

**DPL INSURANCE LIMITED**

**ANNUAL REPORT**

**FOR THE YEAR ENDED 31 MARCH 2014**

**DPL INSURANCE LIMITED**

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**FOR THE YEAR ENDED 31 MARCH 2014**

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**DPL INSURANCE LIMITED**

**DIRECTORS' REPORT**

**FOR THE YEAR ENDED 31 MARCH 2014**

The directors present the annual report of DPL Insurance Limited for the year ended 31 March 2014.

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: 20 August 2014*

**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 35, which comprise the Statement of Financial Position of the Company as at 31 March 2014, Statement of Comprehensive Income, Statement of Changes in Equity and 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 35:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the Company as at 31 March 2014 and of its financial performance and cash flows for the year then ended.

**Report on Other Legal and Regulatory Requirements**

Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993 require us to comment on whether we have obtained all the information and explanations that we have required from the Company and whether we consider that proper accounting records have been kept by the Company.

We have obtained all the information and explanations that we have required.

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



**STAPLES RODWAY AUCKLAND**  
AUCKLAND

20 August 2014

**DPL INSURANCE LIMITED**

**STATEMENT OF COMPREHENSIVE INCOME**

**FOR THE YEAR ENDED 31 MARCH 2014**

	Note	2014 \$'000	2013 \$'000
<b>Insurance business</b>			
<b>Revenues</b>			
Premium revenues		2,963	1,857
Reinsurance revenues		10	21
<b>Expenses</b>			
Claims		432	347
Annuities paid		134	132
<b>Net insurance income</b>		2,407	1,399
<b>Non insurance business</b>			
<b>Investment revenue</b>			
Investment revenues	6	1,479	2,349
Interest income		729	1,445
<b>Investment expenditure</b>			
Investment management expenses	6	80	92
Interest expense		9	320
<b>Net non-insurance income</b>		2,119	3,382
<b>Movement in life insurance and life investment contract liabilities</b>			
Life insurance contract liabilities	22	10	(116)
Life investment contract liabilities	22	(1,152)	(1,925)
<b>Movement in life insurance and life investment contract liabilities</b>		(1,142)	(2,041)
<b>Other expenditure</b>	6	2,232	1,013
<b>Profit before taxation</b>		1,152	1,727
Less: taxation expense	7	-	-
<b>Profit for the year</b>		1,152	1,727
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		1,152	1,727

The accompanying notes form part of these financial statements

**DPL INSURANCE LIMITED**

**STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED 31 MARCH 2014**

	<b>Share Capital \$'000</b>	<b>Retained Earnings \$'000</b>	<b>Total \$'000</b>
<b>Balance at 1 April 2012</b>	<b>3,450</b>	<b>8,376</b>	<b>11,826</b>
Dividend paid	-	(7,800)	(7,800)
Transactions with shareholders in their capacity as owners	-	(7,800)	(7,800)
Total Comprehensive Income attributable to shareholders	-	1,727	1,727
<b>Balance at 31 March 2013</b>	<b>3,450</b>	<b>2,303</b>	<b>5,753</b>
Dividend paid	-	-	-
Transactions with shareholders in their capacity as owners	-	-	-
Total Comprehensive Income attributable to shareholders	-	1,152	1,152
<b>Balance at 31 March 2014</b>	<b>3,450</b>	<b>3,455</b>	<b>6,905</b>

The accompanying notes form part of these financial statements

**DPL INSURANCE LIMITED**

**STATEMENT OF FINANCIAL POSITION**

**AS AT 31 MARCH 2014**

	Note	2014 \$'000	2013 \$'000
<b>ASSETS</b>			
Cash and cash equivalents	11	4,382	3,355
Receivables and other prepayments	12	2,649	725
Current tax asset		35	-
Financial assets at fair value through profit or loss	13	15,891	16,652
Reverse annuity mortgages	14	6,504	6,492
<b>Total assets</b>		<b>29,461</b>	<b>27,225</b>
<b>LIABILITIES</b>			
Payables	15	843	418
Current tax liabilities		-	3
Life investment contract liabilities	22	15,293	16,370
Insurance contract liabilities	22	6,420	4,681
<b>Total liabilities</b>		<b>22,556</b>	<b>21,472</b>
<b>SHAREHOLDER'S EQUITY</b>			
Share Capital	8	3,450	3,450
Retained Earnings		3,455	2,303
<b>Total shareholder's equity</b>		<b>6,905</b>	<b>5,753</b>
<b>Total shareholder's equity and liabilities</b>		<b>29,461</b>	<b>27,225</b>

*Signed for and on behalf of the Board of Directors:*



*Director*



*Director*

*Dated: 20 August 2014*

The accompanying notes form part of these financial statements.



