DPL INSURANCE LIMITED

(Formerly known as Dorchester Life Limited)

ANNUAL REPORT

FOR THE YEAR ENDED 31 MARCH 2012

DPL INSURANCE LIMITED

INDEX TO THE ANNUAL REPORT

FOR THE YEAR ENDED 31 MARCH 2012

DPL INSURANCE LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2012

The directors present the annual report of DPL Insurance Limited for the year ended 31 March 2012.

There are certain matters that the shareholders can determine need not be disclosed in the annual report. The shareholders have unanimously agreed, under section 211(3) of the Companies Act 1993, to take advantage of that concession. The shareholders have agreed to limit the annual report to the following:

- Completed and signed financial statements
- Audit Report

Signed for and on behalf of the Board of Directors:

Director *Director*

Date: 26 June 2012

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staplesrodway
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF DPL INSURANCE LIMITED

Report on the Financial Statements

We have audited the financial statements of DPL Insurance Limited ('the Company') on pages 4 to 43, which comprise the Statement of Financial Position of the Company as at 31 March 2012, the Statement of Comprehensive Income, Statement of Changes in Equity and the Statement of Cash Flows of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls 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 controls. 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.

Other than in our capacity as auditor we have no relationship with, or interests in, the Company.

Opinion

In our opinion, the financial statements on pages 4 to 43:

- comply with generally accepted accounting practice in New Zealand; and
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of the Company as at 31 March 2012 and of its financial performance and cash flows for the year then ended.

Emphasis of Matter

The financial report has been prepared on a going concern basis, the validity of which depends upon the successful renewal of the Kiwibank loan and continued support from DPL Insurance Limited's parent company, Dorchester Pacific Limited. Should the Company not be successful in renewing the Kiwibank loan and/or Dorchester Pacific Limited was unable to continue to provide financial support for the foreseeable future, the going concern basis may be invalid and adjustments may have to be made to reflect the situation that the assets may need to be realised other than in the amounts at which they are currently recorded in the Statement of Financial Position. In addition, the Company may have to provide for further liabilities that may arise and to reclassify non-current assets and long-term liabilities as current assets and liabilities. We are unable to quantify the potential effect of this uncertainty. Details of the circumstances relating to this fundamental uncertainty are described in Note 1.

Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 March 2012;

i. we have obtained all the information and explanations that we have required; and

ii. in our opinion, proper accounting records have been kept by the Company as far as appears from our examination of those records.

Staples Rodway

STAPLES RODWAY AUCKLAND
CHARTERED ACCOUNTANTS
AUCKLAND

26 June 2012

DPL INSURANCE LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2012

	Note	2012 $'000	2011 $'000
Non insurance business			
Investment revenue			
Investment revenues	2	1,131	1,683
Interest income		2,127	2,325
Investment expenditure			
Investment management expenses	2	76	109
Interest expense		693	778
Net non-insurance income		2,489	3,121
Insurance business			
Revenues			
Premium revenues		724	486
Reinsurance revenues		21	18
Expenses			
Claims		91	54
Annuities paid		125	143
Net insurance income		529	307
Movement in life insurance and life investment contract liabilities			
Net increase in life insurance contract liabilities	19	(265)	(60)
Net increase in life investment contract liabilities	19	(591)	(749)
Movement in life insurance and life investment contract liabilities		(856)	(809)
Other expenditure	2	1,035	1,375
Profit before taxation		1,127	1,244
Less: *taxation expense*	3	-	-
Profit for the year		1,127	1,244
Other comprehensive income		-	-
Total comprehensive income for the year		1,127	1,244

The accompanying notes form part of these financial statements

DPL INSURANCE LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2012

	Share Capital $'000	Retained Earnings $'000	Total $'000
Balance at 1 April 2010	**2,500**	**6,005**	**8,505**
Total Comprehensive Income attributable to shareholders	-	1,244	1,244
Balance at 31 March 2011	**2,500**	**7,249**	**9,749**
Proceeds of share issue	950	-	950
Transactions with shareholders in their capacity as owners	950	-	950
Total Comprehensive Income attributable to shareholders	-	1,127	1,127
Balance at 31 March 2012	**3,450**	**8,376**	**11,826**

The accompanying notes form part of these financial statements

DPL INSURANCE LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2012

	Note	2012 $'000	2011 $'000
ASSETS			
Cash and cash equivalents	7	1,142	1,214
Receivables	8	45	45
Financial assets at fair value through profit or loss	9	19,166	19,369
Reverse annuity mortgages	10	21,281	23,998
Total assets		41,634	44,626
LIABILITIES			
Payables	11	853	3,795
Borrowings	12	7,248	9,197
Current tax liabilities		2	2
Life investment contract liabilities	19	18,352	18,835
Life insurance contract liabilities	19	3,353	3,048
Total liabilities		29,808	34,877
SHAREHOLDER'S EQUITY			
Share Capital	4	3,450	2,500
Retained Earnings		8,376	7,249
Total shareholder's equity		11,826	9,749
Total shareholder's equity and liabilities		41,634	44,626

Signed for and on behalf of the Board of Directors:

Director　　　　　　*Director*

Dated: 26 June 2012

The accompanying notes form part of these financial statements.

DPL INSURANCE LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2012

	Note	2012 $'000	2011 $'000
Cash flows from operating activities			
Cash was provided from:			
Contributions and Premiums Received		7,537	7,449
Interest Received		24	24
Realised Investment Income		48	38
Other		21	18
		7,630	7,529
Cash was applied to:			
Withdrawals and Claims Paid		5,928	6,198
Administration Fees Paid		1,692	1,826
Other Expenses Paid		1,506	1,977
		9,126	10,001
Net cash outflow from operating activities	17	(1,496)	(2,472)
Cash flows from investing activities			
Cash was provided from:			
Investments		1,258	1,673
Reverse annuity mortgages		4,717	2,082
		5,975	3,755
Net cash inflow from investing activities		5,975	3,755

The accompanying notes form part of these financial statements.

DPL INSURANCE LIMITED

STATEMENT OF CASH FLOWS STATEMENT *(continued)*

FOR THE YEAR ENDED 31 MARCH 2012

	Note	2012 $'000	2011 $'000
Cash flows from financing activities			
Cash was provided from:			
Borrowings		-	-
Cash was applied to			
Repayment of Kiwibank loan		2,642	963
Intercompany Borrowings		1,909	(722)
Net cash outflow from financing activities		(4,551)	(241)
Net movement in cash and cash equivalents		(72)	1,042
Add Opening cash and cash equivalents		1,214	172
Closing cash and cash equivalents		**1,142**	**1,214**
Represented by:			
Bank balances	7	1,142	1,214
Closing cash and cash equivalents		**1,142**	**1,214**

The accompanying notes form part of these financial statements.

1. STATEMENT OF ACCOUNTING POLICIES

GENERAL ACCOUNTING POLICIES

DPL Insurance Limited (the "Company") is a profit-oriented company incorporated and domiciled in New Zealand and registered under the Companies Act 1993. The Company is an issuer for the purpose of the Financial Reporting Act 1993 and an issuer in terms of the Securities Act 1978. The Company is 100% owned by Dorchester Pacific Limited, who is the ultimate parent company. The registered address of the Company is Level 8, 34 Shortland Street, Auckland.

The financial statements were approved for issue by the Directors on 26 June 2012. The Company's financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards.

The following new financial reporting standards and amendments to standards relevant to the Group are not yet effective for the year ended 31 March 2012, and have not been applied in preparing these financial statements.

International Financial Reporting Standards and Australian Accounting Standards ("the Harmonisation Amendments")

The Harmonisation Amendments resulted in:

- Changes to, and deletions of, some of the New Zealand specific requirements in NZ IFRS;
- Some New Zealand specific requirements in NZ IFRS being relocated to FRS-44; and
- significantly allowing operating cash flows to be presented using

Effective date 1 July 2011.

FRS-44: New Zealand Additional Disclosures

Provides New Zealand specific disclosures. Some of the existing disclosures relocated here as a result of the Harmonisation Amendments have been slightly modified. Effective date 1 July 2011.

NZ IFRS 9 Financial Instruments

This standard is part of the IASB's project to replace IAS39 *Financial Instruments: Recognition and Measurement*. The standard The standard introduces amended requirements for classifying and measuring financial assets and liabilities. Effective date 1 January 2015.

