Asteron Life Limited

Annual Report

For The Year Ended

30 June 2014

Asteron Life

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 2014.

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 (Ceased 6 March 2014)
E S Edgar
G E Summerhayes
N A Tereora (Appointed 6 March 2014)

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, having been a partner at Russell McVeagh, Solicitors for over 25 years. He has 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 and Vero Liability Insurance Limited (related companies of Asteron Life Limited) and The Todd Corporation Limited.

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 and Vero Liability Insurance Limited. He is Chairman of Forsyth Barr Group Limited, Queenstown Resort College Limited and Winter Games New Zealand.

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, Chancellor of the University of Otago and Chairman of the Central Lakes Trust.

Sir Eion is also Honorary President (for Life) of the New Zealand Olympic Committee, a former National Business Review New Zealander of the Year and was inducted into the New Zealand Business Hall of Fame in 2004.

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 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.

Nadine A Tereora
Executive Director

Director since March 2014. Mrs Tereora is also the Managing Director of Asteron Life Limited and Executive General Manager of Suncorp Life New Zealand. She is an experienced executive with 20 years' experience in the financial services sector (Life and Fire & General), with specific strengths in claims and underwriting. Mrs Tereora is also a Director of Suncorp Group New Zealand Limited, the shareholder of Asteron Life Limited, and certain other companies in the Suncorp Life New Zealand group.

Mrs Tereora joined Asteron Life Limited in September 2012. Prior to this, Mrs Tereora held a number of senior executive roles with other major insurers in New Zealand and Australia.

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 2014 and its' financial performance and cash flows for the year ended 30 June 2014.

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 31 JUL 2014

The following directors have signed on behalf of the Board:

Director

Date 31 JUL 2014

Director

Date 31 JUL 2014

Introduction

Asteron Life Limited ("the company") is a company which is 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 which is listed on the Australian Stock Exchange.

The company is a licensed life insurer under the Insurance (Prudential Supervision) Act 2010.

This corporate governance statement contains an outline of the principal corporate governance practices, policies and processes that have been established by the company.

Board of Directors

At the date of this Statement, the Board comprises two independent non-executive Directors (Geoffrey Ricketts and Sir Eion Edgar), a non-executive Director who is also Chief Executive Officer of Suncorp Life in Australia (Geoffrey Summerhayes) and an executive Director who is the Executive General Manager of Suncorp Life New Zealand, which includes the company (Nadine Tereora). Geoffrey Ricketts is the Chairman of the Board. Brief details of the Directors' qualifications and experience are set out in the Directors' Report.

As the Company is a wholly-owned subsidiary, the shareholder periodically reviews the tenure, effectiveness and composition of the Board. The Board considers it important to maintain an appropriate mix between long-serving Directors with established knowledge of the company's business and corporate history, and new Directors who bring fresh perspectives to the Board. There is a Board-approved process for nominating and appointing Directors.

New Directors undergo an induction process and all Directors are expected to keep up to date with matters affecting the business of the company, the Suncorp Group, the life insurance industry and their duties as Directors.

Each Director has met the requirements and criteria set out in the Board-approved Fit and Proper Policy and must complete an annual fit and proper declaration which the Board is required to approve.

Duties and Responsibilities of the Board

The Board of Directors has overall responsibility for the performance of the company. The Board has delegated the day-to-day operation and management of the business of the company to the Executive General Manager.

Under the company's constitution, each Director is required to act in the best interests of the company. 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, and Directors' remuneration and other benefits.

The company is required to give priority to the interests of policyholders of life policies over the interests of the shareholder.

The Board has adopted a charter which contains the principles for the operation of the Board, a description of the functions and responsibilities of the Board and those functions that are delegated to management. Matters covered by this charter include Board composition, responsibilities of the Chairperson and individual Directors, conflicts of interest, Board meeting procedures, Board performance reviews and the criteria for determining Directors' independence. Provision is also made for the Board to delegate certain matters to committees of the Board. The Board is required to review its charter at least annually.

Scheduled Board meetings are held on a quarterly basis. Otherwise, Board meetings are held as often as are deemed necessary by Directors to fulfil their duties and responsibilities. The Board approves an annual programme of work and this is used as a guide to the preparation of each scheduled Board meeting's agenda.

The Board approves the strategic direction of the company and monitors executive management performance in the implementation and achievement of strategic and business objectives through the receipt of regular reports from management. Other matters that are approved by the Board include the company's Risk Appetite Statement, Capital Management Plan, dividend payments, financial statements and solvency returns, and major operating and capital expenditure which exceed management's limits.

Governance

As the company is part of the Suncorp Group, it complies with Suncorp Group's policies and requirements, except where these are inconsistent with New Zealand requirements. Directors are also required to abide by Suncorp Group's Code of Conduct.

Board Audit and Risk Committee

In order to enable the Board to focus on strategy, planning and performance enhancement, the Board has delegated certain duties to its Board Audit and Risk Committee ("BARC"). The role of the BARC is to assist the Board in fulfilling its statutory and fiduciary responsibilities with respect to the oversight of the effectiveness of risk management strategies and internal controls across the company. The terms of reference of the BARC are contained in a Board-approved charter. All of the non-executive Directors of the Board are members of the BARC and the majority of members are independent. Sir Eion Edgar, an independent non-executive Director of the company, has a finance and accounting background and chairs the BARC.

The BARC is required to meet not less than four times a year. The BARC approves an annual programme of work and this is used as a guide to the preparation of each BARC meeting agenda. The BARC receives regular reports from senior executives including the Chief Risk Officer and the Chief Financial Officer of the company. Regular reports are also received from Suncorp Group Internal Audit (which provides independent and objective internal audit services to the Suncorp Group), and the company's external auditors. Other attendees of BARC meetings include the company's Executive General Manager and representatives from the company's Risk and Finance functions, Suncorp Group Internal Audit, the Suncorp Group Chief Risk Officer, and the external auditors. The BARC reviews and makes recommendations to the Board on matters such as the company's Risk Appetite Statement, Capital Management Plan, investment strategy and mandate reviews, financial statements and solvency returns. The BARC regularly updates the Board on its activities and copies of its minutes are provided to the Board.

Under the terms of its charter, the BARC is required to undertake an annual assessment of its effectiveness in meeting the requirements of its charter. The results are reported to the Board. The BARC is also required to review its charter at least annually.

Information on the company's approach to Risk Management is contained in Note 6.

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 Limited ("the Company") on pages 7 to 40. The financial statements comprise the statement of financial position as at 30 June 2014, 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 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 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. Subject to certain restrictions, partners and employees of our firm may also deal with the Company on normal terms within the ordinary course of trading activities of the business of the Company. These matters have not impaired our independence as auditor of the Company. The firm has no other relationship with, or interest in, the Company.

Opinion

In our opinion the financial statements on pages 7 to 40:

- 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 2014 and of its financial performance and cash flows for the year then ended.

Report on other legal and regulatory requirements

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

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

KPMG

31 July 2014
Auckland

(All amounts are in NZD thousands unless otherwise stated)

	Note	2014	2013 Restated*
Assets			
Cash and cash equivalents	11	22,140	13,012
Trade and other receivables	12	11,855	8,742
Related party receivables	25(c)	40	5,314
Other assets	15	8,873	3,316
Current tax		12,289	7,949
Reinsurance recoveries receivables	16	32,036	30,530
Financial assets at fair value through profit or loss	14	580,806	605,551
Reinsurance recoveries - policy liabilities	21(b)	9,819	10,243
Mortgage and other loan receivables	13	195	517
Deferred tax asset	10(b)(i)	38,459	28,499
Employee defined benefit schemes surplus	17	848	1,082
Total assets		**717,360**	**714,755**
Liabilities			
Bank overdrafts	11	661	38
Trade and other payables	18	10,001	9,592
Related party payables	25(c)	9,535	8,630
Employee benefit obligations	17(a)	2,602	3,012
Financial liabilities at fair value through profit or loss	14	7,303	7,574
Unearned premium liabilities	19	3,896	4,412
Outstanding claims liabilities	20	102,779	92,550
Policy liabilities	21(a)	75,214	102,867
Unvested policy liabilities	22	22,699	20,283
Deferred tax liability	10(b)(i)	86,107	77,753
Employee defined benefit schemes deficit	17(a)	3,413	3,316
Total liabilities		**324,210**	**330,027**
Net assets		**393,150**	**384,728**
Equity			
Total share capital	23	234,980	234,943
Retained earnings		158,170	149,785
Shareholder's equity		393,150	384,728
Total equity		**393,150**	**384,728**

* See Note 2(e)

For and on behalf of the Board of Directors

Director
Date 31 JUL 2014

Director
Date 31 JUL 2014

The notes on pages 11 to 40 are an integral part of these financial statements.

