

**CO-OPERATIVE LIFE LIMITED**  
**Annual Financial Statements**  
For the Year Ended 31 March 2015

**CO-OPERATIVE LIFE LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
For the Year Ended 31 March 2015

	Note	Year Ended 31/03/2015 \$000	Year Ended 31/03/2014 \$000
Insurance Premium Revenue		9,051	8,653
Outwards Reinsurance Premium Expense		(1,307)	(1,225)
Net Premium Revenue		7,744	7,428
Investment Revenue	4	752	425
<b>Net Revenue</b>		<b>8,496</b>	<b>7,853</b>
Claims Expense		(2,153)	(2,383)
Reinsurance Recoveries Revenue		380	828
Net Claims Expense		(1,773)	(1,555)
Changes in Policy Liabilities	14	(94)	652
Other Operating Expenses	5	(3,993)	(3,837)
Total Operating Expenses		(4,087)	(3,185)
<b>Profit before Tax</b>		<b>2,636</b>	<b>3,113</b>
Income Tax Expense	6	(183)	(163)
<b>Profit after Tax Attributable to Parent</b>	7	<b>2,453</b>	<b>2,950</b>
<b>Other Comprehensive Income</b>			
<i>Items that may be Reclassified Subsequently to Profit or Loss</i>			
Fair Value Movement on Available for Sale Investments		55	(3)
Income Tax Expense relating to items that may be reclassified		(15)	1
<b>Other Comprehensive Income, Net of Tax</b>		<b>40</b>	<b>(2)</b>
<b>Total Comprehensive Income, Net of Tax, Attributable to Parent</b>		<b>2,493</b>	<b>2,948</b>

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 CHANGES IN EQUITY**  
For the Year Ended 31 March 2015


	Year Ended 31/03/2015 \$000	Year Ended 31/03/2014 \$000
Equity at Beginning of Year	8,235	13,637
Profit after Tax Attributable to Parent	2,453	2,950
Other Comprehensive Income Attributable to Parent	40	(2)
Dividends Paid to Parent	(2,600)	(2,350)
Share Capital Repurchased from Parent	-	(6,000)
<b>Equity at End of Year</b>	<b>8,128</b>	<b>8,235</b>
<b>Retained Earnings</b>		
Balance at Beginning of Year	6,737	6,137
Profit after Tax	2,453	2,950
Dividends Paid to Parent	(2,600)	(2,350)
<b>Balance at End of Year</b>	<b>6,590</b>	<b>6,737</b>
<b>Available for Sale Reserve</b>		
Balance at Beginning of Year	(2)	-
Fair Value Movement through Other Comprehensive Income	55	(3)
Tax through Other Comprehensive Income	(15)	1
<b>Balance at End of Year</b>	<b>38</b>	<b>(2)</b>
<b>Share Capital</b>		
Balance at Beginning of Year	1,500	7,500
Share Capital Repurchased from Parent	-	(6,000)
<b>Balance at End of Year</b>	<b>1,500</b>	<b>1,500</b>
<b>Total Equity</b>	<b>8,128</b>	<b>8,235</b>

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 2015

	Note	31/03/2015 \$000	31/03/2014 \$000
<b>Assets</b>			
Cash and Cash Equivalents		319	1,466
Available for Sale Investments	8	4,187	1,373
Fair Value through Profit or Loss Securities	9	8,097	9,784
Receivables and Prepayments	10	220	338
Intangible Asset	11	283	392
<b>Total Assets</b>		<b>13,106</b>	<b>13,353</b>
<b>Liabilities</b>			
Trade and Other Payables	12	304	276
Outstanding Claims Provision	13	1,077	1,234
Life Insurance Net Policy Liabilities	14	3,430	3,336
Deferred Tax Liability	6	167	272
<b>Total Liabilities</b>		<b>4,978</b>	<b>5,118</b>
<b>Net Assets</b>		<b>8,128</b>	<b>8,235</b>
<b>Equity</b>			
Retained Earnings		6,590	6,737
Available for Sale Reserve		38	(2)
Share Capital	16	1,500	1,500
<b>Total Equity</b>		<b>8,128</b>	<b>8,235</b>

These financial statements were authorised for issue for and on behalf of the Directors on 27 May 2015.

  
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 2015

		Year Ended 31/03/2015 \$000	Year Ended 31/03/2014 \$000
	<b>Note</b>		
<b>Cash Flows from Operating Activities</b>			
Insurance Premium Revenue Received		9,113	8,873
Reinsurance Recoveries Revenue Received		439	1,040
Interest Income Received		552	715
Claims Expenses Paid		(2,310)	(2,530)
Reinsurance Premium Expense Paid		(1,307)	(1,225)
Other Expenses Paid		(4,163)	(3,744)
<b>Net Cash Flows from Operating Activities</b>	<b>17</b>	<b>2,324</b>	<b>3,129</b>
<b>Cash Flows from Investing Activities</b>			
Net (Purchase)/Sale of Investments		(871)	3,425
<b>Net Cash Flows from Investing Activities</b>		<b>(871)</b>	<b>3,425</b>
<b>Cash Flows from Financing Activities</b>			
Dividends Paid to Parent		(2,600)	(2,350)
Payment for Share Capital Repurchased from Parent		-	(3,005)
<b>Net Cash Flows from Financing Activities</b>		<b>(2,600)</b>	<b>(5,355)</b>
<b>Net Movement in Cash and Cash Equivalents</b>		<b>(1,147)</b>	<b>1,199</b>
Opening Balance of Cash and Cash Equivalents		1,466	267
<b>Closing Balance of Cash and Cash Equivalents</b>		<b>319</b>	<b>1,466</b>
<i>Reconciliation of Cash and Cash Equivalents:</i>			
Cash at NZ Registered Banks		319	1,466
<b>Total Cash and Cash Equivalents</b>		<b>319</b>	<b>1,466</b>

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



**CO-OPERATIVE LIFE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended 31 March 2015**

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**1. Statement of Accounting Policies**

**(1) Reporting Entity**

Co-operative Life Limited ("the Company" or "Co-op Life") 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. The Company is an issuer for the purposes of the Financial Reporting Act 2013.

The Company is a wholly owned subsidiary of The Co-operative Bank Limited ("Co-op Bank" or "the Parent"). The registered office is 20 - 26 Ballance Street, Wellington.

The life insurance operations are conducted in accordance with the Life Insurance Act 1908 and the Insurance (Prudential Supervision) Act 2010. On 25 March 2013, the Company obtained its licence to carry on life insurance business in New Zealand under the Insurance (Prudential Supervision) Act 2010 from the Reserve Bank of New Zealand.

