**(95)**

(b) Statement of cash flows

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

Cash and cash equivalents	13,012	34,968
Bank overdrafts	(38)	(95)
Cash and cash equivalents for the cash flow statement	**12,974**	**34,873**

12 Trade and other receivables

	2013	2012
Trade receivables	268	2,356
Premiums due from policyholders	975	1,036
Provision for doubtful debts	(303)	(348)
Total trade and policyholder receivables	**940**	**3,044**
Amounts due from reinsurers	6,061	4,832
Other receivables	1,741	1,296
Total trade and other receivables	**8,742**	**9,172**
Current	8,742	9,172
Non-current	-	-
Total trade and other receivables	**8,742**	**9,172**

13 Mortgage and other loans

	2013	2012
Other loans	518	877
Provision for impairment of other loans	(1)	-
Mortgage loans:		
Unimpaired	-	717
Specific impaired	-	34
Provision for impairment	-	(103)
Total mortgage and other loan receivables	**517**	**1,525**
Current	294	648
Non-current	223	877
Total trade and other receivables	**517**	**1,525**

14 Financial assets at fair value through profit or loss

(a) Financial assets at fair value through profit or loss

	2013	2012
Designated		
Government /semi government securities	128,151	175,619
Other fixed interest securities	185,941	193,808
Discounted securities	127,478	28,566
Shares in other corporations	124,179	187,505
Unit trusts	31,958	21,916
Policyholder loans	7,833	8,268
Held for trading		
Derivatives	11	307
Total	**605,551**	**615,989**

(b) Investments in subsidiaries

Investment in subsidiaries	-	6,918
Total	**-**	**6,918**
Total financial assets at fair value through profit or loss	**605,551**	**622,907**
Current	323,729	292,396
Non-current	281,822	330,511
Total	**605,551**	**622,907**

During the year, the company sold or liquidated all its investments in subsidiaries. Refer to note 38.

(c) Financial liabilities at fair value through profit or loss

Held for trading		
Interest rate swaps	7,574	-
Total financial liabilities at fair value through profit or loss	**7,574**	**-**
Current	(2,548)	-
Non-current	10,122	-
Total	**7,574**	**-**
Total net financial assets at fair value through profit or loss	**597,977**	**622,907**

15 Other assets

	2013	2012
Accrued income	3,311	4,293
Prepayments	5	114
Total	**3,316**	**4,407**
Current	3,316	4,407
Non-current	-	-
Total	**3,316**	**4,407**

16 Reinsurance recoveries receivables

	2013	2012
Reinsurance recoveries receivables	30,530	28,459
Total	**30,530**	**28,459**
Current	4,487	4,084
Non-current	26,043	24,375
Total	**30,530**	**28,459**

17 Plant and equipment

	Vehicles	Leasehold improve-ments	Computers	Furniture & Fittings	Total
2013					
At cost					
Opening balance	443	5,332	8,069	3,499	17,343
Additions	-	2	55	23	80
Disposals	(443)	(5,334)	(8,124)	(3,522)	(17,423)
Closing balance	-	-	-	-	-
Accumulated depreciation					
Opening balance	218	1,324	7,934	2,716	12,192
Depreciation expense	50	398	94	204	746
Disposals	(268)	(1,722)	(8,028)	(2,920)	(12,938)
Closing balance	-	-	-	-	-
Closing balance of plant and equipment - net	-	-	-	-	-

	Vehicles	Leasehold improve-ments	Computers	Furniture & Fittings	Total
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

18 Intangible assets

(a) Intangible assets - software

	2013	2012
Opening balance	14,223	14,089
Additions	-	134
Disposals	(14,223)	-
Closing balance	-	14,223
Accumulated impairment and amortisation opening balance	13,899	13,424
Amortisation	212	475
Disposals	(14,111)	-
Closing balance	-	13,899
Closing balance of software - net	-	324

19 Employee benefit obligations

(a) Balances

	2013	2012
Defined benefit obligation asset	-	-
Defined benefit obligation (liability)	(5,159)	(10,272)
Defined benefit obligation net liability	(5,159)	(10,272)
Defined benefit obligation net liability	5,159	10,272
Employee entitlements	3,012	2,423
Total net benefit obligations	8,171	12,695
Current	3,012	2,423
Non current	5,159	10,272
Total net benefit obligations	8,171	12,695

(b) Defined benefit superannuation commitments

The company participates in two defined benefit superannuation funds, Vero and Asteron New Zealand Staff Pension Scheme ("V&A") and Guardian Assurance Superannuation Plan ("GASP") (collectively "the plans"). Each superannuation scheme provides benefits to members on retirement, disability or death. All new employees are currently being given membership in a defined contribution scheme rather than defined benefit schemes.