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Statement of comprehensive income
for the year ended 30 June 2014
(All amounts are in NZD thousands unless otherwise stated)

	Note	2014	2013 Restated*
Revenue			
Premium revenue		179,561	161,925
Less: Outwards reinsurance premium expense		(25,877)	(26,642)
Net premium revenue	7	**153,684**	**135,283**
Investment revenue	7	39,152	59,924
Other revenue	7	92	99
Net revenue	7	**192,928**	**195,306**
Claims and expenses			
Claims expenses	8	95,128	93,762
Less: Reinsurance recoveries revenue	8	(21,892)	(23,285)
Net claims expenses	8	**73,236**	**70,477**
Acquisition expenses	8	61,621	62,789
Maintenance expense	8	31,988	29,406
Investment management expenses	8	1,657	2,086
Change in policy liabilities	21(a)	(2,231)	(16,000)
Change in unvested policy liabilities	22	2,416	13,907
Total management expenses and policy liability movements		**95,451**	**92,188**
Total net operating expenses	8	**168,687**	**162,665**
Results from operating activities		**24,241**	**32,641**
Profit before tax		**24,241**	**32,641**
Income tax credit	10	(7,681)	(8,049)
Profit after tax		**31,922**	**40,690**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Actuarial losses/(gains) on defined benefit plans		30	(2,507)
Deferred tax movements		7	398
Total other comprehensive income net of tax		**37**	**(2,109)**
Total comprehensive income for the year		**31,885**	**42,799**
Total comprehensive income for the year attributable to:			
Owners of the company		31,885	42,799
Total comprehensive income for the year		**31,885**	**42,799**

* See Note 2(e)

The notes on pages 11 to 40 are an integral part of these financial statements.

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(All amounts are in NZD thousands unless otherwise stated)

	Note	Contributed Capital	Retained Profits	Total Equity
Balance as at 1 July 2012		234,906	166,248	401,154
Impact of changes in accounting policy	2(e)	-	4,238	4,238
Balance as at 1 July 2012 (Restated)		234,906	170,486	405,392
Total comprehensive income for the period				
Profit after tax (Restated)	2(e)	-	40,690	40,690
Other comprehensive income				
Actuarial net gains on defined benefit plans (Restated)	2(e)	-	2,109	2,109
Total comprehensive income for the period (Restated)	2(e)	-	42,799	42,799
Transactions with owners, recorded directly in equity				
Contributions by and distributions to owners:				
Share-based payments	17(c)	37	-	37
Dividends to equity holders	24	-	(63,500)	(63,500)
Total contributions by and distributions to owners		37	(63,500)	(63,463)
Balance as at 30 June 2013 (Restated)		234,943	149,785	384,728
Total comprehensive income for the period				
Profit after tax		-	31,922	31,922
Other comprehensive income				
Actuarial net losses on defined benefit plans		-	(37)	(37)
Total comprehensive income for the period		-	31,885	31,885
Transactions with owners, recorded directly in equity				
Contributions by and distributions to owners:				
Share-based payments	17(c)	37	-	37
Dividends to equity holders	24	-	(23,500)	(23,500)
Total contributions by and distributions to owners		37	(23,500)	(23,463)
Balance as at 30 June 2014		234,980	158,170	393,150

The notes on pages 11 to 40 are an integral part of these financial statements.

(All amounts are in NZD thousands unless otherwise stated)

	Note	2014	2013
Cash flows from operating activities			
Premiums received		188,793	173,903
Reinsurance premiums paid		(27,184)	(30,851)
Policy payments		(110,967)	(120,248)
Reinsurance recoveries received		19,025	24,899
Operating expenses paid		(35,411)	(38,563)
Agents commission and bonuses paid		(55,114)	(53,452)
Dividends received		4,413	6,232
Interest received		24,896	23,233
Other income received		92	99
Income tax paid - see note below		(6,620)	(8,721)
Net cash flows from operating activities	28	**1,923**	**(23,469)**
Cash flows from investing activities			
Purchase of financial assets		(523,389)	(511,782)
Proceeds from the sale of financial assets		552,581	561,728
Proceeds from the sale of subsidiaries		-	9,278
Advances of policy loans		(310)	(627)
Advances of mortgage and other loans		-	(33)
Repayments of policy loans		878	1,062
Repayments of mortgage and other loans		322	938
Proceeds from sale of plant and equipment and intangible assets		-	4,586
Payment for purchases of plant and equipment and intangible assets		-	(80)
Net cash flows from investing activities		**30,082**	**65,070**
Cash flows from financing activities			
Dividends paid		(23,500)	(63,500)
Net cash flows from financing activities		**(23,500)**	**(63,500)**
Net increase/(decrease) in cash and cash equivalents		**8,505**	**(21,899)**
Cash and cash equivalents at 1 July		12,974	34,873
Cash and cash equivalents at 30 June	11(b)	**21,479**	**12,974**

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

The notes on pages 11 to 40 are an integral part of these financial statements.

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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.

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 actuarially 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) Changes to the company's accounting policies and methods of computation

Since 1 July 2013, the company has adopted the revised IAS 19 Employee Benefits which amends the measurement and disclosures on defined benefit superannuation plans.

The adoption of the amended standard resulted in the company replacing a net of investment tax discount rate with a gross of investment tax discount rate. Additionally, net interest costs on the net defined benefit liability has replaced interest costs on defined benefit obligation and expected return on fund assets.

The amendments to NZ IAS 19 have been applied retrospectively. The following table illustrates the effect of adoption on the statements of comprehensive income for the year ended 30 June 2013.

Statement of Comprehensive Income		**2013**	
	Previously Reported	**Change**	**Currently Reported**
Maintenance expense	27,798	1,608	29,406
Net profit before income tax	**34,249**	**(1,608)**	**32,641**
Income tax credit	(7,599)	(450)	(8,049)
Net profit after income tax	**41,848**	**(1,158)**	**40,690**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains on defined benefit plans	3,861	(1,354)	2,507
Deferred tax movements	(1,081)	683	(398)
Other comprehensive income after income tax	2,780	(671)	2,109
Total comprehensive income after income tax	44,628	(1,829)	42,799
Total comprehensive income attributable to:			
Owners of the company	44,628	(1,829)	42,799
Total comprehensive income	44,628	(1,829)	42,799

Statement of Financial Position		**2013**	
	Previously Reported	**Change**	**Currently Reported**
Assets			
Deferred tax asset	29,015	(516)	28,499
Employee defined benefit schemes surplus	-	1,082	1,082
Liabilities			
Employee defined benefit schemes deficit	5,159	(1,843)	3,316
Equity			
Retained earnings	147,376	2,409	149,785

The impact of adopting amendments to NZ IAS 19 has been a $4,238,000 increase in opening 1 July 2012 retained earnings.

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(f) New reporting standards or interpretations

i. Standards adopted during the period

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 became effective from 1 July 2013 and did not have a material impact.

NZ IAS 19 Employee Benefits: Various amendments became 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 effects on adoption of the amendments are documented in Note 2(e).