**DPL INSURANCE LIMITED**

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED 31 MARCH 2014**

	<b>Note</b>	<b>2014 \$'000</b>	<b>2013 \$'000</b>
<b>Cash flows from operating activities</b>			
<i>Cash was provided from:</i>			
Contributions and Premiums Received		7,670	7,991
Interest Received		129	182
Realised Investment Income		26	(5)
Other		10	21
		<u>7,835</u>	<u>8,189</u>
<i>Cash was applied to:</i>			
Withdrawals and Claims Paid		5,771	8,051
Administration Fees Paid		826	1,355
Other Expenses Paid		<u>3,054</u>	<u>9,578</u>
		<u>9,651</u>	<u>18,984</u>
<b>Net cash outflow from operating activities</b>	<b>20</b>	<b>(1,816)</b>	<b>(10,795)</b>
<b>Cash flows from investing activities</b>			
<i>Cash was provided from:</i>			
Investments		2,253	4,855
Reverse annuity mortgages		<u>572</u>	<u>16,182</u>
<b>Net cash inflow from investing activities</b>		<b>2,825</b>	<b>21,037</b>

The accompanying notes form part of these financial statements.

**DPL INSURANCE LIMITED**

**STATEMENT OF CASH FLOWS** *(continued)*

**FOR THE YEAR ENDED 31 MARCH 2014**

	<b>Note</b>	<b>2014 \$'000</b>	<b>2013 \$'000</b>
<b>Cash flows from financing activities</b>			
<i>Cash was provided from:</i>			
Intercompany Borrowings		18	-
		18	-
<i>Cash was applied to</i>			
Repayment of Kiwibank loan		-	7,559
Intercompany Borrowings		-	470
		-	(8,029)
<b>Net cash inflow / (outflow) from financing activities</b>		18	(8,029)
Net movement in cash and cash equivalents		1,027	2,213
Add Opening cash and cash equivalents		3,355	1,142
<b>Closing cash and cash equivalents</b>		<b>4,382</b>	<b>3,355</b>
Represented by:			
Bank balances	11	4,382	3,355
<b>Closing cash and cash equivalents</b>		<b>4,382</b>	<b>3,355</b>

The accompanying notes form part of these financial statements.

**DPL INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended 31 March 2014**

**1. REPORTING ENTITY**

DPL Insurance Limited (the "Company") is a 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. The Company is a wholly owned subsidiary of Dorchester Pacific Limited, its ultimate parent company. The registered address of the Company is Level 8, 34 Shortland Street, Auckland.

The financial statements for the Company as at and for the year ended 31 March 2014 are presented.

The Company's primary activity is offering insurance products.

**2. BASIS OF PREPARATION**

**2.1 Statement of compliance**

The financial statement 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 financial statements were authorised for issue by the Board of Directors on 20 August 2014.

**2.2 Basis of measurement**

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of certain assets and liabilities as identified in specific accounting policies.

**2.3 Functional and Presentation Currency and Rounding**

These financial statements are presented in New Zealand Dollars (\$) which is the Company's functional currency. The financial information presented in New Zealand Dollars has been rounded to the nearest thousand, except when otherwise indicated.

**2.4 Use of Estimates and Judgements**

The preparation of the financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future period affected. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in note 4.

**3. SIGNIFICANT ACCOUNTING POLICIES**

**3.1 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.

**3.2 Revenue and Expense 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 and Acquisition Costs**

Premium income on long-term insurance contracts is recognised on an accrual basis. Premium income on temporary life insurance contracts and short-term motor vehicle contracts is recognised in the period in which the premium is earned during the term of the contract.

The proportion of premiums not earned in the profit or loss at the reporting date is recognised in the balance sheet as unearned premium liability.

**DPL INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended 31 March 2014**

Under life investment contracts deposits are received from policyholders which are then invested on behalf of the policyholders. No premium income is recognised as revenue. Fees deducted from members' accounts are accounted for as fee income.

Commissions and other acquisition costs that vary with and are related to securing new and renewing existing insurance contracts are effectively deferred and amortised over the life of the policy, where product profitability can support the recovery of acquisition costs. These costs are reported as negative components under insurance contract liabilities.

Commissions and other acquisition costs that varies with and is directly related to securing new life investment 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.

**Investment Income**

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

**Claims Expense**

Claims expense represents claim payments adjusted for the movement in the outstanding claims liability.

Insurance contract claims are recognised when a liability has been established. Claims under life investment contracts represent withdrawals of investment deposits and are recognised as a reduction in the life investment contract liabilities.