For the GASP, 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 (2012: $Nil), 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
2013			
V&A	-	(4,732)	(4,732)
GASP	-	(427)	(427)
Total deficit	-	(5,159)	(5,159)
2012			
V&A	-	(5,448)	(5,448)
GASP	-	(4,824)	(4,824)
Total deficit	-	(10,272)	(10,272)

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

	2013	2012
Present value of defined benefit obligations	(38,362)	(40,154)
Fair value of the assets held by the plans	34,906	33,272
Net liability before adjustment for contributions tax	(3,456)	(6,882)
Adjustment for contributions tax	(1,703)	(3,390)
Net liability recognised in the statement of financial position	(5,159)	(10,272)

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

The company has no obligation to settle this liability with an immediate contribution or additional one off contributions. The company intends to continue to contribute to the defined benefit plans at a rate of 0% - 20% of salaries plus a lump sum contribution of $187,000 (2012: $142,000) to the V&A scheme in line with the plans' latest actuarial recommendations.

iii. **Reconciliation of movements**

	2013	2012
Changes in the present value of defined benefit fund obligations		
Balance at the beginning of the year	(40,154)	(36,516)
Current service cost	(191)	(176)
Interest cost	(964)	(1,294)
Actuarial gains/(losses)	471	(4,547)
Benefits paid	2,476	2,379
Balance at the end of the year	(38,362)	(40,154)
Changes in the present value of plan assets		
Balance at the beginning of the year	33,272	35,349
Expected return on fund assets	1,900	2,024
Actuarial gains/(losses)	2,116	(1,904)
Contributions by Group companies	94	182
Benefits paid	(2,476)	(2,379)
Balance at the end of the year	34,906	33,272

iv. **Major categories of plan assets as a percentage of total plan assets:**

	2013 %	2012 %
Cash	4.1	1.4
Equities	48.4	50.3
Debt instruments	45.6	46.4
Other	1.9	1.9
	100	100

v. **Aggregate amounts recognised in profit after tax in the statement of comprehensive income**

	2013	2012
Current service cost	191	176
Interest cost	964	1,294
Expected return on plan assets	(1,900)	(2,024)
Decrease in allowance for contributions tax on net liability	(367)	(273)
Employer contributions	(140)	(121)
Total gain recognised in profit after tax in the statement of comprehensive income	(1,252)	(948)
Actual return/(profit) on plan assets	4,016	120

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 investments reflect long-term real rates of return experienced in the prospective markets.

vi. **Aggregate amounts recognised in other comprehensive income in the statement of comprehensive income**

	2013	2012
Net actuarial loss/(gains) recognised in the year	(2,587)	6,451
Contributions tax	(1,274)	2,944
Movement in limitation of assets	-	(477)
Contribution from Suncorp Group entity to defined benefit fund	-	(151)
Total (gain)/loss recognised in other comprehensive income in the statement of comprehensive income before tax	(3,861)	8,767

KPMG

	2013	2012
Deferred tax movement	1,081	(1,949)
Total (gain)/loss recognised in other comprehensive income in the statement of comprehensive income after tax	**(2,780)**	**6,818**

vii. **Principal actuarial assumptions**

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

	V&A %	GASP %
2013		
Discount rate (net of tax)	3.4	3.2
Expected return on plan assets (net of tax)	5.5	6.0
Future salary increases	3.5	3.5
2012		
Discount rate (net of tax)	2.5	2.5
Expected return on plan assets (net of tax)	5.5	5.5
Future salary increases	3.5	3.5

viii. **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 2013.

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 plan's 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.

	2013 %	2012 %
	20% of members' salaries plus lump sum contribution of $950,000 per annum (all gross of contribution tax)	20% of members' salaries plus fixed contribution of $750,000 per annum (all gross of contribution tax)
Employer contribution rates		
- V&A	20.0	20.0
- GASP	-	-
Discount rate	3.4 and 3.2	2.5
Expected return on plan assets	5.5 and 6.0	5.5 to 6.0
Future salary increases	3.5	3.5

xi. **Historical Summary**

	2013	2012	2011	2010	2009
Present value of defined benefit obligations	(38,362)	(40,154)	(36,516)	(36,017)	(37,352)
Fair value of the assets held by the plans	34,906	33,272	35,349	33,520	36,121
Adjustment in surplus for amount unable to be recognised under NZ IAS 19	-	-	(477)	-	(88)
Net liability before adjustment for contributions tax	(3,456)	(6,882)	(1,644)	(2,497)	(1,319)
Adjustment for contributions tax	(1,703)	(3,390)	(809)	(1,229)	(650)
Net liability in the statement of financial position	**(5,159)**	**(10,272)**	**(2,453)**	**(3,726)**	**(1,969)**

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

Suncorp Group Services NZ Limited is a wholly owned subsidiary of Suncorp Insurance (Life Overseas) Pty Ltd (previously Prominvest Pty Ltd), with the ultimate parent being Suncorp Group Limited ("SGL"). Eligible employees of the Group have the right to participate in the SGL share plans. Shares offered in these share plans are granted by SGL over its own shares to employees of SGL subsidiaries. Shares required for the above share plans are acquired by a special purpose trustee and/or custodial companies in ordinary trading on the Australian Securities Exchange.