Other new reporting standards, amendments to standards and interpretations that became effective in the current financial year were not applicable to the company or had no impact on these financial statements.

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 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. A detailed analysis of the impact is yet to be performed.

NZ IFRS 4 Insurance contracts (amendments to Appendix C): The amendments require disclosure of information about solvency margins for line insurance funds, aligning appending C of NZ IFRS 4 with the requirements of the Reserve Bank's solvency standards for life insurers. The amendment is effective for financial periods beginning from 1 July 2014 and is not expected to have a material impact on the financial statements.

NZ IFRS 9 Financial Instruments (2009) and (2010): introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additional changes relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting. A detailed analysis of the impact is yet to be performed as the amendments are not effective until the company's 30 June 2018 financial statements.

Annual Improvements to IFRSs 2010-2013 Cycle: The International Accounting Standards Board has published a number of non-urgent but necessary amendments to IFRS. The amendments are effective from 1 July 2014. 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.

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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 quoted market 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. The fair value of derivative financial instruments also includes credit valuation adjustments to reflect credit risk for both the derivative counterparty and the company. 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.

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(e)) 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 fair value 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 is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (not a forced liquidation or distress sale) between market participants at the measurement date; that is, an exit value.

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

Listed unit trusts and shares - by reference to the quoted market price;
Listed government and semi government securities - by reference to the quoted market 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. The assumptions and valuations inputs in applying these market standard valuation methodologies are determined using observable market inputs, which include, but are not limited to, benchmark yields, reported trades of similar or identical instruments, broker-dealer quotes and reference data including market research.
Unlisted unit trusts - by reference to the independent valuation information provided by investment manager.

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.

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(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) 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. 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.

ii. 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).

iii. 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.

(f) 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.

(g) 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.

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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 company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by independent actuaries using the projected unit credit method. When the calculation results in a potential asset for the company, the recognised asset is limited to the preset value of the economic benefits available in the form of any future refunds from the plan or reductions in the future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The company determines the net interest expense to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability/(asset), taking into account any changes in the net defined benefit liability/(asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit plans are recognised in profit and loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss in the period in which they arise.

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.

(h) 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.

(i) 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.

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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.

(j) 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(g)(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.

iii. 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.

iv. 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.

(k) 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.

(l) 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. 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.

(m) 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.

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(n) 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.

(o) 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.

(p) 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.

(q) 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 Portfolio Investment Entities (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.

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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.

(r) 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 17.

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(All amounts are in NZD thousands unless otherwise stated)

(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
2014				
Designated				
Government/semi government securities	70,083	21,963	-	92,046
Other fixed interest securities	10,974	125,734	-	136,708
Discounted securities	-	140,100	-	140,100
Shares in other corporations	15,646	93	-	15,739
Unit trusts	-	188,935	-	188,935
Policyholder loans	-	-	7,265	7,265
Held for trading				
Interest rate swaps	-	(7,303)	-	(7,303)
Derivatives	-	13	-	13
Total net financial assets at fair value through profit or loss	96,703	469,535	7,265	573,503
Life investment contract liabilities	-	(214,589)	-	(214,589)
	96,703	254,946	7,265	358,914

	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 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

There have been no significant transfers between Level 1 and Level 2 during the year ended 30 June 2014 or 30 June 2013.

ii. Level 3 movements

	2014	2013
Opening balance	8,384	15,781
Fair value adjustments of investments through profit or loss	(568)	(479)
Disposal of subsidiaries	-	(6,918)
Sales	(551)	-
Closing balance	7,265	8,384

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.

	2014		2013	
Fair value movement	**+10%**	**-10%**	**+10%**	**-10%**
Impact on profit or loss before tax	727	(727)	838	(838)
Impact on change in equity	727	(727)	838	(838)

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(All amounts are in NZD thousands unless otherwise stated)

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 previous financial year the company held two parcels of mortgage backed bonds in a New Zealand residential mortgage structure with a carrying value of $551,000. These bonds were private placements for which there are no active market prices. They were deemed to be level 3 for fair value disclosure purposes in the financial statements.

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 2014. 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 2014	Profit Carriers 2013
Lump sum risk business	Projection	Premiums	Claims payments
Disability Income business	Projection	Premiums	Claims payments
Traditional non-participating business	Projection	Claims payments	Claims payments
Traditional participating business	Projection	Bonuses	Bonuses
Annuity	Projection	Annuity payments	Annuity payments

The company changed its profit carrier from claims to premium for lump sum risk and disability income business in the current year to better reflect the systematic release of planned margins in relation to the services provided and premiums received from policyholders. There is $nil impact to net profit as a result of the change.

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 3.63% and 5.01% (2013: 2.68% - 5.36%).

The discount rate for business with discretionary participating features is based on the market yield on backing assets. This yield was 5.3% (2013: 5.1%) gross of tax and investment expenses.

ii. Inflation

Allowance for future inflation of 2.5% per annum (2013: 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 (2013: 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% (2013: 28%)

The rate of GST has been assumed to be 15% (2013: 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 2014	As at 30 June 2013
Males	80% - 90% IA9597	85% IA9597
Females	80% - 90% 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 65%-90% NZ9092 (2013 : 75%-90%) for males and 65%-90% NZ9092 (2013 : 70%-90%) for females.

Annuitant mortality rates, which vary by age and sex, have been based on industry experience. They are set at 66% (2013: 66%) of the IM80 and IF80 UK tables of the immediate annuity tables published by The Institute of Actuaries allowing for future mortality improvement.

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(All amounts are in NZD thousands unless otherwise stated)

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 (2013: Incidence between 50% and 89% IAD 89-93).
Termination between 25% and 85% IAD89-93 (2013: 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	2014 %	2013 %
Lump sum risk	4-25	4-22
Disability income	4-17	4-18
Conventional	3	3

Higher discontinuances are assumed for policyholders aged over 60. Higher discontinuances are assumed where premium rates have recently been increased.

ix. Surrender values

Current surrender value bases have been assumed to be maintained. 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 2013 to 30 June 2014

Assumption category	Effect on Present Value of Future Profit Margin Increase/(decrease)	Effect on Policy Liability Increase/(decrease)
Discount rates (risk business)	2,755	330
Mortality and morbidity	996	-
Lapse and surrender rates	(34,962)	-
Maintenance expenses	7,299	-
Premium rate reduction	(13,309)	-
Reduction in planned premium rate increases	(39,014)	-
Other	455	-
Total	(75,780)	330

(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 2014		
Change in mortality and morbidity	+10%	(2,401)
	-10%	2,401
Change in lapse rate	+10%	-
	-10%	-
Change of expense assumption	+10%	-
	-10%	-
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%	-

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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 fulfil 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 board has delegated authority to its BARC to oversee and approve the process 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 an approves the principles, policies, limits, frameworks and processes used by the company to identify, assess, monitor and control/mitigate risk.

The company's financial condition and operating activities may be affected by a number of key risks. The company has implemented a risk management framework to provide the organisation with processes for identifying, mitigating and managing key risks. Non-compliance with regulatory obligations is a key risk managed by specific controls which are subject to an annual testing programme.

The company takes a structured approach to risk profiling. Each Executive Manager conducts a risk profile workshop every six months. The Executive Manager Risk Profiles are consolidated into an Enterprise Risk Profile owned by the Managing Director. The Chief Risk Officer function is accountable for providing coordination of risk management activities, control monitoring, oversight and an advice/challenge function with regard to the risk profiling.

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 policyholders/owners 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.

