CO-OPERATIVE LIFE LIMITED

Annual Financial Statements

For the year ended 31 March 2013

CO-OPERATIVE LIFE LIMITED
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2013

	Note	31 March 2013 $000	31 March 2012 $000
Insurance Premium Revenue	2	7,155	5,878
Reinsurance Recoveries		793	1,322
Underwriting Income		7,948	7,200
Claims		(1,627)	(2,807)
Movement in Deferred Acquisition Costs		320	208
Outwards Reinsurance Premiums		(1,130)	(1,039)
Underwriting Expense		(2,437)	(3,638)
Underwriting Profit		5,511	3,562
Operating Expenses	3	(3,319)	(2,487)
Operating Profit before Investment Income		2,192	1,075
Investment and Other Income	4	780	745
Profit before Taxation		2,972	1,820
Taxation (Expense)/Benefit	5	(97)	340
Profit after Taxation		2,875	2,160
Other Comprehensive Income			
Fair Value movement on Available for Sale Instruments (net of tax)		-	-
Total Comprehensive Income		2,875	2,160

CO-OPERATIVE LIFE LIMITED
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 March 2013

	Note	31 March 2013 $000	31 March 2012 $000
Opening Balance of Reserves		7,757	9,107
Profit after Taxation		2,875	2,160
Other Comprehensive Income		-	-
Dividends Paid to The Co-operative Bank		(2,995)	(3,510)
Share Capital Issued	13	12,000	-
Share Capital Repurchased	13	(6,000)	-
Closing Balance of Reserves		13,637	7,757

The Notes to the Financial Statements form part of, and are to be read in conjunction with, these Financial Statements.

CO-OPERATIVE LIFE LIMITED
BALANCE SHEET
As at 31 March 2013

	Note	31 March 2013 $000	31 March 2012 $000
Assets			
Cash		267	252
Investment Securities	6	12,585	10,955
Available for Sale Securities	7	5,284	-
Trade and Other Receivables	8	771	1,507
Taxation Receivable from The Co-operative Bank		-	282
Intangible Asset	9	501	-
Total Assets		19,408	12,996
Liabilities			
Trade and Other Payables	10	4	67
Claims Provision	11	1,381	847
Net Policy Liabilities	11	3,988	4,177
Taxation Payable to The Co-operative Bank		19	-
Deferred Tax Liability	5	379	148
Total Liabilities		5,771	5,239
Net Assets		13,637	7,757
Reserves			
Available for Sale Reserve		-	-
Retained Earnings	12	6,137	6,257
Share Capital	13	7,500	1,500
Total Reserves		13,637	7,757

Authorised for issue for and on behalf of the Directors on 30 May 2013

Director

Director

The Notes to the Financial Statements form part of, and are to be read in conjunction with, these Financial Statements.

CO-OPERATIVE LIFE LIMITED
STATEMENT OF CASH FLOWS
For the year ended 31 March 2013

	Note	31 March 2013 $000	31 March 2012 $000
Cash Flow from Operating Activities			
Premium Received		7,225	5,257
Reinsurance Received		875	1,170
Interest Income		628	454
Claims Expenses		(1,350)	(2,873)
Reinsurance Paid		(1,130)	(1,039)
Other Expenses		(3,261)	(2,517)
Taxation Received		883	-
Net Cash Flow from Operating Activities	14	**3,870**	**452**
Cash Flow from Investing Activities			
Purchase of Loan Instalment Care	9	(97)	-
Investment Securities		(1,564)	2,970
Available for Sale Securities		(1,240)	-
Net Cash Flow from Investing Activities		**(2,901)**	**2,970**
Cash Flow from Financing Activities			
Dividends Paid to The Co-operative Bank		(2,995)	(3,510)
Capital Injection from The Co-operative Bank		3,529	-
Capital Repurchase from The Co-operative Bank		(1,488)	-
Net Cash Flow from Financing Activities		**(954)**	**(3,510)**
Net Movement in Cash		**15**	**(88)**
Opening Balance of Cash		252	340
Closing Balance of Cash		**267**	**252**

The Notes to the Financial Statements form part of, and are to be read in conjunction with, these Financial Statements.

1. Statement of Accounting Policies

(1) Reporting Entity

Co-operative Life Limited ("the Company") is a profit-oriented entity incorporated in New Zealand under the Companies Act 1993 and registered under the Co-operative Companies Act 1996 on 17 October 2011. It is a wholly owned subsidiary of The Co-operative Bank Limited ("The Co-operative Bank"). The registered office is 20 - 26 Ballance Street, Wellington. On 25 March 2013, the Company obtained its licence to carry on insurance business in New Zealand under the Insurance (Prudential Supervision) Act 2010 from the Reserve Bank of New Zealand.

The Company's principal business activities include the provision and underwriting of life and trauma insurance which involves the acceptance of significant insurance risk. 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 Company currently provides the Life Plus, Loan Plus, Loan Care and Loan Instalment Care insurance products.

(2) Accounting Policies

(a) Basis of Preparation

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP") which complies with the New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards for profit-oriented entities. The Company's financial statements comply with International Financial Reporting Standards ("IFRS").

(b) Presentation Currency and Rounding

The reporting currency is New Zealand dollars and amounts have been rounded to the nearest thousand ($000).

(c) Measurement Base

The financial statements have been prepared on a going concern basis in accordance with historical cost concepts, except for the revaluation of certain financial instruments. Cost is based on the fair value of the consideration given in exchange for the assets.

(d) Principles for Life Insurance Business

The life insurance operations are conducted in accordance with the Life Insurance Act 1908 and the Insurance (Prudential Supervision) Act 2010. The operations comprise the selling and administration of life insurance contracts. All contracts are non-investment linked. All business written is non-participating and all profits and losses are allocated to the shareholder.
Life 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.