NZ IFRS 10 Consolidated Financial Statements, NZ IAS 27

The objective of NZ IFRS 10 is to establish control as the single basis for consolidation for all entities, regardless of the nature of the investee. The definition of control includes three elements – power over an investee, exposure or rights to variable returns of the investee ,and the ability to use power over the investee to affect the investor's returns. Effective date 1 January 2013.

NZ IFRS 11 Joint Arrangements

NZ IFRS 11 classifies joint arrangements as either joint operations or joint ventures. The determination of whether a joint arrangement is a joint operation or a joint venture is based on the parties' rights and obligations under the arrangement:

- A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. Joint operators recognise their assets, liabilities, revenue and expenses in relation to their interest in the joint operation.
- A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. NZ IFRS 11 requires the use of the equity method of accounting for interests in joint ventures.

Effective date 1 January 2013

1. STATEMENT OF ACCOUNTING POLICIES *(continued)*

GENERAL ACCOUNTING POLICIES *(continued)*

NZ IFRS 12 *Disclosure of Interests in Other Entities*
NZ IFRS 12 applies to entities that have an interest in subsidiaries, joint arrangements, associates or unconsolidated structured entities. It establishes disclosure objectives and specifies minimum disclosures that an entity must provide to meet those objectives. In general, it requires an entity to disclose information that helps users of its financial statements evaluate the nature of, and risks associated with, its interests in other entities, and the effects of those interests on its financial statements. Effective date 1 January 2013.

NZ IFRS 13 *Fair Value Measurement*
It defines fair value and provides a single source of fair value measurement and disclosure requirements for use across all NZ IFRSs. The requirements do not extend the use of fair value accounting, but provide guidance on how it should be applied where its use is already required or permitted by another NZ IFRS. Effective date 1 January 2013.

The Company has early adopted the following interpretation:
NZ IAS 24 Related Party Disclosures
The amendments clarifies the definition of a related party and requires the disclosures of commitments involving related parties. The adoption of this standard has not had any impact of the Company's financial statements.

Change in Accounting Policies
There have been no significant changes in the accounting policies during the year exectp as outlined in "(c) New accounting standards and interpretations" above.

Basis of Preparation
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets and liabilities as identified in specific accounting policies below.

Reliance is placed on the fact that the Company is a going concern. The validity of this concept dependent on the successful renewal of the Kiwibank loan and also on the continued financial support from Dorchester Pacific Limited.

Functional and Presentation Currency and Rounding
The amounts contained in this report and the financial statements are presented in thousands of New Zealand dollars which is the Company's functional and presentational currency.

1. STATEMENT OF ACCOUNTING POLICIES *(continued)*

PARTICULAR ACCOUNTING POLICIES

(a) Foreign Currency Transactions

Foreign currency transactions are translated to New Zealand currency at the exchange rate ruling at the date of the transaction. All foreign currency monetary assets and liabilities are translated at the exchange rates ruling as at balance date.

(b) Revenue Recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Company and that the revenue can be reliably measured. The principal sources of revenue are premium income and investment income.

Premium Income

Life insurance contracts – premiums received for providing services and bearing risks are recognised as revenue on an accrual basis.

Life investment contracts – premiums received have the fee portion of the premium recognised as revenue on an accrual basis and the deposit portion recognised as an increase in Life Investment Contract Liabilities. Initial entry fee income on investment contracts is recognised as revenue at the outset of the contract only if a specific initial service (for which the fee relates) is provided by the Company at that time. Otherwise initial entry fee income is deferred as a component of the Life Investment Contract Liability and amortised as related management services are provided under the contract.

Investment Income

Financial instruments are classified in the manner described in (d). Some are measured by reference to amortised cost, others by reference to fair value.

For financial instruments measured at amortised cost, the effective interest method is used to measure the interest income or expense recognised in profit or loss. For financial instruments measured at fair value, interest income or expense is recognised on an accrual basis.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense over the relevant period. The calculation includes all fees paid or received and directly related transaction costs that are an integral part of the effective interest rate. The interest income or expense is allocated over the life of the instrument and is measured for inclusion in profit or loss by applying the effective interest rate to the instruments amortised cost.

Dividend income and unit trust distributions are recorded in the profit or loss when the Company's right to receive the dividend and distribution is established. Realised and unrealised gains and losses from re-measurement of financial instruments at fair value through profit or loss are included in investment income.

Other Revenue

Commission and fee revenue is recognised in profit or loss on the basis of the actual service provided as a proportion of the total services to be provided.

1. STATEMENT OF ACCOUNTING POLICIES *(continued)*

PARTICULAR ACCOUNTING POLICIES *(continued)*

(c) Expense Recognition
Expenses are recognised as incurred in profit and loss on an accrual basis. The following specific recognition criteria must also be met before expenses are recognised. Expenses involved in running the company's business are categorised into acquisition, investment management and maintenance costs on the basis of a detailed functional analysis of activities carried out by the company.

Claims Expenses
Maturity claims are recognised on the policy maturity date. Surrenders are recognised when paid. Death and all other life insurance contract claims are recognised as an expense when a liability has been established. Claims under life investment contracts represent withdrawals of investment deposits and are recognised as a reduction in life investment contract liabilities.

Acquisition Costs
Acquisition costs are the fixed and variable costs of acquiring new business including commissions and similar distribution costs, costs of accepting, issuing and initially recording policies. Acquisition costs relate to the costs incurred in acquiring specific life insurance policies during the period with any amounts to be deferred capitalised on the balance sheet as a deferred acquisition cost (DAC). Acquistion costs do not include the general growth and development costs incurred by the company.

Acquisition Costs – Life Insurance Contracts - Acquisition costs represent all costs incurred at the time of writing a life insurance policy. The most significant component of such costs is usually commissions. Under Margin on Serices (MoS) methodology, where product profitability can support the recovery of acquisition costs, these costs are effectively deferred and amortised over the life of the policy. They are reported as negative components of the MoS life insurance contract liabilities in the Statement of Financial Position.

Acquisition Costs – Life Investment Contracts – Commission that varies with and is directly related to securing new contracts is capitalised as a deferred acquisition cost asset. All other acquisition costs are recognised as expenses in profit or loss when incurred. The deferred acquisition cost asset is subsequently amortised over the life of the contracts and recognised in profit or loss.

Maintenance Expenses
Maintenance costs are the fixed and variable costs of administering policies subsequent to sale and maintaining the company's operations such that they are sufficient to service enforce policies. These include general growth and development costs. Maintenance costs include all operating and management costs other than acquisition and investment management costs. Maintenance costs are recognised in profit or loss on an accrual basis.

Investment Management Expenses
Investment management costs are the fixed and variable costs of managing investment funds. Investment management expenses are recognised in profit or loss as incurred.

Other Expenses
All other expenses are recognised in profit or loss on an accrual basis.

1. STATEMENT OF ACCOUNTING POLICIES *(continued)*

PARTICULAR ACCOUNTING POLICIES *(continued)*

(d) Financial Instruments
Basis on recognistion and measurement

The Company classifies financial instruments into one of the following categories at initial recognition: Financial Assets or Liabilities at Fair Value through Profit or Loss, Available for Sale Financial Assets, Loans and Receivables, Financial Assets Held to Maturity, and Financial Liabilities measured at amortised cost.

Some of these categories require measurement at fair value. Where available, quoted market prices are used as a measure of fair value. Where quoted market prices do not exist, fair values are estimated using present value or other market accepted valuation techniques, using methods and assumptions that are based on market conditions and risks existing as at balance date.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows expire or if the Company transfers them without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract are extinguished.

(i) Financial assets at fair value through profit or loss
Assets in this category are measured at fair value. Gains and losses from fair value re-measurement (excluding interest and dividends) are included in investment income in the profit or loss.

The financial assets in this category have been designated at inception as fair value through profit or loss because they back life insurance contract liabilities or life investment contract liabilities. Purchases and sales of these securities are recorded on a trade basis. Insurance investments include:

- Shares in listed companies and managed funds – shares and managed funds are recognised at fair value based on the bid market price quoted by the stock exchange or fund manager.
- Fixed interest securities – fixed interest securities are recognised at fair value based on quoted bid market price.

(ii) Available for sale financial assets

Available for sale financial assets are measured at fair value, with changes in fair value recognised directly in other comprehensive income. The Company has not classified any financial assets in this category.