Features of the plans currently in operation which the employees of the Group participate in are set out below:

Share plans	Executive Performance Share Plan (EPSP)	Exempt Employee Share Plan (EESP)
Method of settlement	Equity-settled. Cash- settled in limited circumstances as elected by the SGL Board.	Equity-settled.
Eligible plan participant	Executives.	Employees not part of the EPSP.
Basis of share grant	Value of shares granted (offered) is determined by the SGL Board based on the executives' level of remuneration and individual performance.	Market value of shares up to AUD 1,000 per employee per year may be granted by the Board based on the Suncorp Group's overall performance.
Vesting	Subject to satisfaction of performance criteria over the performance period.	Fully vested, not subject to forfeiture.
Performance criteria	Refer to the EPSP performance criteria table below.	None.
Minimum holding period	None after shares are vested.	Earlier of three years or upon cessation of employment.
Plan maximum limit	Shares can only be granted or issued under the plans if the number to be granted or issued will not exceed 5% of total shares on issue of SGL when aggregated with the number of shares granted or issued during the previous five years for all share plans operated by SGL.	
Dividend entitlements	Vested shares carry full entitlement to dividends from the grant date (less any taxes paid by the plan Trustee in respect of such dividends).	Full entitlement from when the shares are allocated to the participating employees in the plan.
Voting rights	Voting rights are held by the plan Trustee until shares are vested.	Participating employees have the right to vote from when the shares are allocated to them in the plan.

EPSP performance criteria:

Grant date	1 October 2007 – 3 May 2010	From 1 October 2010
Performance criteria	The criteria is based on Total Shareholder Returns ("TSR") achieved by SGL over a performance period compared to the TSR of a comparator group.	
Comparator group	Top 50 Industrial companies in the S&P/ASX 100, excluding listed property trusts.	Top 50 Industrial companies in the S&P/ASX 100, excluding mining companies and listed property trusts.
Performance results and vesting rules	Shares granted under this plan will vest and allocated based on the SGL's TSR performance results:	
	SGL performance (TSR percentile ranking)	**% of shares available for vesting and allocation**
	< 50th percentile	Nil.
	50th percentile	50%
	> 50th but < 75th percentile	An additional 2% of the shares will vest for each 1% increase (on a straight line basis) in the SGL's TSR ranking above the 50th percentile.
	75th percentile or above	100%
Initial performance period	The initial performance period commences on the grant date and ends on the initial vesting date which is generally three years after the grant date.	
At initial vesting date	The executive has the right to elect to receive an allocation of shares, based on the performance result described above, or extend the performance period a further two years. If the Executive elects to accept the year three performance result, any shares subject to that same offer that are not allocated are forfeited.	Shares are vested and allocated based on the performance result described above. Any shares offered that are not allocated are forfeited. No extension of performance period is permitted.
Grant date	**1 October 2007 – 3 May 2010**	**From 1 October 2010**
During the extended performance period (Period from the initial vesting date to the end of the extended performance period (generally at the end of year five))	Performance measurements are undertaken during the extended performance period on a six monthly basis. Executives electing to extend the performance period 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 executives' 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 extended performance period. Shares not allocated at the end of the extended performance period are forfeited.	Not applicable.

During the year ended 30 June 2013 $159,000 was accrued in relation to the 2013 EESP grants (2012: $180,000 in relation to 2012 grants).

The amount included in the net profit in the statement of comprehensive income in relation to the deferred ordinary shares allocated under EPSP for the year ended 30 June 2013 was $37,000 (2012: $108,000).

Suncorp Goup Limited granted to each eligible employee its ordinary shares to the value of AUD $1,000 under the Exempt Employee Share Plan (EESP) for the year ended 30 June 2013 (2012: AUD $750).