(All amounts are in NZD thousands unless otherwise stated)

(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
2014				
Exposure in NZD	2,041	14,185	13,698	29,924
Profit / (Loss)				
+ 20% market value movement on financial assets	294	2,043	1,973	4,310
- 20% market value movement on financial assets	(294)	(2,043)	(1,973)	(4,310)
Equity				
+ 20% market value movement on financial assets	294	2,043	1,973	4,310
- 20% market value movement on financial assets	(294)	(2,043)	(1,973)	(4,310)

	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)

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(All amounts are in NZD thousands unless otherwise stated)

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
2014						
Bank overdrafts	661	-	-	-	-	661
Trade and other payables	8,916	-	-	-	1,085	10,001
Related party payables	5,216	-	-	-	4,319	9,535
Outstanding claims liabilities	34,856	29,355	38,549	-	19	102,779
Policy liabilities	(21,192)	(24,427)	(93,756)	-	214,589	75,214
Employee benefit obligation	2,602	-	-	-	-	2,602
Employee defined benefit schemes deficit	-	-	-	3,413	-	3,413
Interest rate swap - net settled	(412)	3,312	4,403	-	-	7,303
Unvested policy liabilities	-	-	-	22,699	-	22,699
	30,647	8,240	(50,804)	26,112	220,012	234,207

	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
Employee benefit obligation	3,012	-	-	-	-	3,012
Employee defined benefit schemes deficit	-	-	-	3,316	-	3,316
Interest rate swap - net settled	(2,548)	767	9,355	-	-	7,574
Unvested policy liabilities	-	-	-	20,283	-	20,283
	30,471	9,641	(36,664)	23,599	220,815	247,862

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 29.

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	Collateral provided for derivatives	Interest bearing investment assets	Loans and receivables	Derivative financial instruments (notional value)	Financial liabilities (notional value)	Total
2014							
Financial asset exposure in NZD	16,281	5,690	376,120	20,888	2,211	131,000	552,190
Profit / (Loss)							
+1.5% movement variable	181	61	(8,295)	2	-	(9,774)	(17,824)
-1.0% movement in variable	(48)	(41)	8,132	(1)	-	6,516	14,557
Equity							
+1.5% movement variable	181	61	(8,295)	2	-	(9,774)	(17,824)
-1.0% movement in variable	(48)	(41)	8,132	(1)	-	6,516	14,557
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

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(All amounts are in NZD thousands unless otherwise stated)

(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
2014		
Financial asset exposure in NZD	(26)	(26)
Profit/(Loss)		
+15% movement in variable	1	1
-15% movement in variable	(2)	(2)
Equity		
+15% movement in variable	1	1
-15% movement in variable	(2)	(2)
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

The company has no foreign currency liabilities (2013: 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 $6 million (2013: $72 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
2014							
Cash and cash equivalents	-	11,757	4,524	-	-	-	16,281
Loans and receivables	-	7,846	-	-	-	3,223	11,069
Related party receivables	-	-	-	-	-	40	40
Other assets	-	5,690	-	-	-	3,183	8,873
Reinsurance recoveries - outstanding claims liabilities	-	32,036	-	-	-	-	32,036
Financial assets - interest bearing securities and derivatives	-	289,789	66,478	6,964	7,265	5,624	376,120
Reinsurance recoveries - policy liabilities	-	-	9,819	-	-	-	9,819
	-	347,118	80,821	6,964	7,265	12,070	454,238
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

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.

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(All amounts are in NZD thousands unless otherwise stated)

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
2014							
Loans and receivables	8,294	2,278	443	25	29	-	11,069
Related party receivables	40	-	-	-	-	-	40
Other assets	8,873	-	-	-	-	-	8,873
Reinsurance recoveries - outstanding claims liabilities	32,036	-	-	-	-	-	32,036
Reinsurance recoveries - policy liabilities	9,819	-	-	-	-	-	9,819
	59,062	2,278	443	25	29	-	61,837

	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

Mortgage and other loans receivable

The company invests in mortgage and other loans to agents. As at 30 June 2014 the total carrying value was $195,000 (2013: $517,000). No provisions have been recognised for impaired or past due but not impaired loans (2013: nil).

Impaired and past due assets are closely monitored and assessed for adequacy of security. Where security are assessed as not being adequate, assets are shown as impaired and the appropriate provisions are 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 2014, the notional amount of interest rate swaps held by the company was $131,000,000 (2013: $200,000,000). The fair value of interest rate swaps held by the company was a liability of $7,303,132 (2013: $7,573,806 liability). The interest rate swap contracts with a notional value of $41,000,000 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.

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(All amounts are in NZD thousands unless otherwise stated)

7 Revenue

		2014	2013
Premium revenue			
Total premium revenue		188,942	172,295
Less:			
Savings product premiums disclosed as a change in policy liabilities (Note 21)		(9,381)	(10,370)
Premium revenue disclosed in statement of comprehensive income		**179,561**	**161,925**
Outwards reinsurance premium expense		(25,877)	(26,642)
Net premium revenue disclosed in statement of comprehensive income		**153,684**	**135,283**

		2014	2013
Investment revenue			
Interest received:			
Interest income - interest bearing securities	(see note 1 below)	22,064	22,086
Interest income - mortgage and other	(see note 2 below)	2,700	57
Dividends received	(see note 1 below)	4,362	6,067
Movement in financial assets at fair value through profit or loss:			
Fair value gain/(loss) of subsidiaries until date of sale/liquidation		-	894
Changes in net fair value of investments		10,026	30,820
Net investment revenue		**39,152**	**59,924**
Movement in financial assets at fair value through profit or loss above includes the following movements			
Profit/(loss) on sale		31,962	21,160
Changes in fair value		(21,936)	9,660
Total investment revenue derivatives		**10,026**	**30,820**
Other revenue			
Sundry income		92	99
Total other revenue		**92**	**99**
Net revenue		**192,928**	**195,306**

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

	2014	2013 Restated*
Claims expenses		
Death and terminal illness	48,718	53,618
Disability	32,772	23,820
Annuities	1,615	1,683
Maturities	8,010	10,188
Surrenders and withdrawals	29,659	36,663
Claims handling expenses	385	310
Gross claims expenses	**121,159**	**126,282**
Less:		
Savings product claims disclosed as a change in policy liabilities (Note 21)	(26,031)	(32,520)
Claims expense disclosed in statement of comprehensive income	**95,128**	**93,762**
Reinsurance recoveries	(21,892)	(23,285)
Net claims expense disclosed in statement of comprehensive income	**73,236**	**70,477**
Acquisition expenses		
Management expenses	19,515	21,986
Commission expenses	42,106	40,803
Total acquisition expenses	**61,621**	**62,789**
Maintenance expenses		
Management expenses	18,896	17,017
Commission expenses	13,092	12,689
Other	-	(300)
Total maintenance expenses	**31,988**	**29,406**
Investment management expenses	**1,657**	**2,086**
Change in unvested policy liabilities (note 22)	2,416	13,907
Change in net policy liability benefits (note 21(a))	(2,231)	(16,000)
Total net operating expenses including movement in policy liabilities	**168,687**	**162,665**

* Refer to Note 2(e)

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(All amounts are in NZD thousands unless otherwise stated)

9 Other expenses

	Note	2014	2013 Restated*
Loss on disposal of plant and equipment		-	11
Depreciation of plant and equipment		-	746
Operating lease rental expenses		1,682	2,064
Employee leave entitlements		1,205	1,203
Impairment and amortisation of intangible assets		-	212
Movement in provision for bad and doubtful debt		(107)	148
Contributions to defined contribution superannuation schemes		431	449
Contributions to defined benefit superannuation schemes		130	140
Current year exempt employee share plan grant	17	173	159
Current year executive employee share plan grant	17	37	37
Movement in provision for post retirement employee benefits		301	355

* Refer to Note 2(e)

10 Taxation

(a) Income tax credit

	2014	2013 Restated*
Current tax expense	4,131	17,831
Deferred tax credit	(9,960)	(25,426)
Prior period tax credit	(1,852)	(454)
Income tax credit	**(7,681)**	**(8,049)**

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.