1. STATEMENT OF ACCOUNTING POLICIES *(continued)*

PARTICULAR ACCOUNTING POLICIES *(continued)*

(d) Financial Instruments *(continued)*
(iii) Loans and receivables

Assets in this category are measured at amortised cost using the effective interest method and include:

Reverse Mortgages

Reverse Mortgages comprise of advances that are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The advances are initially recognised at fair value including fees and transaction costs that are directly attributable to the origination of the advance. They are subsequently measured at amortised cost using the effective interest method, less impairment loss.

Cash and Cash Equivalents
Cash and Cash Equivalents include cash on hand, bank current accounts, cash on deposit, short term money market deposits, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Other Receivables
Other Receivables include accounts receivable, and related party receivables.

(iv) Held to maturity investments
Assets in this category are measured at amortised cost. The Company has not classified any financial assets as held to maturity.

(v) Financial liabilities at fair value through profit and loss
Liabilities in this category are measured at fair value. Gains and losses arising from the fair value re-measurement are included in profit or loss. Liabilities in this category include investment contracts at fair value through profit or Loss, refer note 19 for details on life investment contract liabilities.

(vi) Other financial liabilities
This category includes all financial liabilities other than those designated as fair value through profit or loss. Liabilities in this category are measured at amortised cost and include:

Borrowings
The Company has long term Bank borrowings. These are initially recognised at fair value plus transaction costs and are subsequently measured at amortised cost. Interest expense is recognised in profit or loss using the effective interest method.

Other Payables
Other Payables include related party borrowings and amounts due to creditors.

1. STATEMENT OF ACCOUNTING POLICIES *(continued)*

PARTICULAR ACCOUNTING POLICIES *(continued)*

(e) Taxation
Life insurers are subject to a special tax regime. Two tax bases are maintained; the life insurer base where tax is calculated on investment income less expenses plus underwriting income, and the policyholder base which seeks to tax benefits as they accrue to policyholders under the policies in the form of claim, surrender and maturity payments and increments in the value of policies. The life insurer pays tax on the higher of the two bases at the company tax rate of 28%. As the life insurer is taxed as proxy for the policyholder, returns to policyholders are tax exempt.

From 1 July 2010 the taxation basis has changed. Tax will be payable on investment income allocated to policyholders and on shareholder cash flows (investment income, premiums less claims, less expenses). For the first five years of the new tax regime there are concessions which allow certain policies to continue being taxed under the old regime as explained above.

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the amount of assets and liabilities, using tax rates enacted or substantively enacted as at balance date.

Deferred taxation assets arising from temporary differences or income tax losses, are recognised only to the extent that it is probable that a future taxable profit will be available against which the asset can be utilised. Deferred taxation assets are reduced to the extent that it is no longer probable that the related tax asset will be realised. Any reduction is recognised in profit or loss.

(f) Provision for Impairment
Impairment is assessed initially for financial assets that are known to be individually impaired.

Reverse mortgages are reviewed at each balance date to determine whether there is any objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan and prior to the reporting date. The loss event has to have had an impact on the reliable measurement of estimated future cash flows.

If any such indication exists, the asset's recoverable amount is estimated and provision is made for the difference between the carrying amount and the recoverable amount.

The impairment provision is deducted from reverse mortgages in the statement of financial position and the movement in the impairment provisions is recognised in profit or loss. Bad debts are written off against the provision in the year in which they are identified. If in a subsequent period the amount of an impairment loss decreases and the decrease is linked objectively to an event occurring after the impairment loss, the loss is reversed through profit or loss.

1. STATEMENT OF ACCOUNTING POLICIES *(continued)*

PARTICULAR ACCOUNTING POLICIES *(continued)*

(g) Life Insurance Business
The Company's life insurance business is split between life insurance contracts and life investment contracts. Life insurance contracts are accounted for in accordance with the requirements of NZ IFRS 4. Life investment contracts are accounted for in accordance with NZ IAS 18 and NZ IAS 39.

Life insurance contracts are those contracts that transfer significant insurance risk. Life investment contracts are those with no significant insurance risk, but which give rise to a financial asset and/or liability under NZ IAS 39. Contracts that contain a discretionary participation feature are also classified as insurance contracts.

Determination of Life Insurance Contract Liabilities

Life insurance contract liabilities in the statement of financial position and the increase/(decrease) in profit or loss have been calculated using the Margin on Services (MoS) methodology in accordance with New Zealand Society of Actuaries Professional Standard 3 Determination of Life Insurance Policy Liabilities.

Overview of MoS Methodology

MoS is designed to recognise profits on life insurance contracts as services are provided to policyholders and income is received. Profits are deferred and amortised over the life of the policy, whereas losses are recognised immediately. Services used to determine profit recognition include the cost of expected claims, maintaining policies, and investment management. The policy service for each of the major product groupings that is used to defer and amortise the profit over the life of the policies are called profit carriers. Life insurance contract liabilities are generally determined as the present value of all future expected payments, expenses, taxes and profit margins reduced by the present value of all future expected premiums. Profit margins for participating businesses are set in relation to the value of supporting assets.

MoS profit comprises the following components:
(i) Planned margins of revenues over expenses
At the time of writing a policy and at each balance date, best estimate assumptions are used to determine all expected future payments and premiums. Where actual experience replicates best estimate assumptions, the expected profit margin will be released to profit over the life of the policy.

(ii) The difference between actual and assumed experience

Experience profits/(losses) are realised where actual experience differs from best estimate assumptions. Instances giving rise to experience profits/(losses) include variations in claims, expenses, mortality, discontinuance and investment returns. For example, an experience profit will emerge when the expenses of maintaining all in-force business in a year are lower than the best estimate assumption in respect of those expenses.

1. STATEMENT OF ACCOUNTING POLICIES *(continued)*

PARTICULAR ACCOUNTING POLICIES *(continued)*

(g) Life Insurance Business *(continued)*
(iii) Changes to underlying assumptions
Assumptions used for measuring life insurance contract liabilities are reviewed each year. Where the review leads to a change in assumptions, the change is deemed to have occurred from the end of the year, except for changes in discount rates which are recognised in the year that the rates are changed.

The financial effect of all other changes to the assumptions underlying the measurement of life insurance contract liabilities made during the reporting period is recognised in profit or loss over the future reporting periods during which services are provided to policyholders.

(iv) Loss recognition on groups of related products
If based on best estimate assumptions, written business for a group of insurance constracts with broadly similar resks that are managed together as a single portfolio is expected to be unprofitable, the total expected loss for that group is recognised in profit or loss immediately. When loss making business becomes profitable previously recognised losses are reversed.

(v) Investment earnings on assets in excess of policy liabilities
Profits are generated from investment assets which are in excess of those required to meet policyholder liabilities. Investment earnings are directly influenced by market conditions and as such this component of MoS profit will vary from year to year.

Participating Policies
Policyholder liabilities attributable to participating policies include the value of future planned shareholder profit margins and an allowance for future supportable bonuses. The value of supportable bonuses and planned shareholder profit margins account for all profit on a policy based on best estimate assumptions. Under MoS methodology, the value of supportable bonuses and the shareholder profit margin relating to a reporting year will emerge as expected profit in that year.

Life Investment Contract Liabilities
Investment contract liabilities are measured in accordance with NZ IAS 39.

All contracts issued by the Company which are classified as investment contracts are unit-linked. The fair value of a unit linked contract is determined using the current unit values that reflect the fair value of the financial assets backing the contract, multiplied by the number of units attributable to the contract holder.

Reinsurance
Reinsurance premiums and recoveries are recognised separately as revenue and expenses in profit or loss when they become due and payable in accordance with the reinsurance agreements.

1. STATEMENT OF ACCOUNTING POLICIES *(continued)*

PARTICULAR ACCOUNTING POLICIES *(continued)*

(h) Fair Values Estimates

Financial instruments classified as fair value through profit or loss are presented in the Company's statement of financial position at their fair value. For other financial assets and financial liabilities, fair value is estimated as follows:

Cash and cash equivalents
These assets are short term in nature and the carrying value less impairment approximates to their fair value.

Other receivables
These assets are short term in nature and the carrying value less impairment approximates to their fair value.

Reverse mortgages

Reverse mortgages have fixed interest rates. Fair value is estimated using a discounted cash flow model based on a current market interest rate for similar products after making allowances for impairment.

Borrowings
Borrowing liabilities have fixed interest rates. Fair value is estimated using a discounted cash flow model based on a current market interest rate for similar products.

(i) Managed Funds and other Fiduciary Activities

DPL Insurance Limited acts as an investment manager for a number of superannuation funds. The assets and liabilities of these funds are not included in the financial statements.