**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.

**DPL INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended 31 March 2014**

**Other Expenses**

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

**3.3 Financial Instruments**

*Basis on recognition 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.

The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition and re-evaluates this designation at every reporting date.

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.

Financial instruments are initially recognised on the trade date on which the Company becomes a party to the contractual provisions of the instrument, except for loans and advances and debt securities issued which are recognised on the date on which they originate. A financial asset or liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Financial assets at fair value through profit or loss are subsequently carried at fair value with realised and unrealised gains and losses arising from changes in their fair value included in profit and loss in the period they arise. Available for sale financial assets are subsequently measured at fair value and changes fair value recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss. Loans and receivables and held to maturity financial assets are carried at amortised cost using the effective interest method.

*(i) Financial assets at fair value through profit or loss*

This category has two sub categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated hedges.

The Company's financial assets at fair value through profit or loss comprise: fixed interest securities and investments in unitised funds.

*(ii) Available for sale financial assets*

Available for sale financial assets are non derivatives which are either designated in this category or not classified in any of the other categories. The Company has no assets in the category.

*(iii) Loans and receivables*

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of selling the receivable.

The Company's assets in this category are: reverse annuity mortgages, cash and cash equivalents and other receivables.

**DPL INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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*(iv) Held to maturity investments*

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. The Company has no assets in this category.

*(v) Financial liabilities at fair value through profit and loss*

This category has two sub categories: financial liabilities held for trading, and those designated at fair value through profit or loss at inception. A financial liability is classified in the category if held principally for the purpose of realising in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges.

The Company's liabilities in this category are 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.

The Company's other financial liabilities include borrowings and other payables.

**3.4 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.

**3.5 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.

**DPL INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended 31 March 2014**

**3.6 Insurance Contracts**

Insurance contracts are those contracts that transfer significant insurance risk and are accounted for in accordance with the requirements of NZ IFRS 4 Insurance Contracts. The Group issues the following insurance contracts:

- Long-term insurance contracts with fixed and guaranteed terms, these contracts insure events associated with human life (for example, death) over a long duration;
- Temporary life insurance contracts covering death disablement, disability and redundancy risks; and
- Short term motor vehicle contracts covering comprehensive, third party and mechanical breakdown risks.

The liability for insurance contracts has been determined in accordance with Appendix C of NZ IFRS 4 Insurance Contracts and Professional Standard No 3 of the New Zealand Society of Actuaries. In terms of these standards, the liability is determined using the methodology referred to as Margin on Service (MoS). Under MoS the excess premium received over claims and expenses, 'the profit margin', is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder 'the service'.

**3.7 Life Investment Contracts**

Life investment contracts are those contracts with minimal insurance risk and are accounted for in accordance with NZ IAS 18 Revenue and NZ IAS 39 Financial instruments: Recognition and Measurement (refer note 3.3). The life investment contracts are unit-linked and 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 of the contract holder.

**3.8 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.

**3.9 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.

**3.10 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.

**4. SIGNIFICANT JUDGEMENTS AND ESTIMATES**

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:

**DPL INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended 31 March 2014**

**4.1 Liabilities arising from claims made under insurance contracts**

Liabilities arising from claims made under insurance contracts are estimated based on the terms of cover provided under an insurance contract.

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 2014 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. In terms of the standards, the liability is determined using the methodology referred to as Margin on Service (MoS). 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.

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.

(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 related products is expected to be unprofitable, the total expected loss for that related product 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.



**DPL INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended 31 March 2014**

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 (2013: 28%). The net discount rates assumed were as follows:

	2014	2013
Whole of Life and Endowment Policies	3.29%	2.53%
Term Insurance Policies	Not applicable	
Funeral Benefit Policies	Not applicable	
Annuity Policies	3.29%	2.53%
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 (2013: 2.0%).

(iii) *Mortality Rates*

Rates of mortality were assumed as follows:

For underwritten whole of life, endowment and term insurance policies: NZ97 (2013: 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) (2013: 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
Motor business	Not applicable
Accidental death and redundancy - Stop gap	Not applicable
Accidental death regular and single premium	Not applicable

(v) *Investment and Maintenance Expenses*

	Cost per policy per annum	
	2014	2013
	\$	\$
Endowments	190	151
Funeral plans	47	38
Term life plans (for loss recognition)	95	76
Consumer credit plans (for loss recognition)	47	38
Annuity plans	190	151

Investment management expenses were assumed to be 1.0% (2013: 1.0%) of policy liabilities.

(vi) *Inflation and Automatic Indexation of Benefits*

Maintenance expenses are assumed to increase 2.0% per annum (2013: 2.0%). Investment management expenses are assumed to remain a constant percentage of funds under management.