(e) Significant Accounting Judgements and Estimates

Management is required to make judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors appropriate to the particular circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Significant accounting judgments and estimates made by management in the preparation of these financial statements are outlined below:

Estimation of Insurance Contract Liabilities
Insurance contract liabilities for life insurance contracts are computed using statistical or mathematical methods. These are made by suitably qualified personnel on the basis of recognised actuarial methods and principles. The methodology takes into account the risks and uncertainties of the particular life insurance business policies. Deferred policy acquisition costs are an offset to life insurance liabilities and are equally sensitive to the factors that are considered in the liability measurement.

1. Statement of Accounting Policies continued

The key factors that affect the estimation of these liabilities and related assets are:

- Mortality and morbidity experience on life insurance products, including enhancements to policyholder benefits;
- Discontinuance experience, which affects the Company's ability to recover the cost of acquiring new business over the lives of the contracts;
- Claim continuance rates for Loan Instalment Care claims;
- The cost of providing benefits and administering these insurance contracts; and
- The discount rate applied to calculate the present value of future benefits.

In addition, factors such as regulation, inflation, interest rates, taxes, investment market conditions and general economic conditions also affect the level of these liabilities. Refer to note 11.

Estimation of Fair Value of Financial Instruments
Assumptions for valuation models are based on Management's judgements and estimates. Changes in the assumptions used in these models and projections of future cash flows could affect the reported fair value of financial instruments. Refer to Note 4.

(f) Revenue Recognition
Revenue is recognised to the extent that it is probable that economic benefits will flow to the Company and that revenue can be reliably measured. The principal source of revenue is insurance premiums.

Insurance Premiums
Premium revenue is recognised from the inception date as soon as there is a basis on which it can reliably be estimated. Premium revenue is recognised in the profit or loss when it is earned in accordance with the pattern of incidence of risk expected under the insurance contract.

Reinsurance Recoveries
Reinsurance recoveries are recognised as revenue. Recoveries receivable are measured at the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

(g) Expense Recognition
All expenses are recognised in the profit or loss on an accrual basis.

Outwards Reinsurance Premiums
Premiums paid to reinsurers are recognised as an expense in accordance with the pattern of insurance service received.

Claims
Insurance claims are recognised when a valid claim is received. The outstanding claim liability for the Loan Care, Loan Plus, and Life Plus products equals the sum insured of valid notified claims that have yet to be paid. For the Loan Instalment Care business the outstanding claim liability equals the discounted present value of the estimated future payments of the insured benefit for the duration of disablement. For all products an additional provision is held for claims Incurred but Not Reported ("IBNR").

Life Insurance Acquisition Expenses
Policy acquisition expenses are the fixed and variable expenses of acquiring new business, including commission and underwriting expenses.

Policy maintenance expenses
Policy maintenance expenses include all operating and management expenses other than acquisition and investment management expenses.

1. **Statement of Accounting Policies** continued

(h) Life Insurance Net Policy Liabilities

Policy liabilities for the single premium Loan Plus business and the Loan Instalment Care business have been calculated using the "accumulation" method. The result of using this method rather than the "projection" method required under NZ IFRS 4 is not materially different. The Loan Plus contracts have an average duration of approximately one year, and the Loan Instalment Care contracts approximately 2.5 years.

Policy liabilities for the Life Plus business have been calculated using the "projection" method, with profits deferred over the life of the policy and emerging in proportion to the profit carrier. The profit carrier is gross life and trauma claims.

Policy liabilities for the Loan Care single premium policy have been determined using the projection method and the profit carrier is life claims.

Deferred acquisition costs are recognised in the Balance Sheet as a reduction of insurance contract liabilities and are amortised through Profit before Taxation over the expected duration of the relevant policies.

(i) Reinsurance and Other Recoveries Receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, IBNR and unexpired risk liabilities are recognised as income.

(j) Assets Backing Insurance Contract Liabilities

The Company has determined that all investment securities held in relation to insurance contracts are assets backing insurance contract liabilities.

(k) Measurement of Financial Instruments

Financial instruments transactions are on a commercial basis to derive an interest yield/cost with the terms and conditions having due regard to the nature of the transaction and the risks involved. Financial assets are classified in the following categories at initial recognition:

Loans and Receivables

These are measured initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method. Assets classified as loans and receivables include Trade and Other Receivables.

Fair Value Through Profit or Loss

These are measured at fair value with movements recognised in the profit or loss. Fair value movements do not include interest income. Assets classified in this category include Investment Securities, i.e. government stock, short term deposits, rated commercial papers, local government bonds and bank bonds.

Available for Sale

Assets in this category are initially measured at fair value, including transaction costs, with changes in fair value recognised directly in Other Comprehensive Income. When the financial asset is de-recognised or impaired, the cumulative gains or losses previously recognised in Other Comprehensive Income are reclassified in Profit before Taxation. Assets classified in this category include short term deposits and bonds, which are used to manage liquidity and may be sold prior to maturity.

1. Statement of Accounting Policies continued

(l) Intangible Assets

Intangible assets are carried at cost less accumulated amortisation and impairment losses. Intangible assets are future profits from customers acquired in business combinations.

Intangible assets are finite life assets and are amortised over their expected useful lives on a straight line basis of 20%. The assets' residual value, estimate of useful life and amortisation method are reviewed and adjusted if appropriate at each balance date. At each reporting date the carrying amount of these assets is reviewed for impairment. If any such impairment exists the loss is recognised in Profit before Taxation.