As at 31 March 2015 and up until the date of the signing the Financial Statements, Co-op Life had a financial strength rating of B++ (outlook stable) and an issuer credit rating of bbb+ (outlook stable) issued by A.M. Best Company Inc ("A.M. Best"). The financial strength rating and credit rating were re-affirmed by A.M. Best on 19 October 2014.

The Company's principal business activities are the provision and underwriting of life and trauma insurance which involves the acceptance of significant insurance risk. Life insurance contracts are 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. All insurance contracts written are non-investment linked and non-participating, with all profits and losses being allocated to the shareholder.

**(2) Basis of Preparation**

**(a) Statement of Compliance**

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 as applicable for profit-oriented entities. The Company's financial statements comply with International Financial Reporting Standards ("IFRS").

The principal accounting policies adopted in the preparation of these financial statements are set out below.

**(b) Measurement Base**

The financial statements have been prepared on a going concern basis in accordance with the historical cost concept, except for the revaluation of Available for Sale Investments and financial instruments designated at fair value through profit or loss which are recognised at fair value. Cost is based on the fair value of the consideration given in exchange for the assets.

Revenue, expenses and assets are reported in the financial statements net of the amount of Goods and Services Tax ("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 reported in the Balance Sheet with the amount of GST included.

**(c) Functional and Presentation Currency and Rounding**

The functional and presentation currency of the Company is New Zealand dollars and all amounts have been rounded to the nearest thousand dollars (\$000), except where otherwise stated.

**(d) Comparatives**

Certain amounts in the comparative information have been reclassified to ensure consistency with the current year's presentation. The comparative figures in the notes to the financial statements relating to these items have been reclassified accordingly.



**CO-OPERATIVE LIFE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Year Ended 31 March 2015

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**2. Critical Estimates and Judgement used in Applying Accounting Policies**

The preparation of the financial statements requires the use of management judgement, estimates and assumptions that affect reported amounts and the application of various accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable and these are reviewed on an on-going basis. However actual results may differ from these estimates. The significant estimates and judgements used by the Company that have the most significant effect on the amounts recognised in the financial statements are set out below.

***Estimation of Life Insurance Net Policy Liabilities***

Life insurance contract liabilities are valued by an externally appointed actuary using actuarial models which are based on recognised actuarial methodologies, standards and principles. The methodologies take into account the risks and uncertainties of the particular life insurance business policies. Deferred policy acquisition costs are an offset to the life insurance contract liabilities and are equally sensitive to the factors that are considered in the liability measurement. The key factors that affect the estimation of the life insurance net policy liabilities 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 regulations, inflation, interest rates, taxes, investment market conditions and general economic conditions affect the level of the life insurance net policy liabilities. Changes in the key assumptions used in the actuarial models and projections of future cash flows could affect the value of the life insurance net policy liabilities reported in the financial statements. Refer to Note 14 for details of the life insurance net policy liabilities.

***Estimation of Fair Value of Financial Instruments***

The Company's financial instruments measured at fair value are stated in Note 3 (d)(i). Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the reporting date in the principal, or in its absence, the most advantageous market to which the Company has access to at that date. The fair value of a financial liability reflects its non-performance risk.

In estimating fair value the Company uses, wherever possible, quoted market prices in an active market for the financial instrument. A market is active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis. In the event that there is no active market for the instrument, fair value is based on present value estimates or other market accepted valuation techniques. Some of the inputs to the valuation models used require management judgement, such as determining the appropriate yield curves, counterparty credit spreads and other factors that would influence the fair value determined by a market participant. 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 9 for details of the financial instruments which are measured at fair value.

**3. Significant Accounting Policies**

**(a) Income Recognition**

Income is recognised to the extent that it is probable that economic benefits will flow to the Company and that the income can be reliably measured. The Company's principal sources of income are insurance premiums and reinsurance recoveries.

**i. Insurance Premiums**

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



**CO-OPERATIVE LIFE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Year Ended 31 March 2015

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**3. Significant Accounting Policies Continued**

**ii. Reinsurance Recoveries**

Reinsurance recoveries are recognised as revenue from the date the applicable claim is accepted and recognised as a liability. Reinsurance recoveries are measured at the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

**(b) Expense Recognition**

Expenses are recognised in the Statement of Comprehensive Income on an accruals basis.

**i. Outward Reinsurance Premiums**

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

**ii. Claims**

Insurance claims are recognised as an expense when a valid claim has been received and accepted. The outstanding claims 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 insurance products an additional provision is held for claims Incurred But Not Reported ("IBNR") at the reporting date, which is calculated by Co-op Life's independent Appointed Actuary based on historical claims experience and actuarial statistical tables.

**iii. Policy Acquisition Costs**

Policy acquisition costs are the fixed and variable costs of acquiring new business, including commission and underwriting costs. Policy acquisition costs are initially recorded in profit or loss when the expense has been incurred, with any amounts to be deferred then taken to the Balance Sheet as a Deferred Acquisition Cost to be released over the life of the policy.

**iv. Policy Maintenance Expenses**

Policy maintenance costs are the costs of administering policies subsequent to sale and maintaining operations such that they are sufficient to service existing policies. These include all operating and management costs other than policy acquisition and investment management costs. Policy maintenance costs are recorded in profit or loss when the expense has been incurred.

**(c) Income Tax**

**i. Income Tax Expense**

Income tax on the net profit for the year comprises current and deferred tax and is based on the applicable tax law. The income tax expense is recognised in profit or loss except when it relates to items credited directly to equity, in which case it is recognised in Other Comprehensive Income.

**ii. 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 year based on applicable tax rates and laws. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

**iii. Deferred Tax**

Deferred tax is accounted for using the comprehensive tax balance sheet 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.

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



**CO-OPERATIVE LIFE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Year Ended 31 March 2015

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**3. Significant Accounting Policies Continued**

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 applicable tax rates and laws. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

**(d) Assets and Liabilities**

**i. Financial Instruments Classification and Measurement**

Financial instruments are transacted on a commercial basis to derive an interest yield/cost with terms and conditions that have due regard to the nature of the transaction and the risks involved. The Company classifies its financial instruments into the following categories at initial recognition:

***Loans and Receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell immediately or in the near term. Loans and receivables are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. Assets classified as loans and receivables include receivables and prepayments.

***Fair Value through Profit or Loss Securities***

Financial assets and financial liabilities in this category are either held for trading or managed with other assets and liabilities which are accounted for and evaluated on a fair value basis. Financial assets classified in this category include assets held backing insurance contract liabilities, such as term deposits, local government bonds and bank bonds.

Changes in the fair value of these financial instruments are recognised in profit or loss in the period in which they occur. The fair value gain or loss does not include interest earned and accrued on the financial assets, as this is recorded as part of interest income.