**DPL INSURANCE LIMITED**  
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*(vii) Taxation*

The assumed future tax rate reflects the corporate tax rate applying in New Zealand with effect from 1 April 2014. 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 (2013: 5.0%), and nil for annuity pension plan business (2013: nil).

*(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 \$0 (2013: \$20) per \$1,000 of sum assured on endowment policies.

*(xi) Impact of changes in assumptions*

The impact of the change in the discount rate from 3.51% to 4.57% (2013: 4.05% to 3.51%) is a reduction in policy liabilities of \$314,167 (2013: increase of \$132,613).

The impact of the revised expense assumptions is an increase in policy liabilities of \$12,543 (2013: \$27,817)

*(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, however this is now a negative value due to increased maintenance expense and accordingly a zero supportable bonus has been assumed in this valuation.

**4.2 Provision for impairment on financial assets**

Provision for impairment on financial assets is determined in accordance with accounting policy 3.5. 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.

**4.3 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.

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**5. New Standards and Interpretations**

The following new financial reporting standards and amendments to standards are effective from 1 January 2013 and have been applied in preparing these financial statements.

*NZ IAS 1 Presentation of Financial Statements*

It requires that items in other comprehensive income be grouped in two sections, items that will not be reclassified to profit or loss and items that may subsequently be classified to profit or loss.

*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. NZ IFRS 13 applies prospectively for annual periods beginning on or after 1 January 2013. The adoption of NZ IFRS has not resulted in any changes in the measurement of fair value financial assets or liabilities of the Company.

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**6. 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:***

	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Revenue</b>		
Interest received	14	24
<b>Expenses</b>		
Audit Fees		
- Fees for audit of the financial statements	40	36
Provision for impairment	13	46
<b>b) <i>Net profit after taxation from insurance activities arose from:</i></b>		
<b>Life insurance contracts</b>		
Planned margin of revenues over expenses	19	7
Change in valuation assumptions	(12)	-
Change in discount rate: 3.51% to 4.57% p.a. (2013: 4.05% to 3.51%)	319	(132)
Difference between actual and assumed experience	(91)	(947)
<b>Life investment contracts</b>		
Difference between actual and assumed experience	174	970
Investment earnings on assets in excess of insurance contract and investment contract liabilities	743	1,829
<b>Net profit after taxation attributable to insurance activities</b>	<b>1,152</b>	<b>1,727</b>

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.

<b>c) <i>Investment Income</i></b>		
Equity securities – Australasian & international	1,083	1,202
Fixed interest securities – New Zealand	115	298
Property securities – New Zealand and international	281	849
	<b>1,479</b>	<b>2,349</b>

Included within fixed interest securities is rebate income of \$Nil (2013: \$3,840). Included within total investment income is net realised and unrealised gains on securities at fair value through profit or loss of \$1,478,733 (2013: \$2,349,358).

<b>d) <i>Administration fees</i></b>		
<b>Insurance contracts</b>		
Policy acquisition expenses – commission costs	1,528	579
Deferred acquisition costs amortisation	(854)	(428)
<b>Total insurance contract related expenses</b>	<b>674</b>	<b>151</b>
<b>Life investment contracts</b>		
Investment management expenses	80	92
<b>Total investment contract related expenses</b>	<b>80</b>	<b>92</b>
<b>Total insurance expenses</b>	<b>754</b>	<b>243</b>

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.

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**7. TAXATION**

a) Taxation expense/(benefit)	2014 \$'000	2013 \$'000
Net profit/(loss) after movement in life insurance contract liabilities, life investment contract liabilities and before taxation	1,152	1,727
Income tax using the Company's domestic tax rate 28% (2013: 28%)	323	484
Add/(less) expenses not deductible for tax purposes	(108)	(142)
Add/(less) movement in temporary differences not recognised	(568)	(427)
Tax asset not recorded	353	85
	<u>-</u>	<u>-</u>
 b) Imputation credit memorandum account		
Opening balance	2	-
Income tax payments	35	2
Imputation credits received	-	-
Imputation credits utilised	-	-
Imputation credits lost due to change in share holding	-	-
Closing balance	<u>37</u>	<u>2</u>

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 (2013: \$Nil).

**c) Taxation Losses**

*Company*

Taxation losses brought forward	1,947	1,844
Add/(less) taxation losses incurred	1,259	305
Add/(less) taxation losses utilised	(15)	(202)
Taxation losses carried forward	<u>3,191</u>	<u>1,947</u>

The Company has unrecognised tax losses of \$3,190,824 (2013: \$1,947,059) available to be carried forward and to be offset against taxable income in the future. The tax effect of these losses at 28% (2013: 28%) is \$893,431 (2013: \$545,176). The ability to carry forward these losses is contingent upon continuing to meet the requirements of the Income Tax Act 2007.