(m) Taxation

Income tax on the net profit for the period comprises current and deferred tax. Income tax is recognised in Profit after Taxation except to the extent that it relates to items recognised directly within Other Comprehensive Income, in which case it is recognised directly in Other Comprehensive Income.

(i) Current Tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by balance date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

(ii) Deferred Tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all the taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by balance date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the balance date, to recover or settle the carrying amount of its assets and liabilities.

Tax losses and expenses are transferred to The Co-operative Bank through the intercompany account at the current tax rate.

(n) Goods and Services Tax ("GST")

Revenue, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable, GST is recognised as part of the cost of the acquisition of the assets or as part of the expense item as applicable;
- Receivables and payables, are stated with the amount of GST included; and
- The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Balance Sheet.

1. Statement of Accounting Policies continued

(o) Statement of Cash Flows

The Statement of Cash Flows have been prepared using the direct approach.

The following are definitions of the terms used in the Statement of Cash Flows:

- Cash is considered to be cash held by the Company;
- Investing activities are those relating to the holding of financial assets and the purchase of Loan Intstalment Care;
- Financing activities are those activities which result in changes in size, composition and capital structure of the Company; and
- Operating activities include all transactions and other events that are not investing or financing activities.

(p) Comparative Financial Statements

There have been no changes to the 31 March 2012 comparative figures.

(q) Change of Accounting Policies

There have been no changes in accounting policies in the current year. The following new standards, amendments and interpretations relevant to the Company have been adopted from 1 April 2012 and have been applied in the preparation of these financial statements. Adoption of these standards has not resulted in any change to the Company's reported results or financial position.

- NZ IFRS 7 Financial Instruments Disclosures – Transfers of Financial Assets;
- Harmonisation Amendments and FRS 44.

(r) NZ IFRS Accounting Standards Not Yet Effective

At the date of authorisation of the financial report, a number of Standards and Interpretations were on issue but not yet effective.

(i) Initial application of the following Standards and Interpretations relevant to the Company is not expected to have any material impact on the financial report of the Company.

Standard	**Effective for Annual Reporting Periods Beginning On or after**	**Expected to be initially applied in the financial year Ending**
NZ IAS 1 Presentation of Financial Statements – Amendments To Presentation of Items of Other Comprehensive Income	1 July 2012	31 March 2014
Amendments to NZ IAS 32: Presentation – Offsetting Financial Assets and Financial Liabilities	1 January 2014	31 March 2015
Amendments to NZ IFRS 7 Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities	1 January 2013	31 March 2014
Annual Improvements to NZ IFRSs 2009 — 2011 Cycle	1 January 2013	31 March 2014

(ii) Initial application of the following Standard on the financial report has not yet been assessed by the Company.

NZ IFRS 13 Fair Value Measurement	1 January 2013	31 March 2014

(iii) Initial application of the following Standard is expected to have a material impact on the financial report of the Company.

NZ IFRS 9 Financial Instruments	1 January 2015	31 March 2016

NZ IFRS 9 introduces changes to the classification and measurement of financial instruments. The changes arising from NZ IFRS 9 may affect the recognition and measurement, and classification of amounts recognised in the company financial statements. The Company is currently in the process of evaluating the impact this standard will have on the financial statements.

		31 March 2013 $000	31 March 2012 $000
2.	**Insurance Premium Revenue**		
	Premium Received	7,286	5,635
	Movement in Policy Liabilities	(131)	243
		7,155	5,878
3.	**Operating Expenses**		
	Acquisition Costs	(2,425)	(1,935)
	Policy Maintenance Expenses	(778)	(499)
	Director's Fees	(6)	(6)
	Other Operating Expenses	(110)	(47)
		(3,319)	(2,487)

The auditor of the Company is Deloitte. The auditor's remuneration is paid by The Co-operative Bank on behalf of the Company.

Auditor's remuneration for auditing the financial statements:		
2013	16	-
2012	8	10
2011	-	4

4.	**Investment and Other Income**		
	Interest on Available for Sale Securities	154	218
	Interest on Government Stock	77	77
	Interest on Bank and Local Government Bonds	445	214
	Other Interest Income	13	7
	Fair Value Movement on Investment Securities*	91	229
		780	745

* Investment Securities include government stock, term deposits, local government bonds and bank bonds. The fair value of the government stock has been determined directly by reference to published price quotations in an active market. The fair value of the term deposits, local government bonds and bank bonds are derived from inputs that are observable either directly as prices or indirectly derived from prices.

5. Taxation

	31 March 2013 $000	31 March 2012 $000
(a) Net Profit before Taxation	2,972	1,820
Taxation at 28%	(832)	(510)
Non Assessable Income	-	-
Non Deductible Expenses	-	(27)
Less Transitional adjustment for life insurance rules[1]	735	877
Income Tax (Expense)/Benefit	**(97)**	**340**
Comprising:		
Current Taxation	(19)	157
Deferred Taxation - current year	(78)	58
Deferred Taxation - prior year	-	125
	(97)	**340**

(b) Deferred Tax

	Opening Balance $000	Purchase of Loan Instalment Care	Charged to Profit or Loss $000	Closing Balance $000
31 March 2013				
Gross Deferred Tax Liability:				
Net Policy Liabilities	(166)	-	(73)	(239)
Loan Instalment Care	-	(153)	13	(140)
Gross Deferred Tax Assets:				
Income Received in Advance	18	-	(18)	-
Deferred Tax Asset/(Liability)	**(148)**	**(153)**	**(78)**	**(379)**
31 March 2012				
Gross Deferred Tax Liability:				
Net Policy Liabilities	(373)	-	207	(166)
Gross Deferred Tax Assets:				
Life Plus Trauma Liability	20	-	(20)	-
Income Received in Advance	22	-	(4)	18
Deferred Tax Asset/(Liability)	**(331)**	-	**183**	**(148)**

[1] The transitional adjustment results from certain life insurance policies that, in most circumstances, will continue to be taxed under the previous tax rules for such policies despite changes in the taxation of life insurance that came into effect from 1 July 2010 for the Company. A similar transitional adjustment will arise in each of the next three years for these policies.

