Kiwi Insurance Limited

Annual Report

For the year ended 30 June 2013

Kiwi Insurance Limited
General Matters

Details of incorporation

Kiwi Insurance Limited (formerly Kiwi Holdings Limited) was incorporated in New Zealand under the Companies Act 1993 on 31 October 2001.

Registered address

The registered address is: Kiwi Insurance Limited, Level 12, 7-27 Waterloo Quay, Wellington, New Zealand.

Directorate

Independent Director

Wayne Hawkyard

Chair, Independent non-executive director

Non -independent Directors

Nick Astwick

Company Director

Chief Operating Officer

Kiwibank Limited

Mark Stephen

Company Director

Group Manager, Business Markets,

Kiwibank Limited

Grant Patterson resigned as director on 18 June 2013.

Communications with Directors

Communications addressed to the directors may be sent to Level 12, 7-27 Waterloo Quay, Wellington, New Zealand.

Reporting Concessions

With the unanimous agreement of all shareholders, Kiwi Insurance Limited has taken advantage of the reporting concessions available to it under Section 211(3) of the Companies Act 1993.

Auditors

The auditor whose report is referred to in this Annual Report is Chris Barber assisted by PricewaterhouseCoopers, acting as agent on behalf of the Office of the Auditor-General. His address for service is PwC, 113-119 The Terrace, Wellington, New Zealand.

Licence

On 10 June 2013 the Reserve Bank of New Zealand (RBNZ) confirmed that Kiwi Insurance Limited has been granted a licence under section 19 of the Insurance (Prudential Supervision) Act 2010.

Kiwi Insurance Limited
General Matters continued

Credit rating

On 19 September 2012 Kiwi Insurance Limited was assigned a financial strength rating of A- (Excellent) from A.M. Best Company whose rating scale is as follows:

Secure	Vulnerable
A++, A+ (Superior)	B, B- (Fair)
A, A- (Excellent)	C++, C+ (Marginal)
B++, B+ (Good)	C, C- (Weak)
	D (Poor)
	E (Under Regulatory Supervision)
	F (In Liquidation)
	S (Suspended)

On 30 October 2012, the credit rating of New Zealand Post Limited (NZP), the ultimate parent company of Kiwi Insurance Limited, issued by Standard and Poor's (Australia Pty) Limited ("S&P"), with respect to long-term senior unsecured obligations payable in New Zealand in New Zealand dollars, was downgraded from AA- to A+ with a 'stable' outlook. On 21 May 2013 S&P affirmed NZP's credit rating of A+ and revised the outlook to negative from stable.

The following table describes the steps in the applicable rating scales for Standard and Poor's rating agency:

Highest credit quality – ability to repay debt obligations is extremely strong	AAA
High quality, low credit risk – ability to repay debt obligations is very strong	AA
High quality – ability to repay is strong although may be susceptible to adverse changes in circumstances or in economic conditions	A
Low credit risk – satisfactory ability to repay debt obligations though changes in circumstances or in economic conditions are likely to impair this capacity	BBB
Ability to repay debt obligations is only adequate and likely to be affected by adverse economic change which might affect timeliness of repayment	BB
Risk of default due to greater vulnerability	B
Significant risk of default. Repayment of debt obligations requires favourable financial conditions	CCC
Poor protection, highest risk of default	CC to C
Obligations currently in default	D

Credit ratings between AA – CCC by Standard & Poor's may be modified by the addition of a plus or minus sign (signalling higher and lower end of the scale respectively).

Kiwi Insurance Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2013

	Note	**Year ended 30 June 2013 $**	Year ended 30 June 2012 $
Premium revenue from insurance contracts		8,704,768	7,248,016
Outwards reinsurance expense		(4,592,021)	(3,870,529)
Net premium revenue		**4,112,747**	**3,377,487**
Reinsurance income		861,270	1,048,465
Investment income	7	380,053	329,130
Total operating revenue		**5,354,070**	**4,755,082**
Other income		102,231	209,944
Total operating income		**5,456,301**	**4,965,026**
Claims expense		(2,979,721)	(1,491,382)
Reinsurance recovery		2,176,081	1,063,339
Net claims expense		**(803,640)**	**(428,043)**
Other operating expenses	8	(3,401,738)	(2,655,157)
Change in policyholder liabilities	12	571,503	357,987
Total operating expenditure		**(3,633,875)**	**(2,725,213)**
Profit before taxation		**1,822,426**	**2,239,813**
Taxation expense	11	(396,834)	(244,467)
Profit for the year attributable to shareholders	6	**1,425,592**	**1,995,346**
Other comprehensive income that may subsequently be reclassified to profit or loss		-	-
Total comprehensive income for the year attributable to shareholders		**1,425,592**	**1,995,346**

The accounting policies and notes on pages 8 to 32 form part of and should be read in conjunction with these financial statements.