*Policyholders*

The policy holder tax losses carried forward at 31 March 2014 are \$3,676,782 (2013: \$3,208,042). The policyholder taxation losses are only available to be offset against future policyholder income.

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<b>8. <u>SHARE CAPITAL</u></b>	<b>2014 000</b>	<b>2013 000</b>
<b>Number of ordinary shares</b>		
Opening balance	3,450	3,450
Shares issued during the year	-	-
Total authorised and issued share capital	<u>3,450</u>	<u>3,450</u>
<b>Dollar value of ordinary shares</b>	<b>\$'000</b>	<b>\$'000</b>
Opening balance	3,450	3,450
Shares issued during the year	-	-
Total authorised and issued share capital	<u>3,450</u>	<u>3,450</u>

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

There were no dividends declared and paid in 2014 (2013: \$7,800,000). No dividend has been declared subsequent to 31 March 2014.

**9. EQUITY – DPL INSURANCE LIMITED SOVENCY CALCULATION**

In terms of the Insurance (Prudential Supervision) Act 2010, DPL Insurance Limited must comply with the Solvency Standard for Life Insurance Business issued by the Reserve Bank of New Zealand in August 2011. DPL Insurance Limited is required to hold minimum solvency capital of \$5.0 million and have a solvency margin of at least \$1.

Actual solvency capital	6,905	5,753
Calculated minimum solvency capital	4,302	3,952
Coverage ratio on calculated margin (times)	1.61	1.46
Overall minimum capital requirement	5,000	5,000
Solvency margin on overall minimum requirement	1,905	753
Coverage ratio on overall minimum requirement (times)	1.38	1.15
<i>Non-life insurance</i>		
Actual solvency capital	1,304	601
Calculated minimum solvency capital	473	162
Solvency margin on calculated minimum requirement	831	439
<i>Life insurance</i>		
Actual solvency capital	5,601	5,152
Calculated minimum solvency capital	3,829	3,790
Solvency margin on calculated minimum requirement	1,772	1,362

**10. 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.

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<b>11. <u>CASH AND CASH EQUIVALENTS</u></b>	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Bank	4,382	3,355
<b>12. <u>RECEIVABLES</u></b>		
Other receivables and prepayments	2,649	725
<b>13. <u>FINANCIAL ASSETS AT FAIR VALUE THROUGH THE PROFIT OR LOSS</u></b>		
Investment in unitised funds	15,362	15,591
Fixed interest securities – government stock	529	1,062
	15,891	16,652
<b>Investments in unitised funds comprise:</b>		
Cash/deposits	1,807	3,128
Fixed interest securities-New Zealand and overseas	2,711	2,005
New Zealand and international equities	6,662	6,271
New Zealand and overseas property securities	4,182	4,187
	15,362	15,591
<b>Investments with external investment managers</b>		
Onepath	15,362	15,591
	15,362	15,591
Investments in unlisted units represent the investments of the life investment contracts (Refer note 22).		
<b>14. <u>REVERSE ANNUITY MORTGAGES</u></b>		
Reverse Annuity Mortgages (unencumbered)	6,589	6,585
Deferred fee revenue and commission expenses	(69)	(90)
Provision for impairment	(16)	(3)
	6,504	6,492
<b>15. <u>PAYABLES</u></b>		
Related party payable (Note 19)	195	177
Other payables and accruals	648	241
	843	418
<b>16. <u>COMMITMENTS AND CONTINGENT LIABILITIES</u></b>		

The Company has no material commitments or contingent liabilities at 31 March 2014 (2013: nil).

**DPL INSURANCE LIMITED**  
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**17. 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.

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.



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**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.

	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Northland	942	919
Auckland	3,328	3,237
Waikato/Bay of Plenty	984	1,015
Wellington	408	374
Rest of North Island	277	381
Canterbury	365	370
Otago/Southland	160	175
Rest of South Island	125	114
	<b>6,589</b>	<b>6,585</b>

**a.) ii.) Reverse mortgages specifically impaired**

Reverse mortgages specifically impaired

-	-
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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 2014 was nil (2013: \$nil).

**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.

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The liquidity risk for cash flows payable on the life investment contracts liabilities that are unit linked contracts is managed by holding a pool of readily tradable 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 tradable 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.