***Available for Sale Investments***

Available for sale investments are non-derivative financial assets that are designated as available for sale or are not classified as another category of financial assets. Available for sale investments are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or changes in interest rates or exchange rates.

Available for sale investments are initially measured at fair value, including transaction costs, and subsequently carried at fair value. Interest income is recognised in profit or loss using the effective interest method. Impairment losses are recognised directly in profit or loss. Other fair value changes, other than impairment losses, are recognised directly in Other Comprehensive Income and presented in the Available for Sale Reserve within Equity. When the financial asset is de-recognised or impaired, the cumulative gains or losses previously recognised in Other Comprehensive Income are reclassified in profit or loss. Financial assets classified in this category include short term deposits and commercial paper securities, which are used to manage liquidity and may be sold prior to maturity.

***Other Financial Liabilities***

Other financial liabilities include all financial liabilities other than those classified at fair value through profit or loss. Other financial liabilities are initially recognised at fair value, including direct and incremental transaction costs, and are subsequently measured at amortised cost. Financial liabilities classified in this category include trade and other payables.



**CO-OPERATIVE LIFE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Year Ended 31 March 2015

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**3. Significant Accounting Policies Continued**

**ii. Recognition and Derecognition of Financial Instruments**

The Company recognises a financial asset or financial liability on its Balance Sheet when the Company becomes a party to the contractual provisions of the financial asset or financial liability and cash is settled.

The Company derecognises a financial asset from its Balance Sheet when:

- The contractual rights to the cash flows from the financial asset expire; or
- The Company has transferred the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or when it does not retain control of the financial asset.

Financial liabilities are derecognised when the obligations specified in the contract have been discharged, cancelled or have expired. Financial assets are subject to regular impairment review with impairment recognised in profit or loss when necessary.

**iii. Assets Backing Insurance Contract Liabilities**

The Company has determined that all financial assets held in relation to insurance contracts are Assets Backing Insurance Contract Liabilities. Such financial assets have been allocated to the Statutory Fund and are valued at fair value through profit or loss.

**iv. Intangible Assets**

Intangible assets are carried at cost less accumulated amortisation and impairment losses.

The intangible asset relates to the future profits to be earned from existing customers acquired in the acquisition of the Loan Instalment Care business from IAG New Zealand Limited in October 2012. This intangible asset is being amortised on a straight line basis over five years and is reviewed for impairment at each reporting date. Any impairment loss is recognised in profit or loss.

**v. Life Insurance Net Policy Liabilities**

Policy liabilities arising from insurance contracts are calculated by Co-op Life's independent Appointed Actuary, using the Margin on Service ("MoS") methodology in accordance with New Zealand Society of Actuaries Professional Standard 3: *Determination of Life Insurance Policy Liabilities*. Under the MoS methodology, profit comprises the following components:

- Planned Margins of Revenues over Expenses – at the time of writing a policy and at each reporting date, best estimate assumptions are used to determine all expected future payments and premiums.
- Difference between Actual and Assumed Experience – where actual experience replicates best estimate assumptions, the expected profit margin will be released to profit over the life of the policy. Experience profits or losses are realised where actual experience differs from best estimate assumptions. Instances giving rise to experience profits or losses include variations in claims, expenses, mortality, discontinuance and investment returns.
- Changes to Underlying Assumptions – assumptions used for measuring policy liabilities are reviewed each year. Where the review leads to a change in assumptions, the change is deemed to have occurred from the reporting date. The financial effect of changes to the assumptions underlying the measurement of policy liabilities made at the reporting date are recognised in the Statement of Comprehensive Income over the future reporting periods during which services are provided to policyholders, however if, based on best estimate assumptions, written business is expected to be unprofitable, the total expected loss is recognised in the Statement of Comprehensive Income immediately. When loss making business becomes profitable previously recognised losses are reversed.
- Investment Earnings on Assets in Excess of Policy Liabilities – profits are generated from investment assets which are in excess of those required to meet policy liabilities. Investment earnings are directly influenced by market conditions and as such this component of MoS profit will vary from year to year.

**CO-OPERATIVE LIFE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Year Ended 31 March 2015

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**3. Significant Accounting Policies Continued**

Profit margins are released over each financial period in line with the service that has been provided. The balance of the planned profits is deferred by including them in the value of policy liabilities. For further details of the actuarial assumptions used in these calculations, refer to Note 14.

The Life Insurance Net Policy Liabilities recorded in the Balance Sheet is the sum of the unearned premium reserve ("UPR"), net of the deferred acquisition costs ("DAC"). The DAC comprises the fixed and variable costs of acquiring new business, including commission and underwriting costs which is recognised in the Balance Sheet as a reduction in the insurance contract liabilities and is amortised through profit or loss over the expected duration of the relevant policies.

The outstanding claims liability comprises insurance claims recognised when a valid notified claim has been received and accepted which have not been settled at the reporting date. 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 at the reporting date.

**(e) Other**

**(i) Statement of Cash Flows**

The Statement of Cash Flows has been prepared using the direct approach modified by the netting of certain items in order to provide more meaningful disclosure. Cash flows included in the Statement of Cash Flows are reported net of GST. The following are definitions of the terms used in the Statement of Cash Flows:

- Cash and cash equivalents comprises cash on hand and cash held at registered banks by the Company;
- Investing activities are those relating to the acquisition, holding and disposal of financial assets;
- 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.

**(ii) Offsetting**

Assets and liabilities are offset and the net amount presented in the Balance Sheet when the Company has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented in the Statement of Comprehensive Income on a net basis only when permitted under NZ GAAP, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

**(iii) Changes in Accounting Policies and Application of New or Amended Accounting Standards**

The accounting policies used by the Company are consistent with those used in previous periods. Management have considered amendments to NZ IFRSs applicable for the first time to Co-op Life for the year ended 31 March 2015, however they have had no impact to the Banking Group's reported result or financial position.

In accordance with the new disclosures required under NZ IFRS 4 *Insurance Contracts*, assets and liabilities, as well as profit and loss, have now been disclosed disaggregated by fund in Note 15.



**CO-OPERATIVE LIFE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Year Ended 31 March 2015

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**3. Significant Accounting Policies Continued**

**(iv) NZ IFRS Accounting Standards Issued but not yet Effective**

At the date of authorisation of the financial statements, one applicable accounting standard was on issue but not yet effective. The Company does not intend to apply this pronouncement until its effective date.

Initial application of the following new standard is still being assessed but is expected to have a material impact on the financial statements of the Company:

<b>Standard</b>	<b>Effective for Annual Reporting Periods Beginning on or After</b>	<b>Expected to be Initially Applied in the Financial Year Ending</b>
NZ IFRS 9: <i>Financial Instruments</i>	1 January 2018	1 January 2018

NZ IFRS 9 introduces changes to the classification and measurement of financial instruments which are expected to affect certain amounts recognised in the Company's financial statements.