		31 March 2013 $000	31 March 2012 $000
6.	**Investment Securities**		
	Bank Bonds	4,991	3,424
	Government Stock	1,454	1,403
	Local Government Bonds	4,389	4,079
	Short Term Deposits with Registered Banks	1,751	2,049
		12,585	10,955

Investment Securities are assets that are currently or were previously backing life insurance contracts.

7.	**Available for Sale Securities**		
	Short Term Deposits	1,524	-
	Local Government Bonds	2,714	-
	Listed Multilateral Development Banks and Other International Organisations	1,046	-
		5,284	-

8.	**Trade and Other Receivables**		
	Reinsurance Recoverable	468	550
	Prepayments	22	-
	Intercompany Receivable	281	957
		771	1,507

There is no interest received or receivable with respect to Trade and Other Receivables.

9. Purchase of Loan Instalment Care

On 29 October 2012 the Company purchased the Loan Instalment Care business from IAG New Zealand Limited ("IAG") to add to the existing product portfolio underwritten by the Company. Prior to that date IAG underwrote the product with it being sold by the Co-operative Bank who received a commission on policies sold. Loan Instalment Care is an insurance product that pays the loan instalments on behalf of the insured borrower should they become totally disabled by injury or illness.

A cash payment of $97,000 was made for the acquisition of this business. This represents the difference between the intangible asset of $547,000 acquired, which represents future profits from existing customers, and the liability of $297,000 and $153,000, which represents incurred but not reported claims from existing customers and the deferred tax liability respectively. The volume of claims experienced since the acquisition date has been significantly lower than expected. This has resulted in a $167,000 reduction in the claims liability established at acquisition in respect of claims incurred but not reported. Revenue contributed by the Loan Instalment Care product included in the Statement of Comprehensive Income for the year ended 31 March 2013 was $840,000 and profit before tax for the same period was $346,000.

Intangible Asset		
Balance at beginning of year	-	-
Purchase of Loan Instalment Care Business	547	-
Amortisation	(46)	-
Balance at end of year	501	-

10.	**Trade and Other Payables**		
	Trade payables	4	6
	Income received in advance	-	61
		4	67

11. Net Policy Liabilities

Net Policy liabilities comprise the following:

- For Life Plus and Loan Care policies, a best estimate of the net present value of the net future cash flows of each product, plus a profit margin which releases profits evenly over the term of the contract in proportion to the profit carriers. The deferred acquisition component of the policy liabilities is separately identified for purposes of calculating deferred tax.
- For Loan Plus policies the unearned premium, net of commission, amortised in a straight line over the term of the policy. The deferred acquisition cost component is separately identified for purposes of calculating deferred tax. The policy liability is subject to a liability adequacy test on best estimate assumptions.
- For Loan Instalment Care policies (acquired from IAG on 29 October 2012, with new policies underwritten by the Company), an unearned premium representing the premium unearned up to the next premium due date.
- A provision for notified claims, and claims incurred but not reported. For Loan Instalment Care, the provision is the insured instalment projected forward using a set of claim continuance assumptions, discounted back to the present value.

The key assumptions used in determining the policy liabilities are as follows:

Discount rates:	
Life Plus:	2.43% p.a. net of tax (2012: 2.85%)
Loan Plus:	1.75% p.a. net of tax (2012: 1.91%)
Loan Care:	1.85% p.a. net of tax (2012: 2.31%)
Loan Instalment Care open claims:	2.50% p.a. gross of tax (new product)
Tax:	28% (2012: no change)
Mortality:	
Life Plus	80% of NZ97 (mortality experience of NZ insured lives 1993-1997) with smoker / non-smoker adjustments, and selection adjustments (2012: no change)
Loan Plus	55% of NZ97 (2012: no change)
Loan Care	55% of NZ97 (2012: no change)
Morbidity:	
Life Plus trauma	90% of reinsurance rates (2012: no change)
Loan Instalment Care	45% of premiums (new product)
Cancellation rates: Life Plus	Varying by age, 15% p.a. at age 25, reducing to 5% p.a. at age 65 (2012: no change)
Surrenders: Loan Plus	43% per annum (2012: 30% p.a.)
Surrenders: Loan Care	Mortgages: 12.5% p.a. (2012: no change) Loans: 35% p.a. (2012: no change)
Surrender values:	
Loan Plus	Issued prior to 24 August 2008: Pro-rata less fee ($100) Issued on or after 25 August 2008: Rule of 78 less fee ($100)
Loan Care	Rule of 78 less 10%
Future inflation:	2.00% per annum (2012: no change)

11. Net Policy Liabilities continued

Administration costs:	
Life Plus renewals	$32.13 per policy per annum (2012: $24.30)
Loan Plus	$16.06 per policy per annum (2012: $12.00)
Loan Care	$16.06 per policy per annum (2012: $12.00)
Valuation method:	
Life Plus: Projection method	Profit carrier: Death plus Trauma claim cost
(retained claims plus	reinsurance costs)
Loan Plus: Accumulation method	
Loan Care: Projection method	Profit carrier: Death claims
Loan Instalment Care: Accumulation method	no deferred acquisition costs. Claims valued using future projection of claim payments.