	2014	2013 Restated*
Profit before income tax expense	**24,241**	**32,641**
Prima facie income tax @ 28% (2013: 28%)	6,787	9,140
Tax effect of amounts which are not deductible/assessable in calculating taxable income.		
Difference due to life insurance tax basis	(9,202)	(6,157)
Non-taxable losses on revaluation of financial assets	(2,686)	(9,137)
Non-allowable expenses and other items	33	32
Gross up of fully imputed dividend income	336	422
Imputation credits on dividends and other credits received	(704)	(1,506)
Other	(457)	(389)
Income tax adjusted for differences	**(5,893)**	**(7,595)**
Over provision in prior periods	(1,788)	(454)
Income tax expense	**(7,681)**	**(8,049)**

* Refer to Note 2(e)

(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.

	2014	2013 Restated*
After more than 12 months	37,012	27,093
Within 12 months	1,447	1,406
Total deferred tax asset	**38,459**	**28,499**
Deferred tax liabilities to be settled		
Greater than 12 months	-	-
Policyholder liabilities	86,081	77,734
Within 12 months	26	19
Total deferred tax liability	**86,107**	**77,753**
Net deferred tax liability	**47,648**	**49,254**

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

	2014	2013 Restated*
Opening balance	49,254	64,673
Deferred tax movement in policyholder liabilities	8,348	9,772
Charged through other comprehensive income	7	398
Charged through profit or loss	(9,961)	(25,589)
Closing balance	**47,648**	**49,254**

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

	2014	2013 Restated*
Accrued expenses and provisions	(2,317)	(2,315)
Unrealised (loss)/gains on investments	23	18
Depreciable and amortisable assets	(18)	(34)
Deferred tax losses carried forward	(36,122)	(26,149)
Deferred tax in policyholder liabilities (note 10(b)v. and 21(c))	86,082	77,734
Net deferred tax liability	**47,648**	**49,254**

* Refer to Note 2(e)

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(All amounts are in NZD thousands unless otherwise stated)

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.

In addition to the tax losses recognised in deferred tax assets is $4,928,000 recognised in current tax assets which will be offset with other New Zealand group companies.

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**

	2014	2013
Policyholders' credit account		
Opening balance	20,641	10,600
Taxation paid/(refund)	6,622	8,820
Imputation credits attached to dividends received/(paid)	758	1,221
Closing balance	28,021	20,641

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.

	Suncorp Group Holdings (NZ) Limited	Suncorp Group Services NZ Limited
As at 30 June 2013		
ICA Group	84,776	84,776
Non ICA Group	5,847	299
Total	90,623	85,075
As at 30 June 2014		
ICA Group	90,044	90,044
Non ICA Group	4,711	501
Total	94,755	90,545

11 **Cash and cash equivalents**

(a) **Statement of financial position**

	2014	2013
Cash at bank and on hand	217	1,403
Deposits at call	21,923	11,609
Cash and cash equivalents	22,140	13,012
Bank overdrafts	(661)	(38)
Bank overdrafts	(661)	(38)

(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	22,140	13,012
Bank overdrafts	(661)	(38)
Cash and cash equivalents for the cash flow statement	21,479	12,974

12 **Trade and other receivables**

	2014	2013
Trade receivables	578	268
Premiums due from policyholders	961	975
Provision for doubtful debts	(410)	(303)
Total trade and policyholder receivables	1,129	940
Amounts due from reinsurers	7,846	6,061
Other receivables	2,880	1,741
Total trade and other receivables	11,855	8,742
Current	11,561	8,742
Non-current	294	-
Total trade and other receivables	11,855	8,742

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13 Mortgage and other loans

	2014	2013
Other loans	195	518
Provision for impairment of other loans	-	(1)
Total mortgage and other loan receivables	**195**	**517**
Current	80	294
Non-current	115	223
Total trade and other receivables	**195**	**517**

14 Financial assets at fair value through profit or loss

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

	2014	2013
Designated		
Government /semi government securities	92,046	128,151
Other fixed interest securities	136,708	185,941
Discounted securities	140,100	127,478
Shares in other corporations	15,739	124,179
Unit trusts	188,935	31,958
Policyholder loans	7,265	7,833
Held for trading		
Derivatives	13	11
Total financial assets at fair value through profit or loss	**580,806**	**605,551**
Current	355,164	323,729
Non-current	225,642	281,822
Total	**580,806**	**605,551**

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

	2014	2013
Held for trading		
Interest rate swaps	7,303	7,574
Total financial liabilities at fair value through profit or loss	**7,303**	**7,574**
Current	(412)	(2,548)
Non-current	7,715	10,122
Total	**7,303**	**7,574**
Total net financial assets at fair value through profit or loss	**573,503**	**597,977**

(c) Master netting or similar arrangements

The company is party to certain interest rate swap agreements with New Zealand based financial institutions which are settled on a net basis. The financial asset and liability positions under these contracts are offset within the Statement of Financial Position. The table below shows the impact of this offsetting:

	Gross Amounts $000	Offsetting applied $000	Net amount presented in the Statement of Financial Position $000	Cash collateral $000	Net exposure $000
2014					
Financial Assets	124,700	(124,700)	-	-	-
Interest rate swaps					
Financial Liabilities					
Interest rate swaps	132,003	(124,700)	7,303	5,690	1,613
2013					
Financial Assets	193,700	(193,700)	-	-	-
Interest rate swaps					
Financial Liabilities					
Interest rate swaps	201,274	(193,700)	7,574	-	7,574

15 Other assets

	2014	2013
Accrued income	2,985	3,311
Prepayments	198	5
Collateral provided for derivatives	5,690	-
Total	**8,873**	**3,316**
Current	8,873	3,316
Non-current	-	-
Total	**8,873**	**3,316**

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(All amounts are in NZD thousands unless otherwise stated)

16 Reinsurance recoveries receivables

	2014	2013
Reinsurance recoveries receivables	32,036	30,530
Total	**32,036**	**30,530**
Current	4,718	4,487
Non-current	27,318	26,043
Total	**32,036**	**30,530**

17 Employee benefit obligations

(a) Balances

	2014	2013 Restated*
Defined benefit obligation asset	848	1,082
Defined benefit obligation (liability)	(3,413)	(3,316)
Defined benefit obligation net liability	**(2,565)**	**(2,234)**
Defined benefit obligation net liability	2,565	2,234
Employee entitlements	2,602	3,012
Total net employee benefit obligations	**5,167**	**5,246**
Current	2,602	3,012
Non current	2,565	2,234
Total net employee benefit obligations	**5,167**	**5,246**

(b) Defined benefit superannuation commitments

The company participates in two defined benefit superannuation funds, Vero and Asteron New Zealand Staff Pension Scheme and Guardian Assurance Superannuation Plan (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.

i. Surplus/(deficit) position

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

	Surplus	(Deficit)	Net deficit
2014			
Vero and Asteron New Zealand Staff Pension Scheme	-	(3,413)	(3,413)
Guardian Assurance Superannuation Plan	848	-	848
Total deficit	**848**	**(3,413)**	**(2,565)**
2013 Restated*			
Vero and Asteron New Zealand Staff Pension Scheme	-	(3,316)	(3,316)
Guardian Assurance Superannuation Plan	1,082	-	1,082
Total deficit	**1,082**	**(3,316)**	**(2,234)**