Arrangements exist to ensure the activities of the superannuation funds are managed independently from the other activities of the Company.

(j) Statement of Cash Flows

The cash flow statement has been prepared using the direct approach modified by netting certain cash flows in order to provide more meaningful disclosure as many of the cash flows are on behalf of the Company's customers rather than those of the Company. These include reverse mortgages and financial assets at fair value through profit or Loss.

(k) Change in presentation from the prior period and consistency of presentation

The presentation of some comparative information in the financial statements has been changed, in order to comply with the current year's financial statement presentation. This was done to better reflect the nature of these transactions from the perspective of the business. Except as detailed in above, these financial statements demonstrate consistent presentation and classification for each annual reporting period.

1. STATEMENT OF ACCOUNTING POLICIES *(continued)*

PARTICULAR ACCOUNTING POLICIES *(continued)*

(l) Contingent Liabilities

The Company is involved in transactions that give rise to contingent liabilities. The Company discloses a contingent liability when it has a possible obligation arising from past events that will be confirmed by the occurrence or non-occurrence of one or more uncertain future events. A contingent liability is disclosed when a present obligation is not recognised because it is not probable that an outflow of resources will be required to settle an obligation, or the amount of the obligation cannot be measured with sufficient reliability.

(m) Significant Judgements

The Company makes estimates and assumptions that affect the amounts reported in the financial statements. Estimates and judgments are continually evaluated; they are based on historical experience and current observable data. The estimates and judgments made by the Company in the process of applying the accounting policies that have the most significant effect relate to the following:

Liabilities arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is based on a number of actuarial techniques that analyse experience, trends and other relevant factors. The actuarial methodologies used are noted below.

Actuarial Policies and Methods

The actuarial report on life insurance contract liabilities and prudential reserves for the current reporting period was prepared as at 31 March 2012 by Peter Davies, a Fellow of the New Zealand Society of Actuaries. The value of life insurance contract liabilities has been determined in accordance with Professional Standard No. 3 of the New Zealand Society of Actuaries. After making appropriate checks, the actuary was satisfied as to the accuracy of the data from which the amount of policy liabilities has been determined.

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

(i) *Discount Rates*

Discount rates used to determine the life insurance contract liabilities are based on an appropriate risk-free rate of return, taking account of the term of the insurance contracts.

Tax was deducted at the rate of 28% on investment earnings net of investment expenses (2011: 28%). The net discount rates assumed were as follows:

	2012	2011
Whole of Life and Endowment Policies	2.92%	4.05%
Term Insurance Policies	Not applicable	
Funeral Benefit Policies	Not applicable	
Annuity Policies	2.92%	4.05%
Consumer Credit and Key Person Loan Protection	Not applicable	

(ii) *Inflation Rates*

In determining the future expected rate of return, general inflation was assumed to continue into the future at 2.0% per annum (2011: 2.0%).

1. STATEMENT OF ACCOUNTING POLICIES *(continued)*

PARTICULAR ACCOUNTING POLICIES *(continued)*

(n) Significant Judgements *(continued)*
(iii) *Mortality Rates*
Rates of mortality were assumed as follows:

For underwritten whole of life, endowment and term insurance policies: NZ97 (2011: NZ97). For guaranteed issue funeral plans: NZ97 multiplied by a factor to reflect higher mortality at younger ages. For annuities and reverse mortgages the Directors assumed mortality according to the PA(90) table, reduced by four years (but assuming no age reduction for the Cook Islands Annuity Pension Plan) (2011: PA(90) table, reduced by four years, no age reduction for Cook Islands).

(iv) *Profit Carriers*
The policies were divided into major product groups with profit carriers as follows:

Major Product Groups	*Carrier*
Participating Whole of Life and Endowment Policies	Policyholder Bonuses
Non Participating Whole of Life and Endowment Policies	Premiums
Funeral Benefit Policies (Caring Plan)	Not Applicable
Term Insurance Policies	Premiums
Funeral Plan Policies (Regular premium guaranteed issue)	Claims
Annuities	Annuity Payments
Consumer Credit and Key Person Loan Protection	Premiums

(v) *Investment and Maintenance Expenses*
The maintenance expense and general growth and development expense allowance assumed was $140 gross before tax (2011: $140) per annum per policy assuming a rate of inflation of 2.0% per annum (2011: 2.0%).

Administration costs for annuities in payment were assumed to be $70 per annum (2011: $67), with a rate of inflation of 2.0% per annum (2011: 2.0%). Investment management expenses were assumed to be 1.0% (2011: 1.0%) of policy liabilities.

(vi) *Inflation and Automatic Indexation of Benefits*
Maintenance expenses are assumed to increase 2.0% per annum (2011: 2.0%). Investment management expenses are assumed to remain a constant percentage of funds under management.

(vii) *Taxation*

The assumed future tax rate reflects the corporate tax rate applying in New Zealand with effect from 1 April 2012. The calculations have been carried out on the basis of current life insurance income tax legislation.

(viii) *Rates of Discontinuance*
Rates of discontinuance are assumed to be 5.0% for whole of life, endowment and term insurance business (2011: 5.0%), and nil for annuity pension plan business (2011: $nil).

1. STATEMENT OF ACCOUNTING POLICIES *(continued)*

PARTICULAR ACCOUNTING POLICIES *(continued)*

(n) Significant Judgements *(continued)*
(ix) *Surrender Values*
The Company's current basis of calculating surrender values is assumed to continue in the future.

(x) *Rates of Future Supportable Participating Benefits*
Rates of bonus supported by the participating fund are simple annual bonuses of $10 (2011: $10) per $1,000 of sum assured on whole of life policies and $20 (2011: $20) per $1,000 of sum assured on endowment policies. These equal the rates of bonus declared in the previous year.

(xi) *Impact of changes in assumptions*
The impact of the change in the discount rate from 5.63% to 4.05% (2011: 6.00% to 5.63%) is a increase in policy liabilities of $285,849 (2011: increase of $49,329).

(xii) *Crediting Policy Adopted for Future Supportable Participating Benefits*
For participating business the Company's policy is to distribute profits arising such that over long periods the returns to policy holders are commensurate with the investment returns achieved on relevant assets, together with other sources of profit arising from this business. In applying the policyholders' share of distributions to provide bonuses, consideration is given to achieving equity between generations of policyholders and equity between the various classes and sizes of policies in force. Assumed future bonus rates included in policyholder liabilities were set such that the present value of policyholder liabilities, allowing for the shareholders' right to participate in distributions, equals the value of assets supporting the business.

Provision for impairment on financial assets
Provision for impairment on financial assets is determined in accordance with accounting policy f. In applying the policy the Group makes judgments as to whether there is any observable data indicating impairment and the estimation of the recoverable amount.

Fair value of financial instruments
The fair value of financial instruments that are not quoted in active markets are determined using discounted cash flow models. To the extent practical, models use observable data, however normal volatilities require management to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments.

Deferred tax asset
Deferred income tax assets are recognised to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Directors believe the Company will have future taxable profits based on its forecasted earnings projections. However as at reporting date, a conservative approach has been taken to not recognise any deferred tax assets, for both the Company.

2. PROFIT AFTER MOVEMENT IN LIFE INSURANCE CONTRACT LIABILITIES, LIFE INVESTMENT CONTRACT LIABILITIES, TAXATION AND COMPREHENSIVE INCOME

a) ***Included in profit after movement in life insurance contract liabilities, life investment contract liabilities and taxation are the following:***

	2012 $'000	2011 $'000
Revenue		
Interest received	24	24
Expenses		
Audit Fees		
- Fees for audit of the financial statements	70	51
Provision for impairment	28	53

b) ***Net profit after taxation from insurance activities arose from:***

	2012	2011
Life insurance contracts		
Planned margin of revenues over expenses	4	4
Change in discount rate: 5.63% to 4.05% p.a. (2011: 6.00% to 5.63%)	(286)	(49)
Difference between actual and assumed experience	753	143
Life investment contracts		
Difference between actual and assumed experience	(537)	(86)
Investment earnings on assets in excess of insurance contract and investment contract liabilities	1,193	1,232
Net profit after taxation attributable to insurance activities	1,127	1,244

The disclosure of the components of operating profit after tax expense are required to be separated between policyholders' and shareholders' interests. We have included only one column, as any policyholder profits are an expense of the Company and not attributable to the Shareholder.