**CO-OPERATIVE LIFE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Year Ended 31 March 2015

**4. Investment Revenue**

	Year Ended 31/03/2015	Year Ended 31/03/2014
	\$000	\$000
Interest on Available for Sale Investments	109	130
Interest on Fair Value through Profit or Loss Securities	424	468
Other Interest Income	20	15
Fair Value Gain/(Loss) on Investment Securities	199	(188)
	<u>752</u>	<u>425</u>

**5. Other Operating Expenses**

Policy Acquisition Costs	576	571
Policy Maintenance Expenses	3,183	3,053
Director's Fees	6	6
Other Operating Expenses	119	68
Amortisation of Intangible Asset	109	109
	<u>3,993</u>	<u>3,837</u>
<b>Fees Paid to Auditors</b>		
Audit or Review of Financial Statements	24	24
Other Assurance Services	6	6
	<u>30</u>	<u>30</u>
<b>Total Fees Paid to Auditors</b>		

Auditor's remuneration is included within Other Operating Expenses above. The fees for the audit of the Company's financial statements and solvency return are paid by Co-op Bank on behalf of the Company.

**6. Income Tax**

- (a) The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

Profit before Tax	2,636	3,113
Tax Expense at 28% (31 March 2014: 28%)	(738)	(872)
Transitional adjustment for life insurance tax rules <sup>1</sup>	555	709
<b>Income Tax Expense</b>	<u>(183)</u>	<u>(163)</u>
<i>Comprising:</i>		
Current Tax	(287)	(270)
Deferred Tax	105	107
<b>Income Tax Expense</b>	<u>(183)</u>	<u>(163)</u>

<sup>1</sup> The transitional adjustment relates to certain life insurance policies which continue to be taxed under the previous tax rules for such policies, as permitted under the tax rules relating to life insurance that came into effect from 1 July 2010 for the Company. A similar transitional adjustment is expected to arise in the financial year ended 31 March 2016. The benefit of this transitional adjustment ends on 1 July 2015.

**CO-OPERATIVE LIFE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Year Ended 31 March 2015

**6. Income Tax Continued**

(b) Deferred Tax	Opening Balance 1 April \$000	Charged to Profit or Loss \$000	Closing Balance 31 March \$000
<b>31 March 2015</b>			
<b>Gross Deferred Tax Liability:</b>			
Net Policy Liabilities	(162)	74	(88)
Intangible Asset	(110)	31	(79)
<b>Net Deferred Tax Liability</b>	<b>(272)</b>	<b>105</b>	<b>(167)</b>
<b>31 March 2014</b>			
<b>Gross Deferred Tax Liability:</b>			
Net Policy Liabilities	(239)	77	(162)
Intangible Asset	(140)	30	(110)
<b>Deferred Tax Liability</b>	<b>(379)</b>	<b>107</b>	<b>(272)</b>
	<b>Year Ended 31/03/2015 \$000</b>	<b>Year Ended 31/03/2014 \$000</b>	

**7. Analysis of Profit**

Planned Margins of Revenues over Expenses	1,259	1,274
Changes in Assumptions	(288)	266
Difference between Actual and Assumed Experience	986	1,118
Investment Earnings on Assets in Excess of Policy Liabilities	496	292
<b>Profit after Tax</b>	<b>2,453</b>	<b>2,950</b>

**31/03/2015  
\$000**      **31/03/2014  
\$000**

**8. Available for Sale Investments**

Short Term Deposits with NZ Registered Banks	201	-
NZ Registered Bank Bonds	1,937	353
Local Government Bonds	742	-
Listed Multilateral Development Banks and Other International Organisations	1,307	1,020
	<b>4,187</b>	<b>1,373</b>

**9. Fair Value Through Profit or Loss Securities**

Short Term Deposits with NZ Registered Banks	1,307	875
Other Short Term Deposits	-	762
Rated Corporate Commercial Paper	496	-
Local Government Commercial Paper	498	-
NZ Registered Bank Bonds	2,393	3,176
Local Government Bonds	2,094	4,405
Listed Multilateral Development Banks and Other International Organisations	1,309	566
	<b>8,097</b>	<b>9,784</b>



**CO-OPERATIVE LIFE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Year Ended 31 March 2015

**10. Receivables and Prepayments**

	31/03/2015 \$000	31/03/2014 \$000
Reinsurance Recoveries	195	256
Prepayments	25	21
Due from Parent	-	61
	<u>220</u>	<u>338</u>

**11. Intangible Asset**

On 29 October 2012, the Company purchased the Loan Instalment Care ("LIC") business from IAG New Zealand Limited ("IAG") to add to the existing product portfolio underwritten by the Company. At acquisition date an intangible asset of \$547,000 was recognised, representing the future profits to be earned from the existing customers acquired. The intangible asset is being amortised on a straight line basis over five years, which is the expected life of the LIC policies acquired.

	31/03/2015 \$000	31/03/2014 \$000
<b>Cost</b>		
Balance at Beginning of Year	547	547
<b>Balance at End of Year</b>	<u>547</u>	<u>547</u>
<b>Accumulated Amortisation</b>		
Balance at Beginning of Year	(155)	(46)
Amortisation Expense	(109)	(109)
<b>Balance at End of Year</b>	<u>(264)</u>	<u>(155)</u>
<b>Net Book Value</b>		
As at 31 March	<u>283</u>	<u>392</u>

**12. Trade and Other Payables**

Tax Payable to Parent	303	276
Payable to Parent	1	-
	<u>304</u>	<u>276</u>

**13. Outstanding Claims Provision**

Claims under Policies in the Process of Settlement	791	942
Claims Incurred But Not Reported	286	292
	<u>1,077</u>	<u>1,234</u>

**CO-OPERATIVE LIFE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Year Ended 31 March 2015

**14. Life Insurance Net Policy Liabilities**

	Year Ended 31/03/2015 \$000	Year Ended 31/03/2014 \$000
Balance at 1 April	3,336	3,988
Movement for the Year	94	(652)
<b>Balance at 31 March</b>	<b>3,430</b>	<b>3,336</b>

	31/03/2015 \$000	31/03/2014 \$000
<b>Components of Life Insurance Net Policy Liabilities</b>		
Future Policy Benefits	51,671	45,078
Balance of Future Expenses	26,086	22,616
Planned Margins of Revenue over Expenses	18,537	17,441
Future Charges for Acquisition Costs	(2,283)	(2,040)
Deferred Tax Liability Element of Policy Liabilities	167	408
Balance of Future Revenues	(90,748)	(80,167)
	<b>3,430</b>	<b>3,336</b>