Co-operative Life Actuarial Information

The valuation of policy liabilities as at 31 March 2013 has been calculated in accordance with NZ IFRS 4 issued by the External Reporting Board and Professional Standard no. 3 of the New Zealand Society of Actuaries. The actuarial valuation of the policy liabilities relating to the position at 31 March 2013 was dated 24 April 2013. The actuarial report was prepared by Peter Davies, B.Bus.Sc, FIA, FNZSA, who is satisfied with the nature, sufficiency and accuracy of the data. There were no qualifications in the actuarial report. Peter Davies is a professional adviser to the Company.

The actuary has calculated the prudential reserving requirement as at 31 March 2013 under the RBNZ Solvency Standard for Life Insurers. On 1 July 2012 the Company established a Statutory Fund in accordance with the requirements of the Insurance (Prudential Supervision) Act 2010. The solvency position for the Statutory Fund and the Shareholder Fund can be summarised as follows:

		31 March 2013		31 March 2012
	Statutory Fund	Shareholder Fund	Total	Total
	$000	$000	$000	$000
Total Assets	7,159	12,249	19,408	12,996
Total Liabilities	5,469	302	5,771	5,239
Capital	1,690	11,947	13,637	7,757
Less Deductions	(361)	-	(361)	(1,241)
Actual Solvency Capital	1,329	11,947	13,276	6,516
Minimum Solvency Capital	-*	11,754	11,754	67,534
Solvency Margin	1,329	193	1,522	(61,018)

The minimum solvency requirement includes a significant allowance for a contingent liability in respect of The Co-operative Bank's term deposits and capital notes. The Company guaranteed the obligations of The Co-operative Bank to all depositors who were depositors at the time and date of bank registration (26 October 2011). The guarantee and therefore contingent liability decreases each month as the term deposits and capital notes mature. Capital was increased during the year to provide for this guarantee. The full amount of the guarantee as at 31 March 2013 was $56,186,400 (2012: $343,797,700).

*The policy liabilities of Co-operative Life are held within the Statutory Fund and currently exceed prudential margins; hence the minimum solvency capital for the Statutory Fund is zero.

Strategy for managing insurance risk

Portfolio of risks

Co-operative Life issues term life and disability cover for individuals.

11. Net Policy Liabilities continued

Risk strategy

In compliance with contractual and policy requirements, a strategy is in place to ensure that the risks underwritten should not adversely affect the Company's ability to pay benefits and claims when due. Continuous monitoring and improvement of the procedures in place is undertaken to minimise the chance of an adverse compliance or operational risk event occurring.

Reinsurance

To limit its exposure, the Company has its own reinsurance program in place. The Company cedes business to external entities, either by surplus or quota share arrangements.

Claims management

Procedures exist for verification, assessment and payment of claims. Strict claims management procedures ensure the timely and correct payment of claims in accordance with policy and/or treaty conditions.

Concentration of Insurance Risk

Concentration of insurance risk is managed by setting its underwriting acceptance criteria for its Life Plus life and trauma cover so that they are progressively more extensive with higher covers and older ages and limiting the maximum cover offered by some key products. Policies are sold only to individuals where there is a reasonable diversification of geographic and work-place risk, rather than to employer-based or affinity-based schemes.

Net Policy Liabilities	**31 March 2013 $000**	**31 March 2012 $000**
Opening Balance	5,024	5,542
Movement in Potential Claims	534	(66)
Movement in Policy Liabilities	131	(244)
Movement in Deferred Acquisition Costs	(320)	(208)
Closing Balance	5,369	5,024
Made up of:		
Deferred Acquisition Costs	(1,859)	(1,539)
Policy Liabilities	5,847	5,716
Net Policy Liabilities	3,988	4,177
Claims Provision	1,381	847
	5,369	5,024

Sensitivity Analysis

A sensitivity analysis has been carried out, varying the discount rate by 1%. The policy liabilities for the Loan Plus and Loan Instalment Care business are unaffected by this change, due to this business being valued on the accumulation method. For the Life Plus, and Loan Care business the liabilities are affected as follows:

	Discount rate (before tax) + 1% **$000**	Discount rate (before tax) - 1% **$000**
Life Plus:	(137)	157
Loan Care:	(64)	67
Loan Instalment Care open claims:	(15)	18

11. Net Policy Liabilities continued

Further sensitivity analysis has been completed using a 10% change to the demographic and expense assumptions identified earlier. There is no impact on net policy liabilities because the policy liabilities for Loan Plus and Loan Instalment Care are subject to a loss recognition test. Further the policy liabilities for all products exceed the central estimate of the present value of future net outflows by a margin. While the central estimate of future policy outflows varies with changes in assumptions, the policy liabilities do not. The future performance of Co-operative Life insurance contracts is affected by actual experience differing from the valuation assumptions. For the Life Plus, and Loan Care business, there is sufficient profit margin in the policy liabilities to absorb the change in the assumptions, and the policy liability is therefore unaffected.

12. Retained Earnings

	31 March 2013 $000	31 March 2012 $000
Opening Balance	6,257	7,607
Profit after Taxation	2,875	2,160
Dividends Paid to The Co-operative Bank	(2,995)	(3,510)
Closing Balance	6,137	6,257

13. Share Capital

	Number of Shares	Number of Shares
Fully paid shares issued to The Co-operative Bank	1,500,000	1,500,000
Capital Injection from The Co-operative Bank	12,000,000	-
Capital Repurchase from The Co-operative Bank	(6,000,000)	-
	7,500,000	1,500,000

All shares rank equally and share equally in any surplus, dividends or share in winding up. All shares were issued for $1 per share.