20 Trade and other payables

	2013	2012
Trade creditors and accruals	4,333	4,492
Amounts due to reinsurers	2,688	1,982
Other creditors	2,571	790
Total trade and other payables	**9,592**	**7,264**
Current	9,592	7,264
Non-current	-	-
Total	**9,592**	**7,264**

21 Unearned premium liabilities

	2013	2012
Unearned premium liabilities	4,412	2,621
Total unearned premium liabilities	**4,412**	**2,621**
Current	4,412	2,621
Non-current	-	-
Total	**4,412**	**2,621**

22 Outstanding claims liabilities

	2013	2012
Outstanding claims liabilities	92,550	86,468
Total outstanding claims liabilities	**92,550**	**86,468**
Current	30,245	26,055
Non-current	62,232	60,413
Investment contracts	73	-
Total	**92,550**	**86,468**

23 Policy liabilities

(a) Reconciliation of movements in policy liabilities

	2013	2012
Investment contract policy liabilities		
Opening balance	217,520	243,645
Net (increase) / decrease as shown in profit or loss in the statement of comprehensive income	22,188	(420)
Investment contract contributions recognised in policy liabilities	10,370	11,849
Investment contract withdrawals recognised in policy liabilities	(32,520)	(37,554)
Closing investment contract policy liabilities	217,558	217,520
Life insurance contract policy liabilities		
Opening balance	(61,817)	(45,615)
Net decrease as shown in profit or loss in the statement of comprehensive income	(38,188)	(16,642)
Increase / (decrease) in liabilities ceded under reinsurance	(4,914)	3,551
Deferred tax movement in policyholder liabilities	(9,772)	(3,111)
Closing life insurance policy liabilities	(114,691)	(61,817)
Total gross policy liabilities		
Opening balance	155,703	198,030
Net decrease as shown in profit or loss in the statement of comprehensive income	(16,000)	(17,062)
Investment contract contributions recognised in policy liabilities	10,370	11,849
Investment contract withdrawals recognised in policy liabilities	(32,520)	(37,554)
Decrease in liabilities ceded under reinsurance	(4,914)	3,551
Deferred tax movement in policyholder liabilities	(9,772)	(3,111)
Closing policy liabilities	102,867	155,703
Current	(15,315)	7,182
Non-current	(99,377)	(69,001)
Investment contracts	217,559	217,522
Total	102,867	155,703

(b) Liabilities ceded under reinsurance

	2013	2012
Opening balance	15,157	11,606
Increase / (decrease) in liabilities ceded under reinsurance	(4,914)	3,551
Closing liabilities ceded under reinsurance	10,243	15,157
Current	6,239	4,531
Non-current	4,004	10,626
Total	10,243	15,157
Closing net policy liabilities	92,624	140,546

(c) Components of life insurance contract liabilities

	2013	2012
Future policy benefits*	1,109,146	1,131,026
Future bonuses	-	-
Future expenses	554,685	559,467
Future profit margins	337,264	372,217
Balance of future premiums	(1,830,737)	(1,854,202)
Net policy liabilities excluding deferred tax	170,358	208,508
Deferred tax liability	(77,734)	(67,962)
Net policy liabilities including deferred tax	92,624	140,546
Life insurance reinsurance ceded	10,243	15,157
Gross policy liabilities	102,867	155,703
Less: investment contracts	(217,558)	(217,520)
Insurance contract policy liabilities	(114,691)	(61,817)
Policy liabilities subject to capital guarantees	13,701	14,949

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

The movement in the policyholder liabilities during the year includes an allocation of profit of $13.9 million to policyholders.

(d) Analysis of profit after income tax expense contributed by life insurance in the statement of comprehensive income

	2013	2012
Life Insurance profit after income tax expense arose from:		
Planned margins of revenues over expenses released	28,713	28,720
Difference between actual and assumed experience	(1,403)	1,178
Reversal of capitalised loss	-	(168)
Movement in net asset value of subsidiaries	1,195	1,884
Investment earnings on assets in excess of policy holder liabilities	13,343	16,483
Profit after income tax expense contributed by life insurance in the statement of comprehensive income	41,848	48,097

24 Unvested policy liabilities

	2013	2012
Opening balance	6,376	18,311
Net decrease as shown in profit or loss in the statement of comprehensive income	13,907	(11,935)
Closing unvested policy liabilities	**20,283**	**6,376**
Current	-	-
Non-current	-	-
No term	20,283	6,376
Total	**20,283**	**6,376**

25 Contributed capital and retained earnings

	2013	2012
Opening contributed capital (162,342,450 ordinary shares; 2012 : 118,342,450 ordinary shares)	189,230	145,230
Ordinary shares issued 8 May 2012 (27,000,000 ordinary shares)	-	27,000
Ordinary shares issued 29 June 2012 (17,000,000 ordinary shares)	-	17,000
Total contributed ordinary capital (162,342,450 ordinary shares)	**189,230**	**189,230**
Preference shares		
45,000,000 (2012: 45,000,000) specified preference shares	45,000	45,000
Total preference shares	**45,000**	**45,000**
Shareholder contribution under employee share plans	713	676
Total share capital	**234,943**	**234,906**

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	676	568
Contributions under Executive Performance Share Plan	37	108
Balance at the end of the year	**713**	**676**