The Life Insurance Net Policy Liabilities recorded in the Balance Sheet is calculated at each reporting date by Co-op Life's Appointed Actuary and comprises of the following components:

- 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, calculated using the projection method. This method defers profits over the life of the policy and releases them evenly over the term of the contract in proportion to the profit carriers. For Life Plus the profit carrier is retained life and trauma claims plus the reinsurance costs of these benefits. For Loan Care the profit carrier is life gross claims. The deferred acquisition costs component of the policy liabilities is separately identified for purposes of calculating deferred tax;
- For Loan Plus policies, the unearned premium, net of commission, calculated using the accumulation method, and amortised on a straight line basis the term of the policy. The result of using the "accumulation" method rather than the "projection" method required under NZ IFRS 4: *Insurance Contracts* ("NZ IFRS 4") is not materially different as the Loan Plus contracts have an average duration of approximately 1 year. 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; and
- For Loan Instalment Care policies, the unearned premium calculated using the accumulation method, representing the premium unearned up to the next premium due date. The result of using the "accumulation" method rather than the "projection" method required under NZ IFRS 4 is not materially different as the Loan Instalment Care contracts have an average duration of approximately 2.5 years; and
- A provision for outstanding notified claims which have been accepted but not yet been paid, and claims incurred but not reported. For Loan Instalment Care claims, the outstanding notified claims provision is the discounted present value of the insured instalment for the duration of disablement, projected forward using a set of claim continuance assumptions.

**Co-operative Life Actuarial Information**

The actuarial valuation of policy liabilities as at 31 March 2015 has been calculated by Peter Davies, B.Bus.Sc, FIA, FNZSA, in accordance with NZ IFRS 4, issued by the External Reporting Board and Professional Standard no. 3: *Determination of Life Insurance Policy Liabilities*, issued by the New Zealand Society of Actuaries. Peter Davies is the externally Appointed Actuary for Co-op Life and is an independent professional adviser to the Company on insurance related matters. The actuarial valuation of the policy liabilities relating to the position at 31 March 2015 was dated 30 April 2015. Peter has confirmed in his actuarial report that he is satisfied with the nature, sufficiency and accuracy of the data provided to him by Co-op Life for the purpose of his valuation. There were no significant changes to the actuarial methodology used in the 31 March 2015 valuation compared to the 31 March 2014 valuation and there were no qualifications in the actuarial report dated 30 April 2015.



**CO-OPERATIVE LIFE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Year Ended 31 March 2015

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**14. Life Insurance Net Policy Liabilities Continued**

The key assumptions used by the Appointed Actuary in calculating the policy liabilities at 31 March 2015 are set out below:

**Discount Rates:**

Life Plus	2.31% p.a. net of tax (2014: 3.23%)
Loan Plus	2.23% p.a. net of tax (2014: 2.40%)
Loan Care	2.25% p.a. net of tax (2014: 2.71%)
Loan Instalment Care open claims	3.10% p.a. gross of tax (2014: 3.34%)

**Tax:** 28% (2014: no change)

**Mortality:**

Life Plus	80% of NZ97 (mortality experience of NZ insured lives 1993-1997) with smoker / non-smoker adjustments and selection adjustments (2014: no change)
Loan Plus	55% of NZ97 (2014: no change)
Loan Care	55% of NZ97 (2014: no change)

**Morbidity:**

Life Plus trauma	90% of reinsurance rates (2014: no change)
Loan Instalment Care	30% of premiums (2014: no change)

**Cancellation Rates:**

Life Plus	Varying by age, 15% p.a. at age 25, reducing to 5% p.a. at age 65 (2014: no change)
Loan Instalment Care	32% per annum (2014: no change)

**Surrenders:**

Loan Plus	30% per annum, increased for policies with premium refunds under \$250 (2014: 30% per annum all policies)
Loan Care	Mortgages: 12.5% p.a. (2014: no change) Loans: 35% p.a. (2014: 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% per annum (2014: no change)

**Administration Costs:**

Life Plus renewals	\$27.47 per policy per annum (2014: \$30.09)
Loan Plus	\$13.73 per policy per annum (2014: \$15.05)
Loan Care	\$13.73 per policy per annum (2014: \$15.05)
Loan Instalment Care	10% of premiums (2014: no change)

**Valuation Method:**

Life Plus: Projection method	Profit carrier: Death plus Trauma claim cost (retained claims plus reinsurance costs)
Loan Care: Projection method	Profit carrier: Death claims
Loan Plus: Accumulation method	-
Loan Instalment Care: Accumulation method	No deferred acquisition costs. Claims valued using future projection of claim payments.



**CO-OPERATIVE LIFE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Year Ended 31 March 2015

**14. Life Insurance Net Policy Liabilities Continued**

**Statutory Fund**

On 1 July 2012, Co-op Life established a Statutory Fund in accordance with the requirements of the Insurance (Prudential Supervision) Act 2010. The Statutory Fund gives priority to policy holders to the assets held in the Statutory Fund ahead of the claims of any other creditor, including any depositor with Co-op Bank who has the benefit of the guarantee from Co-op Life (refer to Note 25 for further details of the guarantee given by the Company to Co-op Bank).

All operating profits and losses generated by the Statutory Fund are retained within the Statutory Fund and distributions of these can only be made provided they comply with the requirements of the Insurance (Prudential Supervision) Act 2010 and the Insurance (Prudential Supervision) Regulations 2010. These requirements include receiving and having regard to Co-op Life's Appointed Actuary's written advice as to the likely consequences of any proposed distribution. A distribution of the Statutory Fund's retained profits must not be made if the distribution would have the result that Co-op Life would fail to maintain the minimum solvency margin in relation to the Statutory Fund.

**Solvency Margin**

The Insurance (Prudential Supervision) Act 2010 requires registered life insurers to maintain a positive Solvency Margin for the Shareholder Fund and each Statutory Fund at all times. We have calculated the prudential solvency position as at 31 March 2015 in accordance with the Reserve Bank of New Zealand ("RBNZ") Solvency Standard for Life Insurance Business ("the Solvency Standard"). The solvency position for the Statutory Fund and the Shareholder Fund is summarised below:

	31 March 2015			31 March 2014		
	Statutory Fund \$000	Shareholder Fund \$000	Total \$000	Statutory Fund \$000	Shareholder Fund \$000	Total \$000
Total Assets	7,782	5,324	13,106	6,331	7,022	13,353
Total Liabilities	(4,891)	(87)	(4,978)	(4,910)	(208)	(5,118)
Capital	2,891	5,237	8,128	1,421	6,814	8,235
Less Deductions	(1,453)	-	(1,453)	(682)	(1,000)	(1,682)
Actual Solvency Capital	1,438	5,237	6,675	739	5,814	6,553
Minimum Solvency Capital			5,000	-	5,749	5,749
<b>Solvency Margin</b>			<b>1,675</b>	<b>739</b>	<b>65</b>	<b>804</b>

At 31 March 2015, the minimum solvency requirements on an individual fund basis are significantly lower than the statutory minimum solvency capital of \$5.0 million. The statutory minimum is applied at a total fund level.