The characteristics of the defined benefit funds and their

- Members receive regular pension payments or deferred pension payments. The amount of pension payable upon retirement of active members is determined based on final pensionable salary and pensionable service. Partial or full commutation of the pension may be allowed.
- The Superannuation Schemes Act 1989 governs the superannuation industry and provides the framework within which superannuation schemes operate. The Act requires an actuarial valuation to be performed for each defined benefit superannuation scheme at least every three years.
- The Trustees of each scheme are responsible for the governance of the scheme. The Trustees have a legal obligation to act solely in the best interests of fund beneficiaries. The Trustees have the following roles:
  - Administration of the fund and payment to the beneficiaries from scheme assets when required in accordance with the scheme rules;
  - Management and investment of the scheme assets; and
  - Compliance with superannuation law and other applicable regulations.
- The Financial Markets Authority licenses and supervises regulated superannuation schemes.
- There are a number of risks to which each scheme exposes the Company. The more significant risks relating to the defined benefits are:
  - Investment risk – The risk that investment returns will be lower than assumed and the Company will need to increase contributions to offset this shortfall.
  - Mortality risk – The risk that the members of the scheme will live longer than assumed, increasing the number of pension payments and thereby requiring additional company contributions.
  - Legislative risk – The risk is that legislative changes could be made which increase the cost of providing the defined benefits.
- Other Suncorp Group entities participate in the plans, the amounts included in these financial statements relate to the company's share in relation to the members that are attributable to the company. The company is not liable for any deficits or contributions attributable to other Suncorp Group entities.
- There were no fund amendments, curtailments or settlements during the year.

ii. Present value of superannuation commitments

	2014	2013 Restated*
Fair value of fund assets at the end of the year	35,557	34,931
Defined benefit obligations at the end of the year	(33,517)	(33,711)
Asset ceiling	(3,759)	(2,717)
Net liability before adjustment for contributions tax	(1,719)	(1,497)
Adjustment for contributions tax	(846)	(737)
Net liability recognised in the statement of financial position	**(2,565)**	**(2,234)**

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

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(All amounts are in NZD thousands unless otherwise stated)

iii. Reconciliation of movements

Changes in the present value of defined benefit fund obligations	2014	2013 Restated*
Balance at the beginning of the year	(33,711)	(36,241)
Current service cost	(218)	(230)
Interest expense	(1,459)	(1,202)
Actuarial gains/(losses) arising from changes in demographic assumptions	-	(1,865)
Actuarial gains/(losses) arising from changes in financial assumptions	48	3,820
Actuarial gains/(losses) arising from liability experience	(629)	(597)
Benefits paid	2,398	2,476
Premiums and expenses paid	54	128
Balance at the end of the year	(33,517)	(33,711)
Changes in the fair value of plan assets		
Balance at the beginning of the year	34,931	33,302
Interest income	1,508	1,101
Actual return on plan assets less interest income	1,483	3,038
Contributions by Group companies	87	94
Benefits paid	(2,398)	(2,476)
Premiums and expenses paid	(54)	(128)
Balance at the end of the year	35,557	34,931

* Refer to Note 2(e)

Effect of the asset ceiling	2014	2013 Restated*
Balance at the beginning of the year	(2,717)	-
Interest on effect of asset ceiling	(120)	-
Change in effect of asset ceiling (excluding interest on effect of asset ceiling)	(922)	(2,717)
Balance at the end of the year	(3,759)	(2,717)

* Refer to Note 2(e)

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

	2014 %	2013 %
Cash	4.9	4.1
Equities	47.9	48.4
Fixed income	44.8	45.6
Other	2.4	1.9
	100	100

The table above reflects the aggregate assets of the two defined benefit plans the company participates in.

A review of the strategic asset allocation is undertaken every two years with the last review being completed in 2013. The strategic asset allocation is implemented via investment mandates with external fund managers which sets a target weighting across asset classes as well as benchmark return objectives.

v. Principal actuarial assumptions

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

	2014	2013
Vero and Asteron New Zealand Staff Pension Scheme		
Discount rate (gross of tax)	4.7	4.7
Future salary increases	3.5	3.5
Guardian Assurance Superannuation Plan		
Discount rate (gross of tax)	4.5	4.5
Future salary increases	3.5	3.5

Mortality assumptions are based on the New Zealand Life Tables 2010-2012 with a one year age setback and an age related future mortality improvement scale, starting from 2011 (the mid-point of the period on which the base Life Table was produced). A one year offset is used to reflect the lower mortality expected of pensioners relative to the overall New Zealand population.

The weighted average duration (in years) of each of the defined benefit funds obligation is:

	2014	2013
Vero & Asteron New Zealand Staff Pension Scheme	13	15
Guardian Assurance Superannuation Plan	10	12

vi. Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding all other assumptions constant, would have affected the aggregate defined benefit obligation by the amounts shown below:

	30 June 2014 Increase	30 June 2014 Decrease
Discount rate movement (100 basis points)	(2,938)	3,516
Future salary increase (100 basis points)	76	(77)
One year movement in life expectancy	1,169	(1,174)

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(All amounts are in NZD thousands unless otherwise stated)

vii. Funding

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. The funding requirements are based on an actuarial valuation performed for each defined benefit superannuation fund at least once every three years. The actuarial valuations for funding purposes prepared under applicable actuarial standards are different to the actuarial valuations prepared in accordance with accounting standards. Assumptions used in actuarial valuations for funding purposes may also be different to those described in note 17(b)(v) above.

For the Vero and Asteron New Zealand Staff Pension Scheme plan other Suncorp Group entities participate in the plan. The company's share of the $950,000 lump sum is apportioned based on the members in the scheme attributable to the company.

Actuarial recommendations of the employer contribution rates are:

Vero & Asteron New Zealand Staff Pension Scheme	20% of pensionable salaries plus attributable share of $950,000
Guardian Assurance Superannuation Plan	Nil

The Company intends to contribute $233,000 to the defined benefit funds in the financial year ending 30 June 2015 in line with the actuaries' latest recommendations.

(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.

The structure of the employee equity plans was redesigned and approved by the SGL Board in August 2013. As a result of the redesign, the following changes were made:
• A new Umbrella Share Plan was established – the Suncorp Group Employee Incentive Plan (SGEIP) – which now includes the Long Term Incentive (Performance Rights) (LTI). This new LTI replaces the former Executive Performance Share Plan (EPSP), however unvested EPSP awards remain unchanged; and
• The former EPSP was amended and renamed the Suncorp Group Limited Employee Share Plan (SGL ESP). The amendments now enable restricted shares (for senior employees below Executive level) and tax exempt shares (formerly awarded under the Exempt Employee Share Plan (EESP)) to be granted under this plan.

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	SGEIP (from October 2013) and the former EPSP (prior to October 2013)	SGL ESP (restricted shares)
Method of settlement	Equity-settled. Cash- settled in limited circumstances as elected by the SGL Board.	Equity-settled
Eligible plan participant	Executives.	Employees in senior roles below Executive level that satisfy the eligibility criteria.
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.	Value of restricted shares granted (offered) is determined by the SGL Board based on the executive's remuneration and individual performance.
Vesting	Subject to satisfaction of performance criteria over the performance period.	Subject to remaining in employment with the Suncorp Group until the vesting date and not having given notice of intention to resign.
Performance criteria	Refer to the performance criteria for the Executive LTI plans in the table below.	None
Minimum holding period	None after shares are vested.	
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 SGL's total shares on issue 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).	
Voting rights	Voting rights are held by the plan Trustee until shares are vested.	

Share plans	SGL ESP (tax exempt) and the former EESP	Deferred Employee Share Plan (DESP)
Method of settlement	Equity-settled.	Equity-settled
Eligible plan participant	Employees not eligible for LTI awards.	Employees can elect to participate.
Basis of share grant	Market value of shares up to AUD 1,000 per employee per year may be granted by the SGL Board based on the Suncorp Group's overall performance.	Employees to fund the acquisition of shares to be held under this plan from their pre-tax remuneration up to a maximum value of $5,000.
Vesting	Fully vested, not subject to forfeiture.	As the acquisition of shares is funded through the employee or non-executive director's remuneration, the shares are fully vested at the date of acquisition.
Performance criteria	None.	None
Minimum holding period	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	Full entitlement from when the shares are allocated to the participating employees in the plan.	Full entitlement to dividend from when the shares are acquired and held in the plan
Voting rights	Participating employees have the right to vote from when the shares are allocated to them in the plan.	Participating employees and non-executive directors have the right to vote from when the shares are acquired and held in the plan.