26 Dividends

	2013	2012
Ordinary shares		
Dividend of 25.35 cents per fully paid ordinary share, paid August 2011	-	30,000
Dividend of 11.09 cents per fully paid ordinary share, paid 10 December 2012	18,000	-
Dividend of 16.32 cents per fully paid ordinary share, paid 18 February 2013	26,500	-
Dividend of 11.70 cents per fully paid ordinary share, paid 28 June 2013	19,000	-
Total dividends declared or paid	**63,500**	**30,000**

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

(a) Holdings and activities

	Principal Activity	Equity holding 2013 %	2012 %
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 (Subsidiary until its sale to Suncorp Group New Zealand Limited on 1 April 2013)	Trustee services	-	100
Rotoiti Trust Services Limited (previously Asteron Trust Services Limited) (Subsidiary until its sale to Suncorp Group New Zealand Limited on 1 April 2013)	Trustee services	-	100
SAL Re Limited (Subsidiary until its voluntary liquidation on 31 May 2013)	Financial advisor	-	100
All subsidiaries are incorporated in New Zealand			
Other associates of Suncorp Group Limited			
AA Life Services Limited	Life insurance		

Other subsidiaries of Suncorp Group Limited

AA Insurance Limited	General insurance
Suncorp Life And Superannuation Limited (previously Asteron Life Limited (Australia))	Life insurance
GTFM Mortgage Fund	Mortgage fund
Promequity Limited - NZ Branch	NZ Branch - non operating entity
Suncorp Group Holdings (NZ) Limited	Holding company of General Insurance Business
Suncorp Mortgage Company NZ Limited	Administration of mortgages and loans
Vero Insurance Limited (Australia)	General insurance
Vero Insurance New Zealand Limited and its subsidiaries	General insurance

(b) Summary balances

	2013	2012
Related party receivables		
Parent and ultimate parent (refer 27(c)(i.))	5,078	320
Subsidiaries (refer 27(d)(i.))	9	2,125
Other (refer 27((e)(i.))	227	2,075
	5,314	4,520

	2013	2012
Related party payables		
Parent and ultimate parent (refer 27(c)(i.))	7	52
Subsidiaries (refer 27(d)(i.))	385	-
Other (refer 27((e)(i.))	8,238	7,906
	8,630	7,958

All balances are unsecured, non-interest bearing and repayable on demand in the local currency.

(c) Parent and ultimate parent

i. Balances

	2013	2012
Related party receivables		
Suncorp Group New Zealand Limited	5,078	320
Total related party receivables	5,078	320
Related party payables		
Suncorp Group Services NZ Limited	7	52
Total related party payables	7	52

ii. Transactions

	2013	2012
Accounting and administrative costs received/(paid)		
Suncorp Group New Zealand Limited	624	3,233
Suncorp Group Services NZ Limited	(1,198)	(923)
Dividend (paid)		
Suncorp Group New Zealand Limited	(63,500)	(30,000)
Life and disability premiums received		
Suncorp Group Services NZ Limited	3	-
Management fees received/(paid)		
Suncorp Group New Zealand Limited	(553)	(703)
Settlement of liabilities on behalf received/(paid)		
Suncorp Group New Zealand Limited	1,703	446
Suncorp Group Services NZ Limited	87	110
Share based received/(paid)		
Suncorp Group New Zealand Limited	37	108
Ordinary shares issued & capital repurchased		
Suncorp Group New Zealand Limited	-	(44,000)
Tax loss, tax surplus, FITC transfers received/(paid)		
Suncorp Group Services NZ Limited	177	-
Consideration received for sale of subsidiaries		
Suncorp Group New Zealand Limited	9,278	-
Consideration received for sale of fixed assets		
Suncorp Group New Zealand Limited	4,557	-
Transfer of NZAA brand fee		
Suncorp Group New Zealand Limited	39	-

(d) Subsidiaries sold or liquidated during the current period

i. Balances

	2013	2012
Related party receivables		
Asteron Retirement Investment Limited	-	629
Rotoiti Trust Services Limited	9	1
SAL Re Limited	-	1,495
Total related party receivables	9	2,125
Related party payables		
Asteron Retirement Investment Limited	385	-
Total related party payables	385	-

ii. **Transactions**

	2013	2012
Accounting and administrative costs received/(paid)		
SAL Re Limited	5	58
Commission (paid)		
SAL Re Limited	-	(64)
Dividends received/(paid)		
Asteron Retirement Investment Limited	-	2,400
Management fees and commission received		
Asteron Retirement Investment Limited	2,367	2,586
Rotoiti Trust Services Limited	-	81
Settlement of liabilities on behalf - received/(paid)		
SAL Re Limited	-	68
Ordinary shares received/(issued) & capital repurchased		
Asteron Retirement Investment Limited	-	4,131