Kiwi Insurance Limited
Statement of changes in equity
For the year ended 30 June 2013

	Note	Share capital	Retained Earnings	Total
		$	$	$
Balance at 1 July 2011		**6,637,500**	**4,459,452**	**11,096,952**
Comprehensive income				
Profit for the year		-	1,995,346	**1,995,346**
Other comprehensive income for the year		-	-	-
Total comprehensive income		-	1,995,346	**1,995,346**
Transactions with shareholders				
Dividends paid*		-	(1,000,000)	**(1,000,000)**
Total transactions with shareholders		-	(1,000,000)	**(1,000,000)**
Balance at 30 June 2012	13	**6,637,500**	**5,454,798**	**12,092,298**
Comprehensive income				
Profit for the year		-	1,425,592	**1,425,592**
Other comprehensive income for the year		-	-	-
Total comprehensive income		-	1,425,592	**1,425,592**
Transactions with shareholders				
Dividends paid*		-	(1,000,000)	**(1,000,000)**
Total transactions with shareholders		-	(1,000,000)	**(1,000,000)**
Balance at 30 June 2013	13	**6,637,500**	**5,880,390**	**12,517,890**

* Dividends per share equates to 15.07 cents (June 12; 15.07 cents per share).

The accounting policies and notes on pages 8 to 32 form part of and should be read in conjunction with these financial statements.

Kiwi Insurance Limited
Statement of financial position
As at 30 June 2013

	Note	As at 30 June 2013 $	As at 30 June 2012 $
Current assets			
Cash and cash equivalents		10,229,651	10,384,551
Financial assets held at fair value through profit or loss	18	1,066,905	1,048,884
Trade and other receivables	9	1,781,870	1,185,742
Current taxation receivable		160,287	-
Current assets		**13,238,713**	**12,619,177**
Non-current assets			
Intangible assets	20	1,415,477	1,446,751
Total assets		**14,654,190**	**14,065,928**
Current liabilities			
Trade and other payables	10	2,556,906	1,775,881
Balances with related parties	14	289,350	461,242
Current taxation payable		-	195,970
Total current liabilities		**2,846,256**	**2,433,093**
Non-current liabilities			
Policyholder liabilities	12	(1,256,413)	(684,910)
Deferred taxation	11	546,457	225,447
Total liabilities		**2,136,300**	**1,973,630**
Shareholder equity			
Share capital		6,637,500	6,637,500
Retained earnings		5,880,390	5,454,798
Total shareholder equity	13	**12,517,890**	**12,092,298**
Total liabilities and equity		**14,654,190**	**14,065,928**

The Directors of Kiwi Insurance Limited authorised these financial statements for issue on 10 September 2013

Wayne Hawkyard
Director

Nick Astwick
Director

The accounting policies and notes on pages 8 to 32 form part of and should be read in conjunction with these financial statements.

Kiwi Insurance Limited
Statement of cash flows
For the year ended 30 June 2013

	Year ended 30 June 2013 $	Year ended 30 June 2012 $
Cash flows from operating activities		
Premiums received	8,702,264	7,244,870
Interest received	412,847	350,897
Reinsurance premium received	959,157	1,156,257
Reinsurance recovery received	1,604,355	1,026,076
Reinsurance expenses paid	(4,569,158)	(3,879,083)
Claims expenses paid	(2,299,015)	(1,330,734)
Tax paid	(432,081)	(184,204)
Payments to suppliers and employees	(3,152,166)	(2,721,929)
Net cash inflows from operating activities	**1,226,203**	**1,662,150**
Cash flows from investing activities		
Sale of investments	1,000,000	-
Purchase of investments	(1,068,369)	-
Purchase of intangible assets	(312,734)	(1,018,850)
Net cash outflows from investing activities	**(381,103)**	**(1,018,850)**
Cash flows from financing activities		
Dividends paid	(1,000,000)	(1,000,000)
Net cash flows from financing activities	**(1,000,000)**	**(1,000,000)**
Net decrease in cash held	(154,900)	(356,700)
Cash at the beginning of the year	10,384,551	10,741,251
Cash at the end of the year	**10,229,651**	**10,384,551**
Represented by:		
Cash and cash equivalents	**10,229,651**	**10,384,551**
Reconciliation of net profit after tax to net cash flows from operating activities		
Net profit after taxation	**1,425,592**	**1,995,346**
Non cash movements and non-operating activities		
Amortisation of intangible assets	344,008	281,039
Deferred tax	321,010	109,894
Change in policyholder liabilities	(571,503)	(357,987)
Unrealised loss/(gain) on investments held at fair value through profit or loss	50,348	21,767
Net cash inflows before movements in working capital	**1,569,455**	**2,050,059**
Movements in operating assets and liabilities		
Decrease in payables to related parties	(171,892)	(366,130)
Decrease in current taxation payable	(356,257)	(49,631)
Increase in trade and other receivables	(596,128)	(290,141)
Increase in accounts payable	781,025	317,993
Net cash inflows from operating activities	**1,226,203**	**1,662,150**