On 24 October 2012 The Co-operative Bank made a capital injection of $12,000,000 to Co-operative Life Limited, $6,000,000 of this was repaid on 20 March 2013. The $12 million capital injection was made by way of a $3.5 million dollar cash transfer and a transfer of $8.5 million in assets. The $6 million capital repayment was made by way of a $1.5 million cash transfer and a transfer of $4.5 million in assets. These assets are classified as Available for Sale as they are not backing life insurance contracts.

14. Reconciliation of Net Profit after Taxation with Net Cash Flow from Operating Activities

	31 March 2013 $000	31 March 2012 $000
Profit after Taxation	2,875	2,160
Add/(Less) Non-Cash Items:		
Investment Securities Capital Value	(5)	(5)
Deferred Tax	230	(183)
Fair Value Movement on Investment Securities	(92)	(229)
Depreciation	46	-
	179	**(417)**
Add/(Less) Movements in Assets/Liabilities:		
Trade and Other Receivables	739	(820)
Tax Receivables from The Co-operative Bank	301	100
Net Policy Liabilities	345	(517)
Trade and Other Payables	(63)	(30)
Intangible Asset	(450)	-
	872	**(1,267)**
Add/(Less) other items classified as investing activities:		
Increase/(Decrease) in Interest Accrued	(56)	(24)
	(56)	**(24)**
Net Cash Flow from Operating Activities	**3,870**	**452**

		31 March 2013 $000	31 March 2012 $000
15.	**Related Party Transactions**		
	Amounts outstanding between the Company and related parties:		
	Receivable from The Co-operative Bank	281	957
	Amounts owing from related parties are non-interest bearing.		
	Transactions between the Company and related parties:		
	Receipt of amounts owed by The Co-operative Bank	676	-
	Dividends Paid to The Co-operative Bank	(2,995)	(3,510)
	Capital Injection from The Co-operative Bank	12,000	-
	Capital Repurchase from The Co-operative Bank	(6,000)	-

All income and expenses of the Company are received or paid by The Co-operative Bank on behalf of the Company and are settled regularly through the intercompany account in accordance with the Management Deed between both parties. The following expenses were incurred by the Company for services provided by The Co-operative Bank during the year:

	2013	2012
Policy Maintenance Expense	(778)	(499)
Commission Expense *	(2,244)	(1,774)

* Included within Acquisition Costs

No related party transaction has been written off or forgiven during the year. All related party transactions are on an arm's length basis.

The Company has no employees as its activities are managed by The Co-operative Bank in accordance with the Management Deed between the both parties.

16. Financial Instruments

Introduction

The Company is committed to the management of risk to achieve sustainability of service and profits, and therefore, takes on controlled amounts of risk when considered appropriate.

The primary financial risks are insurance, credit, liquidity, interest rate and operational risk.

The Company's Board of Directors is ultimately responsible for the review and ratification of the Company's systems of risk management, internal control, codes of conduct and legal compliance. The Board meets quarterly and receives reports including performance against agreed risk metrics. Risk systems and procedures are maintained and monitored by The Co-operative Bank under a management deed between it and the Company.

The Co-operative Bank's Board of Directors maintains a formal set of delegated authorities for The Co-operative Bank and its subsidiaries, including the Company. Credit and Treasury delegated authorities are contained within their respective policy documents. The Co-operative Bank's Board of Directors approves these delegated authorities on behalf of the Company.

16. Financial Instruments continued

The Co-operative Bank management formally reports on all aspects of key operational risks to the Company's Board of Directors at least four times each year, with credit and treasury risks reported monthly. In addition, the following management committees review and manage key risks:

(i) The Co-operative Bank Senior Leadership Team meets regularly to consider new and emerging risks, reviews actions required to manage and mitigate key risks, and to monitor progress; and

(ii) The Co-operative Bank Assets and Liabilities Committee ("ALCO") meets weekly to consider, monitor and review exposure to interest rate risk, liquidity risk, and credit risk.

Insurance Risk
Insurance risk is the failure of product, design, product pricing, underwriting or claims management processes resulting in the cost of an insurance claim being higher than the planned cost. Key insurance risk metrics are measured against targets and reported to the Company's Board of Directors quarterly.

Credit Risk
Credit risk is the potential risk of loss arising from the non-performance of a counterparty to a financial instrument or facility.

The Company's credit risk relates predominately to wholesale (treasury) investments. The risk exposure is managed through a conservative "approved counterparty" policy and maximum credit limits which have been approved for each counterparty on the basis of:
(i) Portfolio tier limits by credit rating;
(ii) Individual tier limits by credit rating;
(iii) Product category limits; and
(iv) Term to maturity limits.

All credit risks are within New Zealand and all credit risk is denominated in New Zealand dollars.

Liquidity Risk
Liquidity risk is the risk that the Company does not have access to cash at the time the need for cash arises. Liquidity risk is managed with respect to:
(i) The relative term to maturity of insurance treasury assets; and
(ii) Compliance with regulated solvency margins as stipulated by regulation.

Liquidity management is delegated, under the management deed, to the Treasurer under the oversight of the ALCO.

Interest Rate Risk
Interest rate relates to the mismatch between the policyholder liabilities and the assets backing those liabilities. These mismatches could impact current period operating profits.
Interest rate risk is managed by the Company through a strategic asset allocation policy and an investment management policy that has regards to surrender and claims expectations and risks. Any breaches of interest rate risk limits are managed within the treasury policy of The Co-operative Bank and reported to the Company's Board of Directors quarterly.

Operational Risk
Operational risks are those arising from human error, system failures, inadequate procedures or controls and external events. The Co-operative Bank, under a management deed between it and Co-operative Life manages the Company's operational risks. Risks under management include systems, reputation, legal and regulatory, fraud, losses and physical asset protection and crisis management. Risks are reported to the Board of The Co-operative Bank on a monthly basis and remedial action taken where necessary.