It is not currently possible to identify all experience variances separately for life investment contracts. The difference between actual and assumed experience for life insurance contracts therefore includes some variances relating to life investment contracts.

2. PROFIT AFTER MOVEMENT IN LIFE INSURANCE CONTRACT LIABILITIES, LIFE INVESTMENT CONTRACT LIABILITIES, TAXATION AND COMPREHENSIVE INCOME

c) Investment Income

	2012 $'000	2011 $'000
Equity securities – Australasian & international	214	1,081
Fixed interest securities – New Zealand	405	368
Property securities – New Zealand and international	512	234
	1,131	1,683

Included within equity securities is dividend income of $Nil (2011: $Nil) and included within fixed interest securities is interest income of $Nil (2011: $37,214). Included within total investment income is net realised and unrealised gains on securities at fair value through profit or loss of $1,131,263 (2011: $1,645,474).

d) Administration fees

	2012	2011
Life insurance contracts		
Policy acquisition expenses – commission costs	7	6
Deferred acquisition costs amortisation	-	(35)
Total insurance contract related expenses	7	(29)
Life investment contracts		
Investment management expenses	76	109
Total investment contract related expenses	76	109
Total insurance expenses	83	80

Acquisition costs are those fees charged against the schemes and policies during the first year of operation. Maintenance costs are all other fees charged against the schemes and policies.

3. TAXATION

a) *Taxation expense/(benefit)*

	2012 $'000	2011 $'000
Net profit/(loss) after movement in life insurance contract liabilities, life investment contract liabilities and before taxation	1,127	1,244
Income tax using the Company's domestic tax rate 28% (2011: 30%)	316	373
Add/(less) expenses not deductible for tax purposes	(520)	(681)
Add/(less) movement in temporary differences not recognised	(13)	(12)
Add/(less) Loss offset	-	-
Tax asset not recorded	217	320
	-	-

b) Imputation credit memorandum account

Opening balance	10	37
Income tax payments/(refunds received)	139	10
Imputation credits received	164	
Imputation credits utilised	(313)	-
Imputation credits lost due to change in share holding	-	(37)
Closing balance	-	10

Dorchester Pacific Limited formed a consolidated imputation group with its subsidiaries from the imputation year ended 31 March 2007, the table above reflects the figures for the Dorchester Pacific Limited consolidated group.

Policyholder
The balance of the policyholder imputation credit account is $Nil (2011: $Nil).

c) Taxation Losses

Company

Taxation losses brought forward	3,145	1,933
Add/(less) taxation losses Incurred	737	1,212
Add/(less) taxation losses utilised	(2,038)	-
Add/(less) excess imputation credits converted to losses	-	-
Taxation losses carried forward	1,844	3,145

The Company has unrecognised tax losses of $1,844,378 (2011: $3,145,537) available to be carried forward and to be offset against taxable income in the future. The tax effect of these losses at 28% (2011: 28%) is $527,626 (2011: $880,750). The ability to carry forward these losses is contingent upon continuing to meet the requirement of the Income Tax Act 2007.

Policyholders
The policy holder tax losses carried forward at 31 March 2012 are $2,213,727 (2011: $1,086,540). Due to a change in tax legislation effective 1 July 2010 the policy holder tax losses brought forward from 31 March 2010 of $39,259,000 were lost.

We note the policyholder taxation losses are only available to be offset against future policyholder income.

4. SHARE CAPITAL

	2012 $000	2011 $000
Number of ordinary shares		
Opening balance	2,500	2,500
Shares issued during the year	950	-
Total authorised and issued share capital	3,450	2,500
Dollar value of ordinary shares	**$'000**	**$'000**
Opening balance	2,500	2,500
Shares issued during the year	950	-
Total authorised and issued share capital	3,450	2,500

All ordinary shares have equal voting rights and share equally in dividends and surplus on winding

The dividends declared and paid in 2012 and 2011 were $Nil. No dividend has been declared subsequent to 31 March 2012.

5. EQUITY – DPL INSURANCE LIMITED SOVENCY CALCULATION

In terms of the Insurance (Prudential Supervision) Act 2010, DPL Insurance Limted must comply with the Solvency Standard for Life Insurance Business issued by the Reserve Bank of New Zealand in August 2011. Due to its classification as a small insurerer DPL Insurance Limited is required to have a solvency margin of at least $1.

	2012 $000
Equity of shareholders	11,826
Minumum solvency rquirement	11,443
Solvency margin	383

As the solvency calculation was only introduced in August 2011 there is no comparative information. For the year ended 31 March 2011, the solvency requirement was determined in accordance with the New Zealand Society of Actuaries Guidance Note 5, based on actuarial advice the directors determined that $6,602 million of the equity of DPL Insurance Limited should be set aside for solvency purposes at that date.

6. CAPITAL MANAGEMENT

The Company's capital includes share capital and retained earnings. The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders return is also recognised and the Company recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The allocation of capital between its specific business operations and activities is, to a large extent, driven by optimisation of the return on the capital allocated. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation. The Company's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors. During the year under review the Solvency Standard for Life Insurance Business was issued by the Reserve Bank of New Zealand, refer note 5.

7. CASH AND CASH EQUIVALENTS

	2012 $'000	2011 $'000
Bank	1,142	1,214

8. RECEIVABLES

	2012 $'000	2011 $'000
Other receivables and prepayments	45	45

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH THE PROFIT OR LOSS

	2012 $'000	2011 $'000
Investment in unitised funds	18,644	18,838
Fixed interest securities – government stock	522	531
	19,166	19,369
Investments in unitised funds comprise:		
Cash/deposits	3,699	2,745
Fixed interest securities-New Zealand and overseas	2,925	3,926
New Zealand and international equities	7,468	7,762
Life insurance policies	-	-
New Zealand and overseas property securities	4,552	4,405
	18,644	18,838
Investments with external investment managers		
Onepath	18,644	18,838
	18,644	18,838

Investments in unlisted units represent the investments of the life investment contracts (Refer note 19).

10. REVERSE ANNUITY MORTGAGES

	2012 $'000	2011 $'000
Securing bank borrowing (refer note 12)	7,802	10,735
Allocated to life insurance statutory fund (refer note 19)	-	4,527
Other	13,611	8,868
	21,413	24,130
Deferred fee revenue and commission expenses	(83)	(79)
Provision for impairment	(49)	(53)
	21,281	23,998

11. PAYABLES

	2012 $'000	2011 $'000
Related party payable (Note 16)	648	3,540
Other payables and accruals	205	255
	853	3,795

12. BORROWINGS

	2012 $'000	2011 $'000
Bank borrowings - Kiwibank	7,248	9,197

The Bank borrowings are secured against a parcel of reverse mortgages (refer note 10). The commitment is extended on an annual basis. As at 31 March 2012 the effective interest rate was 8.44% (2011: 8.39%).

13. COMMITMENTS AND CONTINGENT LIABILITIES

Operating lease commitments
There are no amounts committed under an Operating Lease (2011: $Nil).

Capital Expenditure
There are no amounts committed to Capital Expenditure (2011: $Nil).

Loan commitments
Loan commitments are provided in the liquidity note in note 14.

Contingent liabilities
The Company has no material contingent liabilities at 31 March 2012 (2011: $Nil).

14. FINANCIAL INSTRUMENTS

a.) Credit risk

Credit risk is the risk that a counterparty will cause a financial loss for the Company by failing to meet its contractual obligations.

Financial instruments which potentially subject the Company to credit risk principally consist of cash and cash equivalents, reverse mortgages, other receivables and financial assets at fair value through profit or loss. There is also credit risk in off-Statement of Financial Position financial instruments, such as loan commitments which represent irrevocable unused portions of authorisations to extend loans. The Company's cash equivalents and short term deposits are placed with high credit quality institutions.

The Company performs credit evaluations on all customers requiring advances. The Company requires collateral or other security to support the financial instruments with credit risk. The Company operates a lending policy with various levels of authority depending on the size of the loan. A lending and credit committee operates and overdue loans are assessed on a regular basis by this body.

Risk gradings categorise exposures according to the degree of risk of financial loss faced and focus management on the attendant risks. Risk grades are used to determine where impairment allowances may be required. The current risk grading framework consists of three grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. They are as follows:

- neither past due nor impaired - compliance with all terms, good security value, and no adverse events affecting the borrower.
- past due but not impaired – non- compliance with all terms and concerns over future events that may effect the borrower.
- past due and impaired - non-compliance with terms, evidence of impairment of security held and adverse event affecting the borrower.