The accounting policies and notes on pages 8 to 32 form part of and should be read in conjunction with these financial statements.

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Kiwi Insurance Limited
Notes to the financial statements
For the year ended 30 June 2013
Statement of accounting policies

1. Reporting entity

Kiwi Insurance Limited (the "Company") is a limited liability Company incorporated and domiciled in New Zealand. The Company's registered office is Level 12, New Zealand Post House, 7 Waterloo Quay, Wellington 6011. The Company's ultimate parent is New Zealand Post Limited ("NZP").

These financial statements were approved for issue by the Board of Directors on 10 September 2013.

The Company is registered under the Companies Act 1993 and was incorporated in New Zealand on 31 October 2001.

The principal activity of the Company is the provision of insurance products and services to retail customers of Kiwibank Limited. The Company also acts as a reinsurer for certain credit card and personal loan insurance contracts. The Company is designated as a profit-oriented entity for financial reporting purposes.

These financial statements are prepared for the year ended 30 June 2013 with comparative results for the year ended 30 June 2012.

2. Basis of preparation

The principal accounting policies adopted in the financial statements are set out below. These policies have been applied consistently to all years presented, unless otherwise stated.

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand. They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), as appropriate for profit oriented entities. The financial statements also comply with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993. The financial statements comply with International Financial Reporting Standards, (IFRS).

These financial statements are based on the general principles of historic cost accounting, modified by the application of fair value measurements for fair value through profit or loss financial assets.

The financial statements are presented in New Zealand dollars, which is Kiwi Insurance's functional and presentation currency.

The following new standards and amendments to the standards are mandatory for financial years commencing after 1 July 2012 and have been adopted in these financial statements:

Standard	*Requirement*	*Impact on Financial Statements*
Amendments to NZ IAS 1: Presentation of Financial Statements — Presentation of Other Comprehensive Income	This Standard requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss in subsequent periods (reclassification adjustments).	Additional disclosure has been included in the statement of profit or loss and other comprehensive income.

2. Basis of preparation continued

No new standards, amendments or interpretations to existing standards that are not yet effective, have been early adopted by the Company in these financial statements.

At the date of authorisation, the following new standards, amendments or interpretations to existing standards were in issue but not yet effective:

Standard	Effective for annual reporting periods beginning on or after:
NZ IFRS 7 (Amendment) – *Financial Instruments: Disclosures* – Offsetting Financial Assets and Financial Liabilities	1 January 2013
NZ IFRS 7 (Amendment) – *Financial Instruments: Disclosures* – Transition Disclosures	1 January 2013
NZ IFRS 9 – *Financial Instruments*	1 January 2015
NZ IFRS 13 – *Fair Value Measurement*	1 January 2013
NZ IAS 32 (Amendment) – *Financial Instruments: Presentation* – Offsetting Financial Assets and Financial Liabilities	1 January 2014
Annual Improvements to NZ IFRS's 2009-2011 Cycle	1 January 2013

The Directors expect to adopt the above Standards and Interpretations in the period in which they become mandatory.

The Directors anticipate that the above standards, amendments and interpretations will have no significant impact on the financial statements of the Company in the period of initial application. The impacts of NZ IFRS 9 and 13 are discussed below.

NZ IFRS 9: *Financial Instruments*
NZ IFRS 9 reflects the first phase of work on the replacement of NZ IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in NZ IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, impairment of financial assets and hedge accounting will be addressed. The adoption of the first phase of NZ IFRS 9 will primarily have an effect on the classification and measurement of the Company's financial assets. The Company has assessed the impact of NZ IFRS 9 and determined that there will be no significant impact on the measurement or disclosure of the Company's financial statements.