16. Financial Instruments continued

16 (a) Interest Rate Repricing Schedule

The following tables include the Company's assets and liabilities at their carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

As at 31 March 2013	Effective Int Rate %	Within 3 months $000	3-6 Months $000	6-12 Months $000	1 – 2 Year $000	Over 2 Years $000	Non-Interest $000	Total $000
Assets								
Cash	2.5	267	-	-	-	-	-	267
Investment Securities	5.6	4,047	701	1,048	2,123	4,666	-	12,585
Available for Sale Securities	5.5	740	1,523	-	1,032	1,989	-	5,284
Trade and Other Receivables	n/a	-	-	-	-	-	771	771
Intangible Asset	n/a	-	-	-	-	-	501	501
Total Assets		**5,054**	**2,224**	**1,048**	**3,155**	**6,655**	**1,272**	**19,408**
Liabilities & Reserves								
Trade and Other Payables	n/a	-	-	-	-	-	4	4
Claims Provision	n/a	-	-	-	-	-	1,381	1,381
Net Policy Liabilities	n/a	-	-	-	-	-	3,988	3,988
Deferred Tax Liability	n/a	-	-	-	-	-	379	379
Taxation Payable to The Co-operative Bank	n/a	-	-	-	-	-	19	19
Reserves	n/a	-	-	-	-	-	13,637	13,637
Total Liabilities & Reserves	-	-	-	-	-	-	**19,408**	**19,408**

As at 31 March 2012	Effective Int Rate %	Within 3 months $000	3-6 Months $000	6-12 Months $000	1 – 2 Year $000	Over 2 Years $000	Non-Interest $000	Total $000
Assets								
Cash	2.5	252	-	-	-	-	-	252
Investment Securities	5.0	1,154	2,924	-	1,626	5,251	-	10,955
Trade and Other Receivables	n/a	-	-	-	-	-	1,507	1,507
Taxation receivables The Co-operative Bank	n/a	-	-	-	-	-	282	282
Total Assets		**1,406**	**2,924**	**-**	**1,626**	**5,251**	**1,789**	**12,996**
Liabilities & Reserves								
Trade and Other Payables	n/a	-	-	-	-	-	67	67
Claims Provision	n/a	-	-	-	-	-	847	847
Net Policy Liabilities	n/a	-	-	-	-	-	4,177	4,177
Deferred Tax Liability	n/a	-	-	-	-	-	148	148
Reserves	n/a	-	-	-	-	-	7,757	7,757
Total Liabilities & Reserves	-	-	-	-	-	-	**12,996**	**12,996**

16. Financial Instruments continued

16 (b) Contractual Maturity Analysis

The following tables analyse the Company's assets and liabilities into relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date. The tables include interest and principal cash flows, as well as the commitment to make amounts available in instalment. The total amount is different from the amount on the Balance Sheet. Such cash flows are undiscounted cash flows.

As at 31 March 2013	On Demand	Within 6 Months	6-12 Months	1-2 Years	Over 2 Years	No Maturity	Total
	$000	$000	$000	$000	$000	$000	$000
Assets							
Cash	267	-	-	-	-	-	267
Investment Securities	-	3,793	1,228	2,389	6,152	-	13,562
Available for Sale Securities	-	2,374	87	1,130	1,906	-	5,497
Trade and Other Receivables	-	771	-	-	-	-	771
Total Financial Assets	**267**	**6,938**	**1,315**	**3,519**	**8,058**	**-**	**20,097**
Liabilities							
Trade and Other Payables	-	4	-	-	-	-	4
Claims Provision	-	-	-	-	-	1,381	1,381
Net Policy Liabilities	-	-	-	-	-	3,988	3,988
Total Financial Liabilities	**-**	**4**	**-**	**-**	**-**	**5,369**	**5,373**

As at 31 March 2012	On Demand	Within 6 Months	6-12 Months	1-2 Years	Over 2 Years	No Maturity	Total
	$000	$000	$000	$000	$000	$000	$000
Assets							
Cash	252	-	-	-	-	-	252
Investment Securities	-	6,223	122	1,745	3,441	-	11,531
Trade and Other Receivables	-	1,507	-	-	-		1,507
Total Financial Assets	**252**	**7,730**	**122**	**1,745**	**3,441**	**-**	**13,290**
Liabilities							
Trade and Other Payables	-	67	-	-	-	-	67
Claims Provision	-	-	-	-	-	847	847
Net Policy Liabilities	-	-	-	-	-	4,177	4,177
Total Financial Liabilities	**-**	**67**	**-**	**-**	**-**	**5,024**	**5,091**

16. Financial Instruments continued

16 (c) Carrying Amount and Fair Value

	31 March 2013		31 March 2012	
	Carrying Amount $000	Fair Value $000	Carrying Amount $000	Fair Value $000
Cash (i)	267	267	252	252
Investment Securities (i) (ii)	12,585	12,585	10,955	10,955
Available for Sale Securities (i) (ii)	5,284	5,284	-	-
Trade and Other Receivables (i)	771	771	1,507	1,507
Trade and Other Payables (i)	(4)	(4)	(67)	(67)

Fair Value Assumptions

(i) Cash, investment securities, available for sale securities, trade and other receivables and trade and other payables are either fair valued or approximate fair value on the Balance Sheet. The fair value for instruments at amortised cost (including cash, trade and other receivables and trade and other payables) is determined by using discounted cash flow models incorporating market observable data for similar instruments. The fair value of investment securities and available for sale securities is also determined using discounted cash flow models incorporating market observable data for similar instruments; and

(ii) Securities are valued at the quoted prices in active markets for similar assets.

Fair value measurements recognised in the Balance Sheet.