The Company implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for reverse mortgages are mortgages over residential property.

Maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position which is net of any provision for impairment.

14. FINANCIAL INSTRUMENTS *(continued)*

a.) Credit risk *(continued)*

With respect to credit risk on commitments, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The credit risk exposure below does not take into account the fair value of any collateral, in the event of counterparties failing to meet their contractual obligation.

For life investment linked contracts the investments credit risk is appropriate for each particular product and the risk is borne by the policy holder. There is no significant risk assumed by the Company.

a.) i.) Concentrations of credit risk

Concentrations of credit risk exist if a number of counterparties are involved in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The Company manages, limits and controls concentrations of credit risk, in particular, to individual counterparties and geographic location. The Company lends only to owners of property.

Such risks are monitored on an ongoing basis and subject to an annual or more frequent review, when considered necessary.

Geographic concentrations of reverse mortgages

The following table breaks down the Company's main credit exposure at their carrying amounts, as categorised by the geographic regions of our counterparties.

	2012	2011
	$'000	$'000
Northland	4,271	3,836
Auckland	8,878	10,521
Waikato/Bay of Plenty	2,039	1,884
Taupo	401	650
Wellington	1,173	1,630
Rest of North Island	1,668	1,902
Canterbury	1,827	1,937
Otago/Southland	507	451
Rest of South Island	649	1,319
	21,413	24,130

14. FINANCIAL INSTRUMENTS *(continued)*

a.) Credit risk *(continued)* **a.) ii.) Reverse mortgages specifically impaired**	**2012** **$'000**	**2011** **$'000**
Reverse mortgages specifically impaired	-	590

Reverse mortgages are an equity release product from the borrowers' residence. Mortgage advances and interest accruals increase the mortgage carrying amount therefore there are no past due mortgages. When the mortgage advances and interest accruals exceed secured property valuations the reverse mortgage is specifically impaired.

An estimate of the fair value of collateral held against impaired reverse mortgages at 31 March 2012 was nil (2011: $550,000).

b.) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds at short notice to meet obligations from its financial liabilities.

The Company maintains sufficient funds to meet its commitments based on historical and forecasted cash flow requirements. Management actively manages the lending and borrowing portfolios to ensure the net exposure to liquidity risk is minimised. The exposure is reviewed on an ongoing basis from daily procedures to monthly reporting as part of the Company's liquidity management process. The management process includes:

- day to day funding, managed by monitoring future cash flows to ensure that requirements can be met;
- managing the concentration and profile of debt maturities;

Monitoring and reporting take the form of cashflow measurement and projections, these include:

- day to day funding requirements;
- on a weekly basis, projecting the requirements for each of the next 4 weeks;
- on a monthly basis, projecting the requirements for each of the next 12 months;

The weekly projections are reported to the Board. The Company also monitors the level of undrawn lending commitments.

The starting point for those projections is an analysis of the contractual maturity of the financial liabilities (see tables below).

The tables below present cash flows payable by the Company for financial liabilities and unrecognised loan commitments based on the earliest possible contractual maturity. The Company expects cashflows on these instruments to vary from their contractual maturity. For instance unrecognised loan commitments are not all expected to be drawn down immediately.

14. FINANCIAL INSTRUMENTS *(continued)*

b.) Liquidity risk *(continued)*

The liquidity risk for cashflows payable on the life investment contracts liabilities that are unit linked contracts is managed by holding a pool of readily tradeable investment assets (included in financial assets at fair value through profit or loss) and deposits on call. These have been excluded from the maturity analysis below because there is no contractual or expected maturity date for the life investment contracts and the readily tradeable investment assets offset any liquidity risk.

Interest terms of other borrowings funding Reverse mortgages (RAM's) are linked to the underlying RAM's. Interest accrues and increases the carrying amount of other borrowings. There is no contractual maturity for RAM products. On repayment of the RAM, other borrowings are repaid. The other borrowings funding RAM products is a commitment that is extended on an annual basis.

2012 $'000	0-6 Months	6-12 Months	12-24 Months	24-60 Months	60+ Months	Total
Financial assets						
Cash and cash equivalents	1,142	-	-	-	-	1,142
Reverse mortgages	215	486	361	4,961	15,258	21,281
Other receivables	45	-	-	-	-	45
	1,402	486	361	4,961	15,258	22,468
Financial liabilities						
Borrowings	7,248		-	-	-	7,248
Advances from related parties	648	-	-	-	-	648
	7,896	-	-	-	-	7,896
Off-Statement of Financial Position items						
Interest receivable not yet accrued	-	48	44	1,766	34,407	36,265
Interest payable not yet accrued	117	-	-	-	-	117

Interest receivable not yet accrued is the unearned interest over the remaining term of the reverse mortgages. Interest payable not yet accrued is the interest payable on the Kiwibank loan over the remaining term of the loan.

2011 $'000	0-6 Months	6-12 Months	12-24 Months	24-60 Months	60+ Months	Total
Financial assets						
Cash and cash equivalents	1,214	-	-	-	-	1,214
Reverse mortgages	1,508	458	-	4,446	17,586	23,998
Other receivables	45	-	-	-	-	45
	2,767	458	-	4,446	17,586	25,257
Financial liabilities						
Borrowings	7,358	1,839	-	-	-	9,197
Advances from related parties	3,540	-	-	-	-	3,540
	10,898	1,839	-	-	-	12,737
Off-Statement of Financial Position items						
Interest receivable not yet accrued	16	30	-	1,898	44,915	46,859
Interest payable not yet accrued	117	-	-	-	-	117

14. FINANCIAL INSTRUMENTS *(continued)*

c.) Market risk

Market risk is the risk of an event in the financial markets that results in a fluctuation in earnings or a fluctuation in value. Market risk arises from the mismatch between assets and liabilities. The Company is exposed to diverse financial instruments including interest rates, equities, and foreign currencies.

c.i.) Life insurance business

For the life insurance business, financial assets at fair value through profit or loss are held for investment linked policies where market risk is transferred to the policy holder. The Company earns fees on investment linked policies that are based on the amount of assets invested, it may receive lower fees should markets fall. Asset allocation for investment linked policies is decided by the Policy Holder. This risk is not considered significant.

Interest rate risk also arises on risk contracts where negative policy liabilities are valued at current risk free interest rates. There would not be any significant impact on profit or loss for interest rate changes refer sensitivity analysis note 19.

c.ii.) Interest rate risk for financing activities

For the financing activities of the Company, the main market risk is interest rate risk.

Interest rate risk is the risk of loss to the Company arising from adverse changes in interest rates. The Company is exposed to the interest rate risk in respect of borrowings from and lending to customers. Interest rates are managed by assessing the demand for funds, for new lending, repayments and maintaining an adequate liquidity buffer. Rates are either fixed or variable for both lending and borrowing over the term of the contract. The Company does not enter into any futures, swaps or option contracts. Changes to interest rates can impact on the Company's financial results by affecting the spread earned on the interest-earning assets and the cost of interest-bearing liabilities.

Interest rate risk is measured by management and the Board of Directors when establishing fixed and variable rates of interest. When approving interest rates for individual loan advances interest rate risk is either measured by management and/or Board of Directors in accordance with the approved lending policy. Exposure to interest rates is monitored by the Board of Directors on a monthly basis.

The expected maturity periods of reverse mortgages are set out at note 14.b). Interest rates on advances are fixed or variable throughout the life of the advances. Advances are secured over the assets to which they relate.

Reverse mortgages and other borrowings are carried at amortised cost with the majority of the interest rates being fixed. For the variable rate reverse mortgages this is funded by an offsetting variable rate financial liability in borrowings. Therefore there would not be any impact on the profit or loss if there were interest rate changes.

14. FINANCIAL INSTRUMENTS *(continued)*

c.ii.) Interest rate risk for financing activities *(continued)*

The following table summarises the sensitivity of the Company's finance assets and financial liabilities to interest rate risk. The analysis shows the anualised impact on profit before tax and equity of a +/- 1% movement in interest rates. The equity impace takes into account tax effect of the profit impacts.