NZ IFRS 13: *Fair Value Measurement*
NZ IFRS 13 becomes effective for annual periods beginning on or after 1 January 2013. NZ IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by NZ IFRS. There are also additional disclosure requirements.

In the past the Company has used various methodologies to measure fair value based on the guidance within the requisite standard and/or industry practice for the type of financial or non-financial item. NZ IFRS13 will require the Company to review its fair value measurement policies across all asset and liability classes. The Company has assessed the impact of NZ IFRS 13 and determined that there will be no significant impact on the measurement or disclosure of the Company's financial statements.

Kiwi Insurance Limited
Notes to the financial statements
Statement of accounting policies
For the year ended 30 June 2013

3. Specific accounting policies

(a) Principles underlying conduct of insurance business

Insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance.

The life insurance operations comprise the selling and administration of contracts which are classified as life insurance contracts.

Life insurance operations are where Kiwi Insurance issues a policy contract where the insured benefit is not directly linked to the market value of the investments held. These benefits are payable on death, or on the occurrence of an insured event such as injury, illness or disability. The risk of the occurrence of the event, which crystallises the payment of the insured benefit, is borne by Kiwi Insurance.

The mortgage insurance operations comprise the selling and administration of contracts which are classified as life insurance contracts.

For the purposes of this financial report, holders of life insurance contracts are referred to as policyholders.

(b) Financial assets

Financial assets are classified in the following categories: loans and receivables; and financial assets at fair value through profit or loss. Management determines the classification of its investments at initial recognition. Kiwi Insurance holds no assets classified as held-to-maturity or available for sale.

Loans and receivables

- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method. Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired. Interest and impairment losses are recognised in the statement of profit or loss and other comprehensive income. Loans and receivables include reinsurance income receivable from other insurance companies, reinsurance recoveries receivable, premium debtors, other receivables and cash and cash equivalents.

Financial assets at fair value through profit or loss

- Financial assets at fair value through profit or loss are initially recorded at fair value. They are subsequently recorded at fair value with any resultant fair value gains or losses and any interest calculated using the effective interest method recognised in the statement of profit or loss and other comprehensive income. Financial assets designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Company's documented investment strategy. The Company's policy is for management to evaluate the information about these financial assets on a fair value basis together with other related financial information.
- Purchases and sales of financial assets at fair value through profit or loss are recognised on trade-date – the date on which Kiwi Insurance commits to purchase or sell the asset.
- Financial assets at fair value through profit or loss are derecognised when the rights to receive cash flows from the financial assets have expired or where Kiwi Insurance has transferred substantially all risks and rewards of ownership. The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), fair value is established by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

3. Specific accounting policies continued

(c) Financial liabilities

All financial liabilities are recognised initially at fair value and subsequently at amortised cost using the effective interest method.

(d) Cash and cash equivalents

Cash and cash equivalents is considered to be cash on hand, bank deposits, and other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

(e) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that Kiwi Insurance will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of any counterparty, or any default or delinquency in payments, are considered indicators of impairment.

(f) Trade payables

Trade payables represent liabilities for services provided to Kiwi Insurance prior to the end of the financial year, which are unpaid. These amounts are unsecured and are usually paid within 30 days of recognition and sometimes settled net, off-setting receivables from the same counterparty. Trade payables are initially recognised at fair value and subsequently recognised at amortised cost.

(g) Determination of policy liabilities

Life insurance liabilities (policyholder liabilities) in the statement of financial position and the increase / (decrease) in policyholder liabilities in the statement of profit or loss and other comprehensive income 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".

(h) Overview of MoS methodology

MoS is designed to recognise profits on life insurance policies 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. Policy 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. Policy 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, except in the case of some investment business and group-rated risk business, where policyholder liabilities are determined as the accumulated benefits to policyholders less any amortised acquisition expenses.

(i) Premium revenue

Premium revenue is earned on life insurance contracts. Premiums with a regular due date are recognised as revenue on a due basis. Premiums with no due date are recognised as revenue on a cash received basis.

(j) Investment income

Investment income includes realised and unrealised changes in the fair value of investments and interest income, recognised on a time proportionate basis using the effective interest method.

(k) Claims expenses

Life insurance contracts

All claims are risk related and recognised as expenses in the statement of profit or loss and other comprehensive income. Death and all other claims are recognised when the liability to the policyholder under the policy contract has been established. Provision is made for the estimated cost of all claims notified but not settled at the reporting date.