(e) **Other related parties**

i. **Balances**

	2013	2012
Related party receivables		
Fellow subsidiaries		
Suncorp Mortgage Company NZ Limited	12	7
Group superannuation plans		
Superplus Capital Guaranteed Lump Sum Superannuation Plan	14	315
Superplus Capital Guaranteed Pension Superannuation Plan	38	548
Superplus Equity Linked Lump Sum Superannuation Plan	63	65
Superplus Equity Linked Pension Superannuation Plan	100	1,067
Shield Superannuation Plan	-	73
	227	2,075
Related party payables		
Fellow subsidiaries		
Vero Insurance Limited (Australia)	1,792	739
Vero Insurance New Zealand Limited and its subsidiaries	922	1,164
Group superannuation plans		
Asteron Superannuation Fund	2,500	2,603
Asteron Superplan	3,024	3,400
	8,238	7,906

iii. **Transactions**

	2013	2012
Accounting and administrative costs received/(paid)		
AA Life Services Limited	1,580	1,950
Commercial Union General Insurance Staff Pension Scheme	15	15
RIG Superannuation Fund	20	20
Suncorp Mortgage Company NZ Limited	146	70
Vero & Asteron NZ Staff Pension Scheme	45	(50)
Vero Insurance Limited (Australia)	(7,534)	(5,454)
Vero Insurance New Zealand Limited and its subsidiaries	(1,451)	(1,836)
Commission received/(paid)		
AA Life Services Limited	(12,010)	(9,766)
Employer contributions (payable) / receivable to superannuation schemes		
Vero & Asteron NZ Staff Pension Scheme	(126)	-
General insurance premiums (paid)		
Vero Insurance New Zealand Limited and its subsidiaries	(76)	(64)
Life and disability premiums received		
AA Insurance Limited	67	63
AA Life Services Limited	7	5
Promequity Limited - NZ Branch	-	1
Suncorp Mortgage Company NZ Limited	2	-
Vero Insurance New Zealand Limited and its subsidiaries	255	235
Management fees received/(paid)		
GTFM Mortgage Fund	38	-
Consideration received for transfer of business		
Vero Insurance New Zealand Limited and its subsidiaries	2,053	-
Settlement of liabilities on behalf		
Suncorp Mortgage Company NZ Limited	7	31
Vero Insurance New Zealand Limited and its subsidiaries	(8,887)	-
Tax loss, tax surplus, FITC transfers received/(paid)		
AA Insurance Limited	65	(3,436)
GTFM Mortgage Fund	(543)	-
RIG Superannuation Fund	8	-
Vero & Asteron NZ Staff Pension Scheme	78	-
Vero Insurance New Zealand Limited and its subsidiaries	-	(429)

28 **Key management personnel**

Key Management Personnel ("KMP") are those persons who have authority and responsibility for planning, directing and controlling the activities of the company, directly and indirectly. KMP include directors of the company (executive and non-executive) as well as senior executives who report to the CEO.

	2013	2012
The remuneration of the key management team are:		
Short-term employee benefits	2,776	2,830
Post-employment benefits	77	76
Termination benefits	-	69
Share based payments	37	108
Total	2,890	3,083

GE Summerhayes and GT Ricketts are remunerated by Suncorp Group Limited, the ultimate parent.
ES Edgar is remunerated by the company and is included in the remuneration of the KMP.

29 Remuneration of auditors

During the period the following fees were paid or payable for services provided by the auditor of the company.

	2013	2012
Audit services		
Fees paid or payable to audit firms.		
Audit or review of financial reports of the company or any entity in the company		
KPMG - Current year		
- statutory audit fee	410	442
- managed fund audit fees	89	102
KPMG - Prior years		
- statutory audit fee	54	-
- managed fund audit fees	-	-
Total remuneration for audit services	553	544
Other assurance services		
Section 13(2)(c) reporting		
- current year	16	16
- prior year	-	-
Solvency return		
- current year	73	-
- prior year	25	-
Total remuneration for other assurance services	114	16
Total remuneration of auditors	667	560

All audit fees are paid by the company.

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

	2013	2012
Operating profit after income tax	41,848	48,097
Non-cash items		
Investment revenue - net changes in market value	(30,820)	217
Change in policy liabilities (including unvested)	(2,093)	-
Impairment of mortgage loans	103	-
Other revenue	-	(155)
Depreciation expense	746	808
Amortisation of intangibles	212	475
Impairment of assets	(300)	-
Loss/(Profit) on disposal of plant and equipment	11	-
Loss/(Profit) on disposal of intangible assets	-	7
Fair value gain/(loss) of subsidiaries until date of sale/liquidation	(894)	-
Defined benefit scheme recovery	(1,252)	(1,099)
Deferred tax charged on defined benefit scheme	(1,081)	-
Share based payments	37	108
Change in working capital		
Decrease/(increase) in:		
Receivables (excluding loans)	(364)	14,955
Reinsurance recoveries - outstanding claims	(2,071)	(8,304)
Reinsurance recoveries - policy liabilities	4,914	(3,551)
Other assets	1,091	(366)
Increase/(decrease) in:		
Outstanding claims	6,082	12,085
Unearned premiums	1,791	39
Employee benefit obligations	589	658
Accounts payable/provisions	3,000	(963)
Taxation	(5,467)	(2,658)
Policy Liabilities	(52,836)	(54,262)
Unvested policy liabilities	13,907	-
Less items classified as investment activities		
Increase in investment receivables	662	(1,657)
Decrease in investment payables	(40)	(234)
Net cash flow from operating activities	(23,469)	4,200