At 31 March 2014, the solvency requirement for the Shareholder Fund exceeded the \$5.0 million statutory minimum. This is because the minimum solvency capital for the Shareholder Fund included a significant allowance for a contingent liability in respect of Co-op Bank's term deposits and capital notes. Co-op Life has guaranteed the obligations of Co-op Bank to all depositors who were depositors at the date of bank registration (26 October 2011). The guarantee and therefore contingent liability decreases each month as the term deposits and capital notes mature. In May 2014, this allowance had reduced to a level where it is now covered by the statutory minimum. The full value of the remaining deposits as at 31 March 2015 was \$6.5 million (31 March 2014: \$27.3 million).

The Minimum Solvency Capital shown in the table above also includes a deduction for the \$1.25 million dividend to be paid to Co-op Bank on 29 May 2015 (31 March 2014: \$1.40 million). Under the Solvency Standard, any dividend declared between the effective date of a solvency return to the RBNZ and the date that the return is filed needs to be reflected in the solvency return. Since the March 2015 solvency return will not be filed prior to the dividend being paid on 29 May 2015, the \$1.25 million dividend has been deducted from Actual Solvency Capital at 31 March 2015. This resulted in the 31 March Solvency Margin reducing from \$2.9 million to \$1.7 million (31 March 2014: \$2.2 million to \$0.8 million).

**CO-OPERATIVE LIFE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Year Ended 31 March 2015

**14. Life Insurance Net Policy Liabilities Continued**

**Sensitivity Analysis**

A sensitivity analysis has been carried out, varying the discount rate used to value policy liabilities 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, which does not require discounting. For the Life Plus and Loan Care business the net policy liabilities are affected as follows:

	Discount Rate before Tax	Discount Rate before Tax
	+1.0%	-1.0%
	\$000	\$000
<b>31 March 2015</b>		
Life Plus	(234)	278
Loan Care	(33)	34
Loan Instalment Care open claims	(7)	8
	Discount Rate before Tax	Discount Rate before Tax
	+1.0%	-1.0%
	\$000	\$000
<b>31 March 2014</b>		
Life Plus	(175)	208
Loan Care	(42)	44
Loan Instalment Care open claims	(12)	14

Further sensitivity analysis has been completed using a 10% change to the demographic and expense assumptions set out above. There is no impact on the net policy liabilities because the policy liabilities for Loan Plus and Loan Instalment Care are subject to a loss recognition test. Further the net 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-op Life's 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.

**15. Life Fund Reporting**

*Profit and Loss disaggregated by life fund*

	31 March 2015			31 March 2014		
	Statutory Fund	Shareholder Fund	Total	Statutory Fund	Shareholder Fund	Total
	\$000	\$000	\$000	\$000	\$000	\$000
Net Premium Revenue	7,744	-	7,744	7,428	-	7,428
Investment and Other Income	496	256	752	123	302	425
<b>Net Revenue</b>	<b>8,240</b>	<b>256</b>	<b>8,496</b>	<b>7,551</b>	<b>302</b>	<b>7,853</b>
Net Claims Expense	(1,773)	-	(1,773)	(1,555)	-	(1,555)
Other Operating Expenses	(4,087)	-	(4,087)	(3,185)	-	(3,185)
<b>Net Profit before Taxation</b>	<b>2,380</b>	<b>256</b>	<b>2,636</b>	<b>2,811</b>	<b>302</b>	<b>3,113</b>
<b>Net Profit after Taxation</b>	<b>2,269</b>	<b>184</b>	<b>2,453</b>	<b>2,733</b>	<b>217</b>	<b>2,950</b>



## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2015

### 15. Life Fund Reporting Continued

*Balance Sheet disaggregated by life fund*

	31 March 2015			31 March 2014		
	Statutory Fund \$000	Shareholder Fund \$000	Total \$000	Statutory Fund \$000	Shareholder Fund \$000	Total \$000
Investment Assets	7,080	5,204	12,285	4,403	6,755	11,158
Other Assets	702	120	822	1,929	266	2,195
<b>Total Assets</b>	<b>7,782</b>	<b>5,324</b>	<b>13,106</b>	<b>6,332</b>	<b>7,021</b>	<b>13,353</b>
Life Insurance Net Policy Liabilities	3,430	-	3,430	3,336	-	3,336
Outstanding Claim Provision	1,077	-	1,077	1,234	-	1,234
Other Liabilities	384	87	471	340	208	548
<b>Total Liabilities</b>	<b>4,891</b>	<b>87</b>	<b>4,978</b>	<b>4,910</b>	<b>208</b>	<b>5,118</b>
Available for Sale Reserve	-	38	38	-	(2)	(2)
Retained Earnings	2,890	3,700	6,590	1,421	5,316	6,737
Share Capital	-	1,500	1,500	-	1,500	1,500
<b>Total Equity</b>	<b>2,890</b>	<b>5,238</b>	<b>8,128</b>	<b>1,421</b>	<b>6,814</b>	<b>8,235</b>

### 16. Share Capital

	Year Ended 31/03/2015	Year Ended 31/03/2014
	Number of Shares '000	Number of Shares '000
Opening Number of Fully Paid Issued Ordinary Shares	1,500	7,500
Shares Repurchased from Parent	-	(6,000)
<b>Closing Number of Fully Paid Issued Ordinary Shares</b>	<b>1,500</b>	<b>1,500</b>

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



**CO-OPERATIVE LIFE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Year Ended 31 March 2015

**17. Reconciliation of Profit after Tax with Net Cash Flows from Operating Activities**

	Year Ended 31/03/2015 \$000	Year Ended 31/03/2014 \$000
Profit after Tax	2,453	2,950
<b>Add/(Less) Non-Cash Items:</b>		
Amortisation	109	109
Fair Value Movement on Investments	(193)	188
Movement in Deferred Tax	(105)	(107)
Movement in IBNR Claims Provision	(6)	(23)
Movement in Life Insurance Net Policy Liabilities	94	(652)
<b>Changes in Working Capital Items:</b>		
Receivables and Prepayments	117	433
Trade and Other Payables	14	253
Outstanding Claims Provision	(151)	(124)
<b>Items Classified as Investing Activities:</b>		
Interest on Investment Securities	(8)	102
<b>Net Cash Flows from Operating Activities</b>	<b>2,324</b>	<b>3,129</b>