Under NZ IFRS 7, the fair value of financial instruments is determined on a hierarchical basis that reflects the significance of the inputs used in making the measurements. The fair value hierarchy is:

(i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

(ii) Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

(iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

All financial instruments recognised on the balance sheet at fair value sit within level 2, other than Government Stock whose fair value sits within Level 1.

16 (d) Concentration of Credit Exposures

	31 March 2013 $000	31 March 2012 $000
Registered Banks	7,009	4,691
Government, Local Authority and State Owned Enterprises	8,558	5,481
Listed Multilateral Development Banks and Other International Organisations	1,046	-
Other Corporate Investments	1,523	1,002
Trade and Other Receivables	771	1,507
	18,907	12,681

16. Financial Instruments continued

16 (e) Interest rate risk Sensitivity Analysis

As at 31 March if interest rates on interest bearing assets had been 100 basis points higher or 100 basis points lower with all other variables held constant the impact on Profit after Taxation would have been as follows:

	Interest Rates Increase by 100 Basis Points		Interest Rates Decrease by 100 Basis Points	
	2013	2012	2013	2012
	$000	$000	$000	$000
Assets measured at Fair Value through Profit and Loss or Equity				
Effect on Profit after Taxation	(232)	(261)	244	276
Effect on Equity	(289)	(261)	302	276

17. Capital Commitments

As at balance date the Company had no capital commitments (31 March 2012: nil).

18. Contingent Liabilities

On 26 October 2011, The Co-operative Bank registered as a bank. Co-operative Life guaranteed the obligations of the Registered Bank to all depositors who were depositors at the time and date of bank registration (26 October 2011). The guarantee and therefore contingent liability decreases each month as the term deposits and capital notes mature. Capital was increased during the year to provide for this guarantee. The full amount of the guarantee as at 31 March 2013 was $56,186,400 (2012: $343,797,700).

19. Subsequent Event

There were no events subsequent to the reporting date which would materially affect the financial statements.

Deloitte.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDER OF CO-OPERATIVE LIFE LIMITED

Report on the Financial Statements

We have audited the financial statements of Co-operative Life Limited on pages 1 to 22, which comprise the balance sheet as at 31 March 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholder in accordance with Section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the company's shareholder those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's shareholder for our audit work, for this report, or for the opinions we have formed.

Board of Directors' Responsibility for the Financial Statements

The Board of Directors are responsible for the preparation of financial statements, in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the Board of 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 Responsibilities

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 and 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 entity's preparation of 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 entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates, as well as the overall 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.

We are also the auditor of the Parent of Co-operative Life Limited, The Co-operative Bank Limited (the "Registered Bank"). Our firm has also provided other audit related services to the Registered Bank and Co-operative Life Limited. In addition to this, principals and employees of our firm may also deal with the Registered Bank and Co-operative Life Limited on normal terms within the ordinary course of trading activities of the business of the Registered Bank and Co-operative Life Limited. The firm has no other relationship with, or interest in, Co-operative Life Limited, the Registered Bank or any of its subsidiaries.

Opinion

In our opinion, the financial statements on pages 1 to 22:
- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of Co-operative Life Limited as at 31 March 2013, and its financial performance for the year ended on that date.

Report on Other Legal and Regulatory Requirements

We also report in accordance with section 16 of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 March 2013:

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

Deloitte

Chartered Accountants
30 May 2013
Wellington, New Zealand

Davies Financial and Actuarial Limited

30th May 2013

To: The Directors
Co-operative Life Limited

From: Peter Davies
Appointed Actuary

Re: Co-operative Life Limited: Report as at 31st March 2013 under Sections 77 and 78 of the Life Assurance (Prudential Supervision) Act 2010

You have asked me to prepare this report in terms of the above sections of the Act, and I would like to comment further as follows:

1. I have reviewed the actuarial information included in the audited accounts for Co-operative Life Limited as at 31st March 2013. ñActuarial informationò includes the following:

    - policy liabilities;
    - solvency calculations in terms of the RBNZ Solvency Standard;
    - balance sheet and other information allowed for in the calculation of the companyôs solvency position; and
    - disclosures regarding the methodology and assumptions used for calculating policy liabilities, and other disclosures.

2. No limitations have been placed on my work.

Level 1, 3 Shea Terrace, Takapuna 0622 Telephone (09) 489-3551 e-mail: pdavies@actuary.co.nz
P.O. Box 35-258, Browns Bay, Auckland 0753 Facsimile: (09) 489-6613 home page: www.actuary.co.nz

3. I am independent with respect to Co-operative Life Limited as defined under professional standard ISA (NZ) 620 of the New Zealand Institute of Chartered Accountants.

4. I have been provided with all information that I have requested in order to carry out this review.

5. In my view the actuarial information contained in the financial statements has been appropriately included, and the actuarial information used in the preparation of the financial statements has been appropriately used.

6. Co-operative Life Limitedôs solvency margin as at 31st March 2013 exceeded the minimum requirement of the RBNZ Solvency Standard for Life Insurers, issued in terms of the Insurance (Prudential Supervision) Act. The company has set up a Statutory Fund, and each of its two life funds (the Statutory Fund being one, and its Shareholder fund being the other) was independently solvent at that date.

   I have carried out a 4-year projection of the Companyôs solvency position, including the projected repayment of $6m of capital during the year ending March 2014, and the Company is projected to exceed the minimum requirement at all times over this period. While the legislation prescribes a 3-year projection period, the nature of the representations made to the RBNZ effectively require a 4-year forecast.

I would be very happy to answer any queries concerning this report.

Yours sincerely

Peter

Peter Davies B.Bus.Sc., FIA, FNZSA
Appointed Actuary

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