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(All amounts are in NZD thousands unless otherwise stated)

Performance criteria for the Long Term Incentive Plan (Performance Rights) and EPSP ('Executive LTI plans'):

<table>
<tr><th>Grant date</th><th colspan="2">EPSP 1 October 2008 – 3 May 2010</th><th>EPSP From 1 October 2010 and LTI From 1 October 2013</th></tr>
<tr><td>Performance criteria</td><td colspan="3">The criteria is based on Total Shareholder Returns ("TSR") achieved by SGL over a performance period compared to the TSR of a comparator group.</td></tr>
<tr><td>Comparator group</td><td colspan="2">Top 50 Industrial companies in the S&P/ASX 100, excluding listed property trusts.</td><td>Top 50 Industrial companies in the S&P/ASX 100, excluding mining companies and listed property trusts.</td></tr>
<tr><td rowspan="6">Performance results and vesting rules</td><td colspan="3">Shares granted under this plan will vest and allocated based on the SGL's TSR performance results:</td></tr>
<tr><td>SGL performance (TSR percentile ranking)</td><td colspan="2">% of shares available for vesting and allocation</td></tr>
<tr><td>< 50th percentile</td><td colspan="2">Nil.</td></tr>
<tr><td>50th percentile</td><td colspan="2">50%</td></tr>
<tr><td>> 50th but < 75th percentile</td><td colspan="2">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.</td></tr>
<tr><td>75th percentile or above</td><td colspan="2">100%</td></tr>
<tr><td>Initial performance period</td><td colspan="3">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.</td></tr>
<tr><td>At initial vesting date</td><td colspan="2">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.</td><td>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.</td></tr>
<tr><td>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))</td><td colspan="2">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.</td><td>Not applicable.</td></tr>
</table>

During the year ended 30 June 2014 $173,000 was accrued in relation to the 2014 EESP grants (2013: $159,000 in relation to 2013 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 2014 was $37,000 (2013: $37,000).

Suncorp Group 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 2014 (2013: AUD $1,000).

18 Trade and other payables

	2014	2013
Trade creditors and accruals	7,846	4,333
Amounts due to reinsurers	1,804	2,688
Other creditors	351	2,571
Total trade and other payables	10,001	9,592
Current	10,001	9,592
Non-current	-	-
Total	10,001	9,592

19 Unearned premium liabilities

	2014	2013
Unearned premium liabilities	3,896	4,412
Total unearned premium liabilities	3,896	4,412
Current	3,896	4,412
Non-current	-	-
Total	3,896	4,412

On 10 May 2013, the company acquired a portfolio of policies from a related company, Vero Insurance New Zealand Limited.

20 Outstanding claims liabilities

	2014	2013
Outstanding claims liabilities	102,779	92,550
Total outstanding claims liabilities	102,779	92,550
Current	34,875	30,245
Non-current	67,904	62,232
Investment contracts	-	73
Total	102,779	92,550

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(All amounts are in NZD thousands unless otherwise stated)

21 Policy liabilities

(a) Reconciliation of movements in policy liabilities

	2014	2013
Investment contract policy liabilities		
Opening balance	217,558	217,520
Net decrease as shown in profit or loss in the statement of comprehensive income	13,681	22,188
Investment contract contributions recognised in policy liabilities	9,381	10,370
Investment contract withdrawals recognised in policy liabilities	(26,031)	(32,520)
Closing investment contract policy liabilities	**214,589**	**217,558**
Life insurance contract policy liabilities		
Opening balance	(114,691)	(61,817)
Net decrease as shown in profit or loss in the statement of comprehensive income	(15,912)	(38,188)
Decrease in liabilities ceded under reinsurance	(424)	(4,914)
Deferred tax movement in policyholder liabilities	(8,348)	(9,772)
Closing life insurance policy liabilities	**(139,375)**	**(114,691)**
Total gross policy liabilities		
Opening balance	102,867	155,703
Net decrease as shown in profit or loss in the statement of comprehensive income	(2,231)	(16,000)
Investment contract contributions recognised in policy liabilities	9,381	10,370
Investment contract withdrawals recognised in policy liabilities	(26,031)	(32,520)
Decrease in liabilities ceded under reinsurance	(424)	(4,914)
Deferred tax movement in policyholder liabilities	(8,348)	(9,772)
Closing policy liabilities	**75,214**	**102,867**
Current	(21,192)	(15,315)
Non-current	(118,183)	(99,377)
Investment contracts	214,589	217,559
Total	**75,214**	**102,867**

(b) Liabilities ceded under reinsurance

	2014	2013
Opening balance	10,243	15,157
Decrease in liabilities ceded under reinsurance	(424)	(4,914)
Closing liabilities ceded under reinsurance	**9,819**	**10,243**
Current	4,812	6,239
Non-current	5,007	4,004
Total	**9,819**	**10,243**
Closing net policy liabilities	**65,395**	**92,624**

(c) Components of life insurance contract liabilities

	2014	2013
Future policy benefits*	1,168,157	1,109,146
Future bonuses	5,315	-
Future expenses	560,354	554,685
Future profit margins	270,639	337,264
Balance of future premiums	(1,852,990)	(1,830,737)
Net policy liabilities excluding deferred tax	**151,475**	**170,358**
Deferred tax liability	(86,081)	(77,734)
Net policy liabilities including deferred tax	**65,394**	**92,624**
Life insurance reinsurance ceded	9,819	10,243
Gross policy liabilities	**75,213**	**102,867**
Less: investment contracts	(214,589)	(217,558)
Insurance contract policy liabilities	**(139,376)**	**(114,691)**
Policy liabilities subject to capital guarantees	13,173	13,701

* 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 $2.8 million to policyholders.

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

	2014	2013 Restated*
Life Insurance profit after income tax expense arose from:		
Planned margins of revenues over expenses released	28,304	28,713
Difference between actual and assumed experience	(2,701)	(1,403)
Movement in net asset value of subsidiaries	-	1,195
Investment earnings on assets in excess of policy holder liabilities	6,319	12,185
Profit after income tax expense contributed by life insurance in the statement of comprehensive income	**31,922**	**40,690**

* Refer to Note 2(e)

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(All amounts are in NZD thousands unless otherwise stated)

22 Unvested policy liabilities

	2014	2013
Opening balance	20,283	6,376
Net decrease as shown in profit or loss in the statement of comprehensive income	2,416	13,907
Closing unvested policy liabilities	**22,699**	**20,283**
Current	-	-
Non-current	-	-
No term	22,699	20,283
Total	**22,699**	**20,283**

23 Contributed capital

	2014	2013
Opening contributed capital (162,342,450 ordinary shares; 2013 : 162,342,450 ordinary shares)	189,230	189,230
Total contributed ordinary capital (162,342,450 ordinary shares)	**189,230**	**189,230**
Preference shares		
45,000,000 (2013: 45,000,000) specified preference shares	45,000	45,000
Total preference shares	**45,000**	**45,000**
Shareholder contribution under employee share plans	750	713
Total share capital	**234,980**	**234,943**

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	713	676
Contributions under Executive Performance Share Plan	37	37
Balance at the end of the year	**750**	**713**

24 Dividends

Ordinary shares

	2014	2013
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
Dividend of 14.48 cents per fully paid ordinary share, paid 27 June 2014	23,500	-
Total dividends declared or paid	**23,500**	**63,500**

25 Related parties

(a) Controlling entities

Asteron Life Limited 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.