2012 ($'000)	Carrrying amount	-1% profit	-1% equity	+1% profit	+1% equity
Financial assets					
Reverse mortgages	21,281	(213)	(153)	213	153
Financial liabilities					
Borrowings	7,248	72	52	(72)	(52)
Total increase/(decrease)		(140)	(101)	140	101

2011 ($'000)	Carrrying amount	-1% profit	-1% equity	+1% profit	+1% equity
Financial assets					
Reverse mortgages	23,998	(240)	(168)	240	168
Financial liabilities					
Borrowings	9,197	92	64	(92)	(64)
Total increase/(decrease)		(148)	(104)	148	104

d.) Fair value of financial assets and liabilities not carried at fair value

Except for reverse mortgages and borrowings, the carrying value of all financial assets and liabilities *not carried at fair value approximates their fair values as they are either short term in nature or rate* insensitive.

The fair value of reverse mortgages and borrowings is determined using discounted cash flows, the discount rates used are the current market rates for similar products.

The table below summarises the carrying amounts and fair values of those financial assets and financial liabilities not presented on the Company's statement of financial position at their fair value:

2012 $'000	Carrying Amount	Fair Value
Financial assets		
Cash and cash equivalents	1,142	1,142
Other receivables	45	45
Reverse mortgages	21,281	21,509
	22,468	22,696
Financial liabilities		
Borrowings	7,248	7,334
Advances from related parties	648	648
	7,896	7,982

2011 $'000	Carrying Amount	Fair Value
Financial assets		
Cash and cash equivalents	1,214	1,214
Other receivables	45	45
Reverse mortgages	23,998	24,378
	25,257	25,637
Financial liabilities		
Borrowings	9,197	9,339
Advances from related parties	3,540	3,482
	12,737	12,821

e.) Fair value financial assets

The fair value of financial assets carried at fair value are determined as follows:

- Level 1: The fair value is calculated using quoted prices in active markets.
- Level 2 : The fair value is estimated using inputs other than quoted prices in level 1 that are observable for the assets, either directly (as prices) or indirectly (derived from prices).
- Level 3: The fair value is estimated using inputs for the assets that are not based on observable market data.

The fair value of financial assets carried at fair value as well as the methods used to calculate fair value are summarised in the table below:

2012	**Level 1**	**Level 2**	**Level 3**	**Total**
$'000				
Financial assets:				
Financial assets at fair value through profit or loss	522	18,644	-	19,166
	522	18,644	-	19,166

2011	**Level 1**	**Level 2**	**Level 3**	**Total**
$'000				
Financial assets:				
Financial assets at fair value through profit or loss	531	18,838	-	19,369
	531	18,838	-	19,369

15. ASSET QUALITY

	2012	2011
Specific impairment provision	**$'000**	**$'000**
Opening balance	53	-
Provision for impairment	-	53
Amounts written off	(31)	-
Amounts recovered during the year	(22)	-
Closing balance	-	53
Collective impairment provision		
Opening balance	-	-
Provision for impairment	49	-
	49	-
Specific impaired financial assets		
Opening balance	590	-
Additions to other individually impaired assets	-	590
Deletions from other individually impaired assets	(590)	-
	-	590
Movement in provisions - reconciliation to statement of comprehensive income - specific provisions for:		
Collection impairment provision	49	-
Specific impairment provision	(22)	53
Charge to profit or loss	27	53

16. TRANSACTIONS WITH RELATED PARTIES

a) Related party balances

	2012	2011
Payable as follows:		
Dorchester Life Management Limited	(33)	3,019
Dorchester Life Trustees Limited	-	1
Dorchester Pacific Limited	681	520
	648	3,540

All related party loans are repayable on demand and bear no interest. No related party debts have been forgiven or written off during the year.

b) Related Party Transactions

The Company paid expenses in the form of activity $562,391 (2011: $632,116), plan $649,512 (2011: $714,777) and establishment fees $480,612 (2011: $478,653) to Dorchester Life Management Limited in return for Dorchester Life Management Limited administering certain products offered by the Company. Certain overhead recharges were received from Dorchester Life Management Limited of $872,299 (2011: $1,171,834).

The Company, Dorchester Life Management Limited and Dorchester Finance Limited are all wholly owned subsidiaries of Dorchester Pacific Limited. There were no transactions (2011: NIL) which occurred at nil or nominal value.

17. RECONCILIATION OF NET SURPLUS AFTER TAXATION TO CASHFLOWS FROM OPERATING ACTIVITIES

	2012 $'000	*2011* $'000
Net profit after movement in life insurance contract liabilities, life investment contract liabilities and taxation	1,127	1,244
Add/(less) non-cash items:		
Non-cash movement in reverse mortgages	(2,127)	(2,325)
Net unrealised (gains)/losses on investments	(1,131)	(1,645)
Policyholder liabilities	(178)	(258)
Provision for impairment	27	(53)
Add/(less) movements in working capital items:		
Receivables	-	23
Other payables	(717)	(1,369)
Add Working Capital items treated as investing activities	(62)	(115)
Add Working Capital items treated as financing activities	1,565	2,026
Net cash outflow from operating activities	(1,496)	(2,472)

18. SIGNIFICANT EVENTS AFTER BALANCE DATE

There were no significant events after Balance Date.

19. LIFE INSURANCE RELATED DISCLOSURES

a.) Policyholder liabilities	**2012 $'000**	**2011 $'000**
Life insurance contract liabilities		
Opening life insurance contract liabilities	3,048	3,100
Decrease in life insurance contract liabilities recognised in the statement of comprehensive income	479	60
Decrease in premium revenues recognised in the statement of comprehensive income	(138)	(48)
Decrease in interest income recognised in the statement of comprehensive income	(36)	(64)
Closing life insurance contract liabilities	3,353	3,048
Policyholder liabilities contain the following components:		
Future policy benefits	6,187	4,224
Future bonuses	40	38
Future expenses	408	255
Future profit margins	151	92
Balance of future premiums	(3,435)	(1,570)
Re-insurance	2	2
Cost of bonus	-	7
	3,353	3,048
Life insurance contracts with a discretionary participation feature – the amount of the liabilities that relates to guarantees	433	388
Other contracts with a fixed or guaranteed termination value – current termination value	2,341	2,450
Life investment contracts at fair value through profit or loss		
Opening life investment contract liabilities at fair value through profit or loss	18,835	19,041
Increase in life investment contract liabilities recognised in profit or loss	655	749
Contributions	6,824	6,963
Withdrawals	(6,270)	(6,092)
Activity, plan and establishment fees	(1,692)	(1,826)
Closing life investment contract liabilities held by the life insurance business	18,352	18,835
Expected to be realised in more than 12 months	18,352	18,835

The benefits offered under the Company's unit-linked investment contracts are based on the returns of selected equities and debt securities. This investment mix is unique, and it cannot be associated to an individual benchmark index with a sufficiently high correlation.

19. LIFE INSURANCE RELATED DISCLOSURES *(continued)*

a.) Policyholder liabilities *(continued)*

All financial liabilities at fair value through profit and loss are designated by the Company to be in this measurement category.

The liabilities originated from unit-linked contracts are measured in reference to their respective underlying assets of these contracts. Changes in the credit risk of the underlying assets do not impact the measurement of the unit-linked liabilities. The maturity value of these financial liabilities is determined by the fair value of the linked assets, at maturity date.

b.) Policyholder liabilities	**2012 $'000**	**2011 $'000**
Annuities	1,976	2,034
Endowment	473	432
Whole of life	549	298
Provision for bonuses and future margins	152	92
Consumer credit protection & key person loan protection	97	133
Accidental death/redundancy	45	6
Term of life	10	3
Claims provision	50	50
Superlife policies	8,877	9,096
Life bond policies - life bond reserve	11	19
Superannuation Funds:		
NZPP Payroll Superannuation Fund (Pension)	34	35
NZPP Payroll Superannuation Fund (Lump Sum)	54	53
NZPP Personal Superannuation Fund (Pension)	116	134
NZPP Personal Superannuation Fund (Lump Sum)	9	9
NZPP Portable Superannuation Fund (Pension)	483	565
NZPP Portable Superannuation Fund (Lump Sum)	4	4
NZPP Employees Superannuation Scheme	1,527	1,714
Super Bond Retirement Plan	7,008	6,979
Invincible Superannuation Plan	157	151
Dorchester Life Group Superannuation Plan	73	76
	21,705	21,883

The policy liabilities in respect of annuities, endowment, whole of life, term life, super life and life bond have been established in accordance with the policy conditions and maintained at a level equivalent to obligations due to policy holders as maturity or partial benefits.

Dorchester Life Trustees Limited, as trustee of all the superannuation funds, invests in a life policy issued to the trustees by DPL Insurance Limited. During the year the Company received premiums, paid claims and invested the funds for the superannuation schemes outlined above. All investments and bank accounts of these funds are recorded in the name of DPL Insurance Limited.