**18. Related Party Transactions**

	31/03/2015 \$000	31/03/2014 \$000
<b>Amounts Outstanding at Year End:</b>		
(Payable to)/receivable from Co-op Bank (non-interest bearing)	(1)	61
Tax Payable to Co-op Bank (non-interest bearing)	(303)	(276)
	Year Ended 31/03/2015 \$000	Year Ended 31/03/2014 \$000
<b>Transactions During the Year:</b>		
Net receipt of monies received from Co-op Bank	62	220
Dividends Paid to Co-op Bank	(2,600)	(2,350)
Share Capital Repurchase from Co-op Bank	-	(6,000)
Policy Maintenance Expense Paid to Co-op Bank	(3,213)	(3,083)
Policy Acquisition Costs Paid to Co-op Bank*	(423)	(422)

\*Commission expense is included within Policy Acquisition Costs and Policy Maintenance Expenses, refer to Note 5.

The Company has no employees as its activities are managed by Co-op Bank in accordance with the Management Deed between the both parties. All income and expenses of the Company are initially received or paid by Co-op Bank on behalf of the Company and are settled regularly through the intercompany account.

No related party balances were written off or forgiven during the year ended 31 March 2015 (2014: Nil).

**CO-OPERATIVE LIFE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Year Ended 31 March 2015

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**19. Financial Risk Management**

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 Company's primary financial risks are insurance, credit, liquidity, interest rate and operational risk. There have been no material changes in the Company's policies for managing these risks during the financial reporting period.

The Co-op Life Board's policy is to maintain a strong capital base to protect policyholders' and creditors' interest and meet the regulatory requirements set out in the Solvency Standard for Life Insurance Business issued by the Reserve Bank of New Zealand. 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 Co-op Bank under a Management Deed between it and the Company.

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

Co-op 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) Co-op Bank's 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) Co-op Bank's 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 Co-op Life Board on a quarterly basis. In compliance with contractual and policy requirements, a strategy is in place to ensure that the risks underwritten should not adversely affect Co-op Life's ability to pay benefits and claims when they fall due. To limit its exposure, Co-op Life has its own reinsurance programme in place where it cedes business to external entities, either by surplus or quota share reinsurance arrangements. Continuous monitoring of the procedures in place is undertaken to minimise the chance of an adverse compliance or operational risk event occurring.

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 is managed by setting the underwriting acceptance criteria for 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.

**Credit Risk**

Credit risk is the potential risk of loss arising from the non-performance of counterparty to a financial instrument or facility. The Company's credit risk relates predominately to wholesale (treasury) investments. All credit risks are within New Zealand and all credit risk is denominated in New Zealand dollars. 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:

- Portfolio tier limits by credit rating;
- Individual tier limits by credit rating;
- Product category limits; and
- Term to maturity limits.



**CO-OPERATIVE LIFE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Year Ended 31 March 2015

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**19. Financial Risk Management Continued**

**Liquidity Risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting commitments associated with its financial liabilities. Liquidity risk is mitigated through:

- (i) Managing the relative term to maturity of insurance treasury assets;
- (ii) Investing in liquid, senior ranking securities; and
- (iii) Compliance with regulated solvency margins as stipulated by regulation.

Liquidity management is delegated, under the Management Deed, to Co-op Bank's Treasurer under the oversight of the ALCO.

**Interest Rate Risk**

Interest rate risk 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 Co-op Bank and reported to the Company's Board of Directors quarterly.

**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 Tax and Equity would have been as follows:

**Assets measured at Fair Value through Profit and Loss or Equity**

	Interest Rates Increase by 100 Basis Points		Interest Rates Decrease by 100 Basis Points	
	2015 \$000	2014 \$000	2015 \$000	2014 \$000
Effect on Profit after Tax	(180)	(146)	372	153
Effect on Equity	(93)	(165)	189	167

**Operational Risk**

Operational risks are those arising from human error, system failures, inadequate procedures or controls and external events. Co-op Bank, under the Management Deed, 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 Co-op Bank on a monthly basis and remedial action taken where necessary.



**CO-OPERATIVE LIFE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Year Ended 31 March 2015

**20. Fair Value of Financial Instruments**

Financial assets and financial liabilities are measured on an on-going basis either at fair value or amortised cost. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the reporting date.

The following tables summarise the carrying amounts and fair values of those financial assets and financial liabilities that are not presented at fair value in the Balance Sheet.

	Carrying Value 31/03/2015 \$000	Fair Value 31/03/2015 \$000	Carrying Value 31/03/2014 \$000	Fair Value 31/03/2014 \$000
<b>Financial Assets</b>				
Cash and Cash Equivalents	319	319	1,466	1,466
Receivables	195	195	317	317
<b>Total Financial Assets Measured at Amortised Cost</b>	<b>514</b>	<b>514</b>	<b>1,783</b>	<b>1,783</b>
<b>Financial Liabilities</b>				
Trade and Other Payables	304	304	276	276
Outstanding Claims Provision	791	791	942	942
<b>Total Financial Liabilities Measured at Amortised Cost</b>	<b>1,095</b>	<b>1,095</b>	<b>1,218</b>	<b>1,218</b>

**Fair Value Valuation Methodology**

A number of financial instruments are carried on the Balance Sheet at fair value. The best evidence of fair value is a quoted market price in an active market. Therefore, where possible, fair value is based on quoted market prices. Where a quoted market price for an instrument is not available, the fair value is based on discounted cash flow models incorporating current market observable data for similar instruments or other valuation techniques based on current market conditions.

The following fair value hierarchy, as set out in NZ IFRS 13: *Fair Value Measurement*, has been used to categorise the inputs to valuation techniques used to measure the financial assets and financial liabilities which are carried at fair value:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 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
- 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 of the Company's financial instruments that are recognised and measured at fair value on a recurring basis sit within Level 2. The Company did not hold any financial instruments in the Level 3 category during the year ended 31 March 2015 (31 March 2014: Nil). There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the year ended 31 March 2015 (2014: Nil).

The Banking Group determines the valuation of financial instruments classified in Level 2 as follows:

*Available for Sale Investments and Fair Value through Profit or Loss Securities*

The fair values are estimated using present value or other market acceptable valuation techniques, using methods or assumptions that are based on observable market conditions and risks existing as at the reporting date.