(b) Transactions

Relationship	Nature of Transaction	2014	2013
Parent and ultimate parent	Accounting and administration expenses paid	(2,584)	(1,198)
	Accounting and administration expenses received	2,103	624
	Consideration received for sale of fixed assets	-	4,557
	Consideration received for sale of subsidiaries	-	9,278
	Dividend paid	(23,500)	(63,500)
	Life and disability premiums received	3	3
	Management fees paid	(603)	(553)
	Share based received	37	37
	Transfer of NZAA brand fee	-	39
	Tax loss, tax surplus, FITC transfers received	-	177
Subsidiaries (sold in prior year)	Accounting and administration expenses	-	5
	Management fees	-	2,367
Subsidiaries of ultimate parent	Accounting and administration expenses paid	(6,094)	(8,985)
	Accounting and administration expenses received	921	146
	Consideration received for transfer of business	-	2,053
	General insurance premiums paid	(75)	(76)
	Life and disability premiums received	341	324
	Management fees received/(paid)	925	38
	Tax loss, tax surplus, FITC transfers paid	-	(543)
	Tax loss, tax surplus, FITC transfers received	-	65
Other	Accounting and administration expenses received	879	1,660
	Commission paid	(9,480)	(12,010)
	Employer contributions paid to superannuation schemes	(127)	(126)
	Life and disability premiums received	9	7
	Tax loss, tax surplus, FITC transfers received	-	86

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(All amounts are in NZD thousands unless otherwise stated)

(c) **Summary balances**

	2014	2013
Related party receivables		
Parent and ultimate parent	8	5,078
Subsidiaries	-	9
Subsidiaries of ultimate parent	32	21
Other	-	206
	40	5,314

	2014	2013
Related party payables		
Parent and ultimate parent	103	7
Subsidiaries	-	385
Subsidiaries of ultimate parent	8,302	3,099
Other	1,130	5,139
	9,535	8,630

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

26 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.

	2014	2013
The remuneration of the key management team are:		
Short-term employee benefits	4,054	2,776
Post-employment benefits	120	77
Termination benefits	-	-
Share based payments	37	37
Total	4,211	2,890

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.

27 Remuneration of auditors

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

	2014	2013
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	582	410
- managed fund audit fees	89	89
KPMG - Prior years		
- statutory audit fee	75	54
Total remuneration for audit services	746	553
Other assurance services		
Section 13(2)(c) reporting		
- current year	13	16
Solvency return		
- current year	48	73
- prior year	-	25
Total remuneration for other assurance services	61	114
Total remuneration of auditors	807	667

All audit fees are paid by the company.

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(All amounts are in NZD thousands unless otherwise stated)

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

	2014	2013 Restated*
Operating profit after income tax	**31,922**	**40,690**
Non-cash items		
Investment revenue - net changes in market value	(10,026)	(30,820)
Change in policy liabilities (including unvested)	185	(2,093)
Impairment of mortgage loans	-	103
Other revenue	-	-
Depreciation expense	-	746
Amortisation of intangibles	-	212
Impairment of assets	-	(300)
Loss/(Profit) on disposal of plant and equipment	-	11
Fair value gain/(loss) of subsidiaries until date of sale/liquidation	-	(894)
Defined benefit scheme recovery	301	356
Deferred tax charged on defined benefit scheme	(7)	(1,531)
Share based payments	37	37
Change in working capital		
Decrease/(increase) in:		
Receivables (excluding loans)	2,161	(364)
Reinsurance recoveries - outstanding claims	(1,506)	(2,071)
Reinsurance recoveries - policy liabilities	424	4,914
Other assets (excluding collateral provided for derivatives)	133	1,091
Increase/(decrease) in:		
Outstanding claims	10,229	6,082
Unearned premiums	(516)	1,791
Employee benefit obligations	(410)	589
Accounts payable/provisions	7	3,000
Taxation	(5,946)	(5,467)
Policy Liabilities	(27,653)	(52,836)
Unvested policy liabilities	2,416	13,907
Less items classified as investment activities		
Increase in investment receivables	1,327	662
Decrease in investment payables	(1,499)	(40)
Net cash flow from operating activities	**1,923**	**(23,469)**

* Refer to Note 2(e)

29 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.

From 31 December 2012 the company was required to maintain a minimum 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 2014 and 30 June 2013 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.

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:

	2014			2013		
	Statutory Fund	Shareholder Fund	Total	Statutory Fund	Shareholder Fund	Total
Actual solvency capital	349,913	3,514	**353,427**	349,845	5,299	**355,144**
Minimum solvency capital	319,836	605	**320,441**	310,456	679	**311,135**
Solvency margin	30,077	2,909	32,986	39,389	4,620	44,009
Solvency ratio			110%			114%

30 Credit rating

The company holds an A+ credit rating from Standard & Poors (2013: A+).

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(All amounts are in NZD thousands unless otherwise stated)

31 Contingent assets and liabilities

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.

32 Commitment for expenditure

Capital commitments

There are no capital commitments as at 30 June 2014 (2013: Nil.)

Lease commitments

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

	2014	2013
Not later than one year	3,223	2,627
Later than one year but not later than 5 years	11,095	10,223
Later than 5 years	6,161	7,013
Total	20,479	19,863

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.

33 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	3,332	139,148	142,480	7,305	149,785
Operating profit	250	31,714	31,964	(42)	31,922
Transfer of profits between funds	(60)	(21,440)	(21,500)	21,500	-
Movement in employee defined benefit funds deficit	-	-	-	(37)	(37)
Dividends paid	-	-	-	(23,500)	(23,500)
Shareholder closing retained profits	3,522	149,422	152,944	5,226	158,170

	Participating Business	Non Participating Business	Statutory Fund	Shareholder Fund	Total
Share capital and transfers					
Transfers in	-	-	-	-	-
Share capital	-	234,980	234,980	-	234,980
Capital transfers	-	-	-	-	-
Total shareholder equity	-	234,980	234,980	-	234,980

	Participating Business	Non Participating Business	Statutory Fund	Shareholder Fund	Total
Components of shareholder interest in statutory funds					
Shareholder retained profits	3,522	149,422	152,944	5,226	158,170
Shareholder capital	-	234,980	234,980	-	234,980
Shareholder funds	3,522	384,402	387,924	5,226	393,150

Refer to note 21(c) for the allocation of profit to the policyholders.

34 Subsequent events

There has not been any 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 2014.

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(All amounts are in NZD thousands unless otherwise stated)

35 **Disaggregated information**

	Unit linked business	Shareholder and other business	Total
2014			
Assets			
Investment assets, cash, and cash equivalents	179,957	422,989	602,946
Other assets	26,261	88,153	114,414
Total assets	**206,218**	**511,142**	**717,360**
Liabilities			
Policy liabilities	178,493	(103,279)	75,214
Unvested policy benefits	-	22,699	22,699
Other liabilities	3,600	222,697	226,297
Retained profits attributable to shareholders	24,125	134,045	158,170
Share capital	-	234,980	234,980
Total liabilities and equity	**206,218**	**511,142**	**717,360**
Performance			
Risk premium revenue	-	179,561	179,561
Reinsurance recoveries	-	21,892	21,892
Investment revenue	19,414	19,738	39,152
Other revenue	-	92	92
Risk claims expense	-	(95,128)	(95,128)
Reinsurance outwards	-	(25,877)	(25,877)
Operating expenses	(2,818)	(92,448)	(95,266)
(Increase)/decrease in policy liabilities	(12,369)	12,184	(185)
Operating surplus before tax in the statement of comprehensive income	**4,227**	**20,014**	**24,241**
Income tax expense	(2,694)	10,375	7,681
Total operating surplus after tax in the statement of comprehensive income	**1,533**	**30,389**	**31,922**
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
Total Operating surplus before tax in the statement of comprehensive income	**4,349**	**29,900**	**34,249**

	Unit linked business	Shareholder and other business	Total
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**

36 **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

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To the Board of Directors of Asteron Life Limited

Appointed Actuary's Report as at 30 June 2014

Background

This report has been prepared by Daniel Wong BA MMgt 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 2014, 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 information that is relevant to the preparation of the financial statements; 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 maintains 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 2014; and
    - the company maintains, in respect of its Asteron Life Statutory Fund 1 and Life Fund 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 2014.

Daniel Wong BA MMgt FIAA FNZSA

Appointed Actuary

24 July 2014