31 Solvency requirements

(a) Capital management policies and objectives

The capital management strategy of Suncorp Group Limited and its subsidiaries (the "Suncorp Group") is to optimise shareholder value by managing the level, mix and use of capital resources. The main objectives are to support the Suncorp Group's credit rating, ensure sufficient capital resources to maintain the business and operational requirements, retain sufficient capital to exceed externally imposed capital requirements, and ensure the Suncorp Group's ability to continue as a going concern. The Suncorp Group's capital policy is to hold all surplus capital in Suncorp Group Limited as it is the holding company of the Suncorp Group, whilst keeping the subsidiaries well capitalised

With the implementation of the Insurance (Prudential Supervision) Act 2010 all life insurance entities carrying on insurance business in New Zealand are required to be licensed by the Reserve Bank of New Zealand. The company was granted its full licence on 17 May 2013.

KPMG

From 31 December 2012 the company was required to maintain a minumum solvency margin of $0 for each of the shareholder and statutory funds, 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 should be at or above the minimum solvency capital. From the same date, the company was 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 years ended 30 June 2013 and 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.

(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, which is total equity less the deferred tax asset.

Regulatory capital

Regulatory capital is made up of two components, actual solvency capital and minimum solvency capital, with the difference representing solvency margin. The calculation of the solvency margin for the company is as follows:

	2013			2012		
	Statutory Fund	Shareholder Fund	Total	Statutory Fund	Shareholder Fund	Total
Actual solvency capital	349,844	3,456	353,300	n/a	n/a	388,297
Minimum solvency capital	309,196	679	309,875	n/a	n/a	342,029
Solvency margin	40,648	2,777	43,425			46,268
Solvency ratio			114%			114%

32 Credit rating

The company received an initial credit rating on 30 July 2012 of A+ from Standard & Poors which has been confirmed again on 28 May 2013.

33 Contingent assets and liabilities

The company had 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. This undertaking was rescinded on 31 May 2013.

Under the terms of its contracts with advisers the company 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 company's policy liabilities, and therefore these potential transactions do not result in any change to the company'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.

34 Commitment for expenditure

Capital commitments

There are no capital commitments as at 30 June 2013 (2012: Nil.)

Lease commitments

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

	2013	2012
Not later than one year	2,627	2,634
Later than one year but not later than 5 years	10,223	10,478
Later than 5 years	7,013	9,377
Total	19,863	22,489

The company leases a number of commercial office premises and car parks throughout New Zealand with varying lease terms of up to 12 years from the date of inception with periodic rent reviews. It also has the legal right to sub-lease to a third party, one of its commercial office premises and respective car parks.

35 Statutory funds

The company has established a statutory fund as required under the Insurance (Prudential Supervision) Act 2010 ("IPSA"). The effective date of establishing the statutory fund is 1 July 2012.

The shareholder's access to the retained profits and shareholder's capital in the statutory fund is restricted by the IPSA. The shareholder's entitlement to monies held in the statutory fund is subject to the distribution and transfer restrictions of the IPSA.

	Participating Business	Non Participating Business	Statutory Fund	Shareholder Fund	Total
Shareholder retained profits					
Shareholder opening retained profits	803	164,685	165,488	760	166,248
Operating profit	2,529	37,211	39,740	2,108	41,848
Transfer of profits between funds	-	(62,751)	(62,751)	62,751	-
Movement in employee defined benefit funds deficit	-	-	-	2,780	2,780
Dividends paid	-	-	-	(63,500)	(63,500)
Shareholder closing retained profits	3,332	139,145	142,477	4,899	147,376

	Participating Business	Non Participating Business	Statutory Fund	Shareholder Fund	Total
Share capital and transfers					
Transfers in	-	-	-	-	-
Share capital	-	234,943	234,943	-	234,943
Capital transfers	-	-	-	-	-
Total shareholder equity	-	234,943	234,943	-	234,943

Note:

	Participating Business	Non Participating Business	Statutory Fund	Shareholder Fund	Total
Components of shareholder interest in statutory funds					
Shareholder retained profits	3,332	139,145	142,477	4,899	147,376
Shareholder capital	-	234,943	234,943	-	234,943
Shareholder funds	3,332	374,088	377,420	4,899	382,319

Refer to note 23(c) for the allocation of profit to the policyholders.