2014 \$'000	0-6 Months	6-12 Months	12-24 Months	24-60 Months	60+ Months	Total
<b>Financial assets</b>						
Cash and cash equivalents	4,382	-	-	-	-	4,382
Reverse mortgages	242	-	-	1,224	5,038	6,504
Other receivables and prepayments	2,649	-	-	-	-	2,649
	7,273	-	-	1,224	5,038	13,535
<b>Financial liabilities</b>						
Advances from related parties	195	-	-	-	-	195
	195	-	-	-	-	195

**Off-Statement of Financial Position items**

Interest receivable not yet accrued	-	-	187	320	8,803	9,310
Interest payable not yet accrued	-	-	-	-	-	-

2013 \$'000	0-6 Months	6-12 Months	12-24 Months	24-60 Months	60+ Months	Total
<b>Financial assets</b>						
Cash and cash equivalents	3,355	-	-	-	-	3,355
Reverse mortgages	242	-	-	1,279	4,971	6,492
Other receivables and prepayments	725	-	-	-	-	725
	4,322	-	-	1,279	4,971	10,572
<b>Financial liabilities</b>						
Advances from related parties	177	-	-	-	-	177
	177	-	-	-	-	177

**Off-Statement of Financial Position items**

Interest receivable not yet accrued	-	-	23	359	11,051	11,433
Interest payable not yet accrued	-	-	-	-	-	-

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.

**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.

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**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 17.

**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.

Reserves mortgages are carried at amortised cost. The expected maturity periods of reverse mortgages are set out at note 17.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.

The Company repaid its borrowings during and has no longer has any significant exposure to interest rate risk on borrowings.

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

	<b>Carrying amount</b>	<b>-1% profit</b>	<b>-1% equity</b>	<b>+1% profit</b>	<b>+1% equity</b>
<b>2014 (\$'000)</b>					
<b>Financial assets</b>					
Reverse mortgages	6,504	(65)	(46)	65	46
<b>2013 (\$'000)</b>					
<b>Financial assets</b>					
Reverse mortgages	6,492	(65)	(45)	65	45

**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:

<b>2014 \$'000</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
<b>Financial assets</b>		
Cash and cash equivalents	4,382	4,382
Other receivables and prepayments	2,649	2,649
Reverse mortgages	6,504	7,304
	<u>13,535</u>	<u>14,335</u>
<b>Financial liabilities</b>		
Advances from related parties	195	195
	<u>195</u>	<u>195</u>
<b>2013 \$'000</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
<b>Financial assets</b>		
Cash and cash equivalents	3,355	3,355
Other receivables and prepayments	725	725
Reverse mortgages	6,492	7,545
	<u>10,572</u>	<u>11,625</u>
<b>Financial liabilities</b>		
Advances from related parties	177	177
	<u>177</u>	<u>177</u>

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**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:

<b>2014</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>\$'000</b>				
<b><u>Financial assets:</u></b>				
Financial assets at fair value through profit or loss	529	15,362	-	15,891
	<u>529</u>	<u>15,362</u>	<u>-</u>	<u>15,891</u>
<b>2013</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>\$'000</b>				
<b><u>Financial assets:</u></b>				
Financial assets at fair value through profit or loss	1,062	15,591	-	16,652
	<u>1,062</u>	<u>15,591</u>	<u>-</u>	<u>16,652</u>

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**18. ASSET QUALITY**

	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Specific impairment provision</b>		
Opening balance	-	-
Provision for impairment	-	-
Amounts written off	-	(134)
Amounts recovered during the year	-	134
Closing balance	-	-
<b>Collective impairment provision</b>		
Opening balance	3	49
Provision for impairment	13	(46)
	16	3
<b>Specific impaired financial assets</b>		
Opening balance	-	-
Additions to other individually impaired assets	-	-
Deletions from other individually impaired assets	-	-
	-	-
<b>Movement in provisions - reconciliation to statement of comprehensive income - specific provisions for:</b>		
Collection impairment provision	13	3
Specific impairment provision	-	134
<b>Charge to profit or loss</b>	13	137

**19. TRANSACTIONS WITH RELATED PARTIES**

a) Related party balances

*Payable as follows:*

Dorchester Life Management Limited	-	-
Dorchester Life Trustees Limited	-	-
Dorchester Pacific Limited	195	177
	195	177

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 \$363,134 (2013: \$462,918), plan \$410,257 (2013: \$687,369) and establishment fees \$53,073 (2013: \$204,505) 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 \$1,355,340 (2013: \$577,820). The Company also charges administration fees of \$55,668 (2013: \$23,195) to Dorchester Capital Limited and \$64,332 (2013: \$26,805) to Dorchester RAMS Limited for administering Reverse Annuity Mortgages products on behalf of these companies.

The Company, Dorchester Capital Limited, Dorchester RAMS Limited, Dorchester Life Management Limited and Dorchester Finance Limited are all wholly owned subsidiaries of Dorchester Pacific Limited. There were no transactions (2013: NIL) which occurred at nil or nominal value.