The super life policy liabilities are equal to the super life retirement fund. The super life fund has been established by DPL Insurance Limited in accordance with the policy conditions and is maintained at a level equal to the obligations due to super life policyholders as maturity or partial benefits.

19. LIFE INSURANCE RELATED DISCLOSURES *(continued)*

b.) Policyholder Liabilities *(continued)*

The life bond policy liabilities are separated into two reserves, the premium reserve fund and the life bond reserve. The premium reserve fund has been established by DPL Insurance Limited in accordance with the policy conditions and is maintained at a level equal to the obligations due to life bond policyholders as maturity or partial benefits as at 31 March 2012.

A life reserve has been created from investment earnings and is attributable to the superannuation funds and Superlife policies.

c.) Disaggregated Information

The business undertaken and policies accepted by DPL Insurance Limited are a combination of investment linked and non-investment linked. Investment linked business is business for which the life insurer issues a contract where the benefit amount is directly linked to the market value of the investments held in the particular investment linked fund. Non-investment linked business is life insurance business other than investment linked business.

2012 ($'000)	**Investment Linked**	**Non-Investment Linked**	**Total**
Premium income	-	724	724
Investment income	1,131	2,148	1,131
Claims expense	-	(91)	(91)
Annuities paid	-	(125)	(125)
Other operating expenses	(592)	(1,477)	(2,069)
Investment revenues allocated to policyholders	(591)	-	(591)
Net profit before taxation	(52)	1,179	1,127
Taxation	-	-	-
Net profit after taxation	(52)	1,179	1,127
Policy liabilities	(18,352)	(3,353)	(21,705)
Investment assets	18,644	21,803	40,447
Other assets	1,166	1,187	2,353
Other liabilities	221	(8,103)	(7,882)
Retained earnings	2,320	6,056	8,376

19. LIFE INSURANCE RELATED DISCLOSURES *(continued)*

c.) Disaggregated Information *(continued)*

2011 ($'000)	Investment Linked	Non-Investment Linked	Total
Premium income	-	486	486
Investment income	1,683	2,325	4,008
Claims expense	-	54	54
Annuities paid	-	143	143
Other operating expenses	1,066	1,238	2,304
Investment revenues allocated to policyholders	749	-	749
Net profit before taxation	(132)	1,376	1,244
Taxation	-	-	-
Net profit after taxation	(132)	1,376	1,244
Policy liabilities	(18,835)	(3,048)	(21,883)
Investment assets	18,838	24,544	43,382
Other assets	1,251	11	1,262
Other liabilities	(27)	(12,951)	(12,978)
Retained earnings	2,372	4,877	7,249

d.) Managed funds and other fiduciary activities

DPL Insurance Limited acts as an investment manager for a number of superannuation funds. The assets and liabilities of these funds are included in the financial statements. Arrangements exist to ensure the activities of the superannuation funds are managed independently from the other activities of the company.

e.) Life insurance risk

The life insurance business of the Company involves a number of non-financial risks concerned with the pricing, acceptance and management of the mortality, and longevity risks accepted from policyholders. Financial risks involving the Company are in note 14 above. Insurance risks are controlled through the use of underwriting procedures and adequate premium rates and policy charges, all of which are approved by the Actuary. Tight controls are also maintained over claims management practices to ensure the correct and timely payment of insurance claims.

Terms and conditions of life insurance contracts
The nature of the terms of the insurance contracts written by the Company is such that certain external variables can be identified on which related cashflows for claim payments depend. The tables below provide an overview of the key variables upon which the amount of related cashflows are dependent.

19. LIFE INSURANCE RELATED DISCLOSURES *(continued)*

e.) Life Insurance Risk *(continued)*

Type of contract	**Details of the contract workings**	**Nature of compensation for claims**	**Key variables affecting cash flows**
Non-participating life insurance contracts with fixed and guaranteed terms	*Benefits paid on death* or maturity are fixed and guaranteed and not at the discretion of the issuer	*Benefits, defined by the* insurance contract, are determined by the contract and are not directly affected by the performance of underlying assets or the performance of the contracts as whole.	*Mortality, lapses,* expenses and market earnings on assets backing the liabilities.
Life insurance contracts with discretionary participating benefits (endowment and whole of life)	These policies include a clearly defined initial guaranteed sum assured which is payable on death. The *guaranteed amount is a* multiple of the amount that is increased throughout the duration of the policy by the addition of regular bonuses annually which, once added, are not removed. Regular bonuses are also added retrospectively.	Benefits arising from the discretionary participation feature are based on the performance of a *specified pool of* contracts or a specified type of contract.	Mortality, lapses, expenses and market earnings on assets backing the liabilities.
Life Annuity Contracts	These policies provide guaranteed regular payments to the life assured.	The amount of the payment is set at inception of the policy.	Longevity, expenses and market earnings on assets backing the liabilities.

Variations in claim levels will affect reported profit and equity. The impact may be magnified if the variation leads to a change in actuarial assumptions which cannot be absorbed within the present value of planned margins for a group of related products.

Insurance risk may arise through the reassessment of the incidence of claims, the trend of future claims and the effect of unforeseen diseases or epidemics. Insurance risk is controlled by ensuring underwriting standards adequately identify potential risk, retaining the right to amend premiums on risk policies where appropriate. The experience of the Company's life insurance business is reviewed regularly.

Concentration of insurance risk
The Company aims to maintain a portfolio of policyholders with a broad spread of insurance risk types, ages, sexes, occupation classes and geographic locations. The Company uses reinsurance to limit the insurance risk exposure for any one individual.

19. LIFE INSURANCE RELATED DISCLOSURES *(continued)*

e.) Life Insurance Risk *(continued)*

Sensitivity analysis
The liabilities included in the reported results are calculated using certain assumptions about key variables as disclosed above. Sensitivity analysis is conducted to assess the impact of actual experience being different to that assumed in the calculation of liabilities. Movements in any variable will impact the profit and net assets of the Company. The tables below describe how a change in actual experience relative to that expected will effect next financial year's expected shareholder profit.

Variable	Impact of movement in underlying variable
Expense risk	An increase in the level or inflationary growth of expenses over assumed levels will decrease profit and shareholders equity
Interest rate risk	Depending on the profile of the investment portfolio, the investment income of the Company will decrease as interest rates decrease. This may be offset to an extent by changes in the market value of fixed interest investments. The impact on profit and shareholder equity depends on the relative profiles of assets and liabilities, to the extent that these are not matched.
Mortality rates	For insurance contracts providing death benefits, greater mortality rates would lead to higher levels of claims, increasing associated claims cost and therefore reducing profit and shareholder equity
Discontinuance	The impact of discontinuance rate assumption depends on a range of factors including the type of contract, the surrender value basis (where applicable) and the duration in force. For example, an increase in discontinuance rates at earlier durations of life insurance contracts usually has a negative effect on profit and shareholder equity. However, due to the interplay between the factors, there is not always an adverse outcome from an increase in discontinuance rates.
Market Risk	For benefits which are not contractually linked to the underlying assets, the Company is exposed to Market Risk

19. LIFE INSURANCE RELATED DISCLOSURES *(continued)*

e.) Life Insurance Risk *(continued)*

The table below illustrates how changes in key assumptions would impact the reported profit and liabilities of the Company

As at 31 March 2012 – Result of change in assumptions

$'000	Effect on Policy Liability	Effect on Future Profit Margins
Market risks		
Increase in interest rates of 1%	(341)	(9)
Decrease in interest rates of 1%	391	10
Insurance risks		
Increase in expenses of 10%	1	(78)
Decrease in expenses of 10%	(1)	78
Decrease in mortality by 10%	320	(64)
Increase in mortality by 10%	26	452
Worsening of discontinuance rate by 10%	-	91
Improvement in discontinuance rate by 10%	-	(98)

As at 31 March 2011 – Result of change in assumptions

$'000	Effect on Policy Liability	Effect on Future Profit Margins
Market risks		
Increase in interest rates of 1%	(184)	(5)
Decrease in interest rates of 1%	208	6
Insurance risks		
Increase in expenses of 10%	1	(21)
Decrease in expenses of 10%	(1)	21
Decrease in mortality by 10%	31	(1)
Increase in mortality by 10%	31	61
Worsening of discontinuance rate by 10%	-	17
Improvement in discontinuance rate by 10%	-	(18)