**CO-OPERATIVE LIFE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Year Ended 31 March 2015

**21. Concentration of Credit Exposures**

	31/03/2015	31/03/2014
	\$000	\$000
NZ Registered Banks	5,839	5,870
Government, Local Authority and State Owned Enterprises	3,332	4,405
Listed Multilateral Development Banks and Other International Organisations	2,616	1,586
Other Corporate Investments	498	762
Receivables	195	317
	<u>12,480</u>	<u>12,940</u>

**22. Interest Rate Sensitivity Gap Analysis**

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

	Within 3 months	3-6 Months	6-12 Months	1 – 2 Years	Over 2 Years	Non-Interest Bearing	Total
31 March 2015	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Cash and Cash Equivalents	319	-	-	-	-	-	319
Available for Sale Investments	247	315	-	756	2,869	-	4,187
Fair Value through Profit or Loss Securities	2,386	162	1,365	605	3,579	-	8,097
Receivables	-	-	-	-	-	195	195
<b>Total Financial Assets</b>	<b>2,952</b>	<b>477</b>	<b>1,365</b>	<b>1,361</b>	<b>6,448</b>	<b>195</b>	<b>12,798</b>
Trade and Other Payables	-	-	-	-	-	304	304
Outstanding Claims Provision	-	-	-	-	-	791	791
<b>Total Financial Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,095</b>	<b>1,095</b>
<b>Total Interest Rate Sensitivity Gap</b>	<b>2,952</b>	<b>477</b>	<b>1,365</b>	<b>1,361</b>	<b>6,448</b>	<b>(900)</b>	<b>11,703</b>

	Within 3 months	3-6 Months	6-12 Months	1 – 2 Years	Over 2 Years	Non-Interest Bearing	Total
31 March 2014	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Cash and Cash Equivalents	1,466	-	-	-	-	-	1,466
Available for Sale Investments	14	1,006	-	-	353	-	1,373
Fair Value through Profit or Loss Securities	2,995	1,531	1,026	1,017	3,215	-	9,784
Receivables	-	-	-	-	-	317	317
<b>Total Financial Assets</b>	<b>4,475</b>	<b>2,537</b>	<b>1,026</b>	<b>1,017</b>	<b>3,568</b>	<b>317</b>	<b>12,940</b>
Trade and Other Payables	-	-	-	-	-	276	276
Outstanding Claims Provision	-	-	-	-	-	942	942
<b>Total Financial Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,218</b>	<b>1,218</b>
<b>Total Interest Rate Sensitivity Gap</b>	<b>4,475</b>	<b>2,537</b>	<b>1,026</b>	<b>1,017</b>	<b>3,568</b>	<b>(900)</b>	<b>11,723</b>



**CO-OPERATIVE LIFE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the Year Ended 31 March 2015

**23. Contractual Maturity Analysis**

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

	On Demand	Within 6 Months	6-12 Months	1 – 2 Years	Over 2 Years	No Maturity	Total
31 March 2015	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Cash and Cash Equivalents	319	-	-	-	-	-	319
Available for Sale Investments	-	636	72	883	2,922	-	4,513
Fair Value through Profit or Loss Securities	-	2,681	1,450	766	3,887	-	8,784
Receivables	-	195	-	-	-	-	195
<b>Total Financial Assets</b>	<b>319</b>	<b>3,512</b>	<b>1,522</b>	<b>1,649</b>	<b>6,809</b>	<b>-</b>	<b>13,811</b>
Trade and Other Payables	-	304	-	-	-	-	304
Outstanding Claims Provision	-	-	-	-	-	791	791
<b>Total Financial Liabilities</b>	<b>-</b>	<b>304</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>791</b>	<b>1,095</b>

	On Demand	Within 6 Months	6-12 Months	1 – 2 Years	Over 2 Years	No Maturity	Total
31 March 2014	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Cash and Cash Equivalents	1,466	-	-	-	-	-	1,466
Available for Sale Investments	-	1,075	9	18	401	-	1,503
Fair Value through Profit or Loss Securities	-	4,769	1,142	1,243	3,606	-	10,760
Receivables	-	317	-	-	-	-	317
<b>Total Financial Assets</b>	<b>1,466</b>	<b>6,161</b>	<b>1,151</b>	<b>1,261</b>	<b>4,007</b>	<b>-</b>	<b>14,046</b>
Trade and Other Payables	-	276	-	-	-	-	276
Outstanding Claims Provision	-	-	-	-	-	942	942
<b>Total Financial Liabilities</b>	<b>-</b>	<b>276</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>942</b>	<b>1,218</b>

**24. Commitments**

The Company had no capital or operating lease commitments as at 31 March 2015 (31 March 2014: Nil).

**25. Contingent Liabilities**

The Company has 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. The full amount of the guarantee as at 31 March 2015 was \$6,471,437 (31 March 2014: \$27,286,264).

**26. Subsequent Events**

On 27 May 2015 Co-op Life Directors approved a dividend of \$1.25 million to be paid to The Co-operative Bank on 29 May 2015.





## Independent auditor's report

### To the shareholders of Co-operative Life Limited

We have audited the accompanying financial statements of Co-operative Life Limited ("the company") on pages 1 to 25. The financial statements comprise the balance sheet as at 31 March 2015, 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 and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards, 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) and International Standards on Auditing. 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 and fair presentation of the financial statements 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.

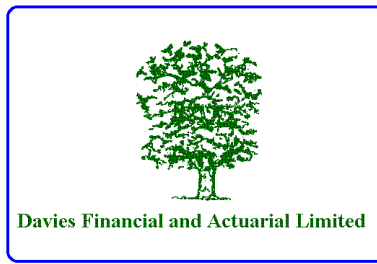
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our firm has also provided other services to the company in relation to audit related services associated with the solvency returns. 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 1 to 25 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the financial position of Co-operative Life Limited as at 31 March 2015 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

27 May 2015  
Wellington



7<sup>th</sup> May 2015

To: The Directors  
Co-operative Life Limited

From: Peter Davies  
Appointed Actuary

**Re: Co-operative Life Limited: Report as at 31<sup>st</sup> March 2015  
under Sections 77 and 78 of the Insurance (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 31<sup>st</sup> March 2015. "Actuarial information" 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 company's 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.

3. I am independent with respect to Co-operative Life Limited as defined under professional standard ISA (NZ) 620 of the External Reporting Board.
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 Limited's solvency margin as at 31<sup>st</sup> March 2015 exceeded the minimum requirement of the RBNZ Solvency Standard for Life Insurance Business 2014, issued in terms of the Insurance (Prudential Supervision) Act. The Company's Statutory Fund, and its Shareholder fund, were each independently solvent at that date.

I have carried out a 4-year projection of the Company's solvency position, which includes the payment of regular dividends out of future profits. The Company is projected to exceed the minimum RBNZ solvency requirements 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 Davies B.Bus.Sc., FIA, FNZSA  
Appointed Actuary