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

	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Net profit after movement in life insurance contract liabilities, life investment contract liabilities and taxation	1,152	1,727
<i>Add/(less) non-cash items:</i>		
Non-cash movement in reverse mortgages	(586)	14,828
Net unrealised (gains)/losses on investments	(1,479)	(2,349)
Policyholder liabilities	658	(708)
Provision for impairment	13	(38)
<i>Add/(less) movements in working capital items:</i>		
Receivables	(890)	(38)
Other payables	(2,028)	(25,084)
Add Working Capital items treated as investing activities	(21)	(31)
Add Working Capital items treated as financing activities	1,365	898
<b>Net cash outflow from operating activities</b>	<b>(1,816)</b>	<b>(10,795)</b>

**21. SIGNIFICANT EVENTS AFTER BALANCE DATE**

There were no significant events after balance date.

**DPL INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended 31 March 2014**

**22. LIFE INSURANCE RELATED DISCLOSURES**

<b>a.) Policyholder liabilities</b>	<b>2014 \$'000</b>	<b>2013 \$'000</b>
<b>Life insurance contract liabilities</b>		
Opening life insurance contract liabilities	4,681	3,353
Increase / (decrease) in life insurance contract liabilities recognised in balance sheet	(353)	-
Increase / (decrease) in life insurance contract liabilities recognised in profit or loss	319	488
Increase / (decrease) in premium revenues recognised in profit or loss	1,773	972
Increase / (decrease) in interest income recognised in profit or loss	-	(132)
Closing life insurance contract liabilities	<u>6,420</u>	<u>4,681</u>
<i>Policyholder liabilities contain the following components:</i>		
Future policy benefits	11,373	9,495
Future bonuses	-	39
Future expenses	594	507
Future profit margins	586	557
Balance of future premiums	(6,135)	(5,926)
Re-insurance	2	2
Cost of bonus	-	7
	<u>6,420</u>	<u>4,681</u>
 Life insurance contracts with a discretionary participation feature – the amount of the liabilities that relates to guarantees	 336	 372
Other contracts with a fixed or guaranteed termination value – current termination value	2,774	2,766
 <b>Life investment contracts at fair value through profit or loss</b>		
Opening life investment contract liabilities at fair value through profit or loss	16,370	18,352
Increase in life investment contract liabilities recognised in profit or loss	1,152	1,922
Contributions	3,994	5,300
Withdrawals	(5,397)	(7,849)
Activity, plan and establishment fees	(826)	(1,355)
Closing life investment contract liabilities held by the life insurance business	<u>15,293</u>	<u>16,370</u>
 Expected to be realised in more than 12 months	 <u>15,293</u>	 <u>16,370</u>

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.

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.



**DPL INSURANCE LIMITED**  
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<b>b.) Policyholder liabilities</b>	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Annuities	1,691	1,896
Endowment	334	410
Whole of life	1,240	699
Provision for bonuses and future margins	584	557
Consumer credit protection & key person loan protection	2,469	950
Accidental death/redundancy	42	89
Term of life	15	30
Claims provision	45	50
Superlife policies	7,428	7,967
Life bond policies - life bond reserve	11	11
Superannuation Funds:		
NZPP Payroll Superannuation Fund (Pension)	-	-
NZPP Payroll Superannuation Fund (Lump Sum)	-	-
NZPP Personal Superannuation Fund (Pension)	-	-
NZPP Personal Superannuation Fund (Lump Sum)	-	-
NZPP Portable Superannuation Fund (Pension)	-	-
NZPP Portable Superannuation Fund (Lump Sum)	-	-
NZPP Employees Superannuation Scheme	-	-
Unclaimed monies closed funds - NZPP	-	821
Super Bond Retirement Plan	7,615	7,349
Invincible Superannuation Plan	179	154
Dorchester Life Group Superannuation Plan	60	68
	<b>21,713</b>	<b>21,051</b>

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.

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 2014.