36 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 company's operations, the results of those operations, or the company's state of affairs as at 30 June 2013.

37 Disaggregated information

	Unit linked business	Shareholder and other business	Total
2013			
Assets			
Investment assets, cash, and cash equivalents	178,779	439,784	618,563
Other assets	24,146	71,480	95,626
Total assets	202,925	511,264	714,189
Liabilities			
Policy liabilities	179,239	(76,372)	102,867
Unvested policy benefits	-	20,283	20,283
Other liabilities	1,093	207,627	208,720
Retained profits attributable to shareholders	22,592	124,784	147,376
Share capital	-	234,943	234,943
Total liabilities and equity	202,924	511,265	714,189
Performance			
Risk premium revenue	-	161,925	161,925
Reinsurance recoveries	-	23,285	23,285
Investment revenue	27,962	31,962	59,924
Other revenue	-	99	99
Risk claims expense	-	(93,762)	(93,762)
Reinsurance outwards	-	(26,642)	(26,642)
Operating expenses	(1,869)	(90,804)	(92,673)
(Increase)/decrease in policy liabilities	(21,744)	23,837	2,093
Operating surplus before tax in the statement of comprehensive income	4,349	29,900	34,249
Income tax expense	(2,239)	9,838	7,599
Total operating surplus after tax in the statement of comprehensive income	2,110	39,738	41,848
2012			
Assets			
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
Liabilities			
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
Performance			
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
Operating surplus before tax in the statement of comprehensive income	3,779	42,699	46,478

	Unit linked business	Shareholder and other business	Total
Income tax expense	(2,529)	4,147	1,618
Total operating surplus after tax in the statement of comprehensive income	**1,250**	**46,846**	**48,096**

38 Subsidiaries sold or liquidated

(a) On 1 April 2013, the Directors entered into a sale agreement with Suncorp Group New Zealand Limited to purchase the company's holding in Asteron Retirement Limited ("ARIL") and Rotoiti Trust Services Limited ("RTSL").

The disposals were completed on 31 March 2013. The considerations for the sales were $9,125,641 for ARIL and $152,008 for RTSL, which was equal to the net assets of each company respectively.

In February 2013 the Directors approved the voluntary liquidation of SAL Re Limited ("SRL"). This company was liquidated effective 31 May 2013.

(b) **Net assets and cash flow information of subsidiaries sold or liquidated**

	ARIL (Sold)	RTSL (Sold)	SRL (Liquidated)	Total
2013				
Net assets attributable to subsidiaries sold or liquidated	**9,126**	**152**	**-**	**9,278**
Consideration received:				
Cash	9,126	152	-	9,278
Less net assets disposed of	(9,126)	(152)	-	(9,278)
Gain on disposal before income tax	-	-	-	-
Income tax expense	-	-	-	-
Gain on disposal after income tax	**-**	**-**	**-**	**-**
Net cash inflow on disposal of subsidiaries was:				
Cash and cash equivalents consideration	9,126	152	-	9,278
Less cash and cash equivalents balance disposed of	-	-	-	-
Reflected in statement of cash flows	**9,126**	**152**	**-**	**9,278**

39 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

To the Board of Directors of Asteron Life Limited

Appointed Actuary's Report as at 30 June 2013

Background

This report has been prepared by Daniel Wong FIAA FNZSA, Appointed Actuary of Asteron Life Limited ("the company") under section 78 of the Insurance (Prudential Supervision) Act 2010 (the Act).

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 Act) in, or used in the preparation of, the company 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 financial statements

I have reviewed the actuarial information in, or used in the preparation of financial statements of the company. The financial statements comprise the statements of financial position as at 30 June 2013, 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.

Directors' responsibility for the company financial statements

The Directors are responsible for the preparation of the company's 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's financial statements that are free from material misstatement whether due to fraud or errors.

Appointed Actuary's responsibility

My responsibility is to review the actuarial information in, or used in the preparation of, the company's 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 life funds (including statutory fund(s)) are maintained at the balance date.

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

Opinion

In accordance with the requirements of sections 77 and 78 of the Act, 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's financial statements has been appropriately included
  - the actuarial information contained in the company's financial statements has been accurate and used appropriately
  - the company is maintaining a solvency margin that complies with the Solvency Standard for Life Insurance Business for the purposes of section 21(2)(b) of the Act as at 30 June 2013.
  - the company is maintaining, in respect of its Asteron Life Statutory Fund 1, a solvency margin that complies with the Solvency Standard for Life Insurance Business for the purposes of section 21(2)(c) of the Act as at 30 June 2013.

Daniel Wong
Appointed Actuary
5 August 2013