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

**DPL INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended 31 March 2014**

**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.

	Investment	Non- Investment	
2014 (\$'000)	Linked	Linked	Total
Premium income	-	2,963	2,963
Investment income	1,479	729	2,208
Claims expense	-	(432)	(432)
Annuities paid	-	(134)	(134)
Other operating expenses	(177)	(2,124)	(2,301)
Investment revenues allocated to policyholders	(1,152)	-	(1,152)
Net profit before taxation	150	1,002	1,152
Taxation	-	-	-
Net profit after taxation	150	1,002	1,152
Policy liabilities	(15,293)	(6,420)	(21,713)
Investment assets	15,362	7,033	22,395
Other assets	200	6,866	7,066
Other liabilities	(66)	(777)	(843)
Retained earnings	2,635	820	3,455

	Investment	Non- Investment	
2013 (\$'000)	Linked	Linked	Total
Premium income	-	1,857	1,857
Investment income	2,349	1,445	3,794
Claims expense	-	(347)	(347)
Annuities paid	-	(132)	(132)
Other operating expenses	(264)	(1,256)	(1,520)
Investment revenues allocated to policyholders	(1,920)	(5)	(1,925)
Net profit before taxation	165	1,562	1,727
Taxation	-	-	-
Net profit after taxation	165	1,562	1,727
Policy liabilities	(16,370)	(4,681)	(21,051)
Investment assets	16,414	7,554	23,968
Other assets	651	4,080	4,731
Other liabilities	(291)	(421)	(712)
Retained earnings	2,485	(182)	2,303

**d.) Managed funds and other fiduciary activities**

DPL Insurance Limited acted as a promoter for a number of superannuation funds with assets managed by a third party investment manager. 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.

**DPL INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended 31 March 2014**

**e.) Insurance risk**

The insurance business of the Company involves a number of financial and non-financial risks. The financial risks are covered in note 17. Key objectives in managing insurance risk are:

- (i) To ensure sound business practices are in place for underwriting risks and claims management;
- (ii) To achieve a target return on capital that is invested in order to take on insurance risk; and
- (iii) To ensure solvency and capital requirements are met.

*Life insurance*

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. These 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.

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.

**DPL INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended 31 March 2014**

*Non-life insurance*

The risk management activities include prudent underwriting, pricing, and management of risk, together with claims management, reserving and investment management. The objective of these disciplines is to enhance the financial performance of the insurance operations and to ensure sound business practices are in place for underwriting risks and claims management.

*Claims*

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.

*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.

<u>Variable</u>	<u>Impact of movement in underlying variable</u>
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

**DPL INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the Year Ended 31 March 2014**

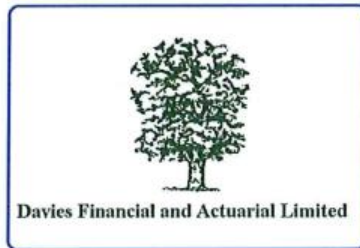
The table below illustrates how changes in key assumptions would impact the reported profit and liabilities of the Company

**As at 31 March 2014 – Result of change in assumptions**

	<u>Effect on Policy Liability</u>	<u>Effect on Future Profit</u> <u>Margins</u>
\$'000		
<b>Market risks</b>		
Increase in interest rates of 1%	(815)	(37)
Decrease in interest rates of 1%	941	41
<b>Insurance risks</b>		
Increase in expenses of 10%	1	(237)
Decrease in expenses of 10%	(1)	237
Decrease in mortality by 10%	867	(488)
Increase in mortality by 10%	34	1,551
Worsening of discontinuance rate by 10%	-	291
Improvement in discontinuance rate by 10%	-	(313)

**As at 31 March 2013 – Result of change in assumptions**

	<u>Effect on Policy Liability</u>	<u>Effect on Future Profit</u> <u>Margins</u>
\$'000		
<b>Market risks</b>		
Increase in interest rates of 1%	(473)	(36)
Decrease in interest rates of 1%	543	41
<b>Insurance risks</b>		
Increase in expenses of 10%	1	(112)
Decrease in expenses of 10%	(1)	113
Decrease in mortality by 10%	110	(479)
Increase in mortality by 10%	36	694
Worsening of discontinuance rate by 10%	-	132
Improvement in discontinuance rate by 10%	-	(142)



1<sup>st</sup> September 2014

To: The Directors  
DPL Insurance Limited

From: Peter Davies  
Appointed Actuary

**Re: DPL Insurance Limited: Report as at 31<sup>st</sup> March 2014  
under Sections 77 and 78 of the Life Assurance  
(Prudential Supervision) Act 2010**

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

1. I have reviewed the actuarial information included in the audited accounts for DPL Insurance Limited as at 31<sup>st</sup> March 2014. "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 DPL Insurance 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. DPL Insurance Limited exceeded the minimum capital requirement of the RBNZ solvency standard for Life Insurers as at 31<sup>st</sup> March 2014. This standard specified an overall \$5m minimum capital requirement.

I have prepared a set of projections of the Company's Statutory and Shareholder funds for the next five years, based on current valuation assumptions and on management business plans and projected expense levels. These projections indicate that both funds, and the Company as a whole, are expected to meet the RBNZ solvency requirements at all times over this period.

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

Yours sincerely



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