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Kiwi Insurance Limited
Notes to the financial statements
Statement of accounting policies continued
For the year ended 30 June 2013

3. Specific accounting policies continued

(l) Basis of expense apportionment

All operating expenses in respect of life insurance contracts have been apportioned between policy acquisition (including commission), one-off and policy maintenance expenses with regard to the objective when incurring the expense and the outcome achieved.

A general indication of the apportionment process follows:

- Expenses that can be directly identifiable and attributable to a particular class of business are not apportioned. Expenses directly attributable to the non-participating classes of business are apportioned based on appropriate cost drivers.
- Other expenses that cannot be allocated to a particular class of business are apportioned to the classes of business based on appropriate cost drivers, including number of new policies issued and related premiums, number of new units in-force, mean balances of assets under management, average number of policies in-force and time and activity based allocations.

(m) Policy acquisition expenses

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 year. They do not include the general growth and development costs incurred by Kiwi Insurance.

(n) Policy maintenance expenses

Maintenance costs are the fixed and variable costs of administering policies subsequent to sale and maintaining Kiwi Insurance's operations such that they are sufficient to service in force policies. These include general growth and development costs.

(o) Other expenses

Other expenses incurred by Kiwi Insurance, which are not related to the above categories, are included in the statement of profit or loss and other comprehensive income as other expenses and are recognised as incurred.

(p) Reinsurance

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

Premiums paid to reinsurers under reinsurance treaties held by Kiwi Insurance are recorded as an outwards reinsurance expense and are recognised in the statement of profit or loss and other comprehensive income over the period of indemnity of the reinsurance contract.

Amounts received from reinsurers, under reinsurance treaties held by Kiwi Insurance, are treated as reinsurance recoveries in the statement of profit or loss and other comprehensive income when they become due and payable in accordance with the reinsurance agreements.

(q) Statement of cash flows

The following are definitions of terms used in the statement of cash flows:

(a) Operating activities include all transactions and other events that are not investing or financing activities.

(b) Investing activities are those activities relating to the acquisition, holding and disposal of operating assets and of investments.

(c) Financing activities are those activities that result in changes in the size and composition of the capital structure. This includes equity and debt not falling within the definition of cash.

3. Specific accounting policies continued

(r) Taxation

The income tax expense charged to the statement of profit or loss and other comprehensive income includes both current and deferred tax. Income tax is recognised in the statement of profit or loss and other comprehensive income.

Current tax is the expected tax payable on the taxable income for the period using tax rates enacted or substantively enacted at reporting date after taking advantage of all allowable deductions under current taxation legislation and any adjustment to tax payable in previous years.

Deferred tax is provided for in full, using the balance sheet liability method, providing for temporary differences between the carrying amount 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 carrying amount of assets and liabilities using tax rates enacted or substantively enacted at balance date. A deferred taxation benefit is recognised only to the extent that it is probable that a future taxable profit will be available against which the temporary differences can be utilised.

(s) Share capital

Ordinary shares are classified as equity.

(t) Contingent assets and contingent liabilities

Contingent liabilities are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is virtually certain that the benefits will be realised.

(u) Intangible assets

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use. These costs are amortised on a straight-line basis over the estimated useful lives of the licences (being 5 years). Developed software assets expected to generate net economic benefits beyond 12 months are recognised as intangible assets. The cost of developed software assets includes the cost of all materials used in construction, direct labour on the project, and an appropriate proportion of variable and fixed overheads. Developed software intangible assets are amortised over their estimated useful lives (being 5 years).

(v) Changes in accounting policies

There were no changes in the accounting policies during the year.

(w) Comparative amounts

Comparative amounts are from the audited financial statements for the year ended 30 June 2012.

(x) Financial assets backing insurance business

The Company has determined that, all assets held are assets backing life insurance contracts with the exception of property, plant and equipment, intangible assets and deferred tax assets. Such assets have been valued at fair value through profit or loss wherever the applicable standard allows.

Fair value is determined as outlined in note 18.

(y) Goods & services tax (GST)

The statement of profit or loss and other comprehensive income and statement of cash flows are stated exclusive of GST where inputs are recoverable. In these circumstances the GST is included in the related asset or expense. All other components are stated inclusive of the non-recoverable portion of GST. All items in the statement of financial position are stated net of GST, with the exception of receivables which include GST invoiced.

4. Critical accounting judgements and estimates

Kiwi Insurance makes estimates and assumptions in respect of certain key assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas where critical accounting estimates are applied are noted below.

MoS profit

MoS profit comprises the following components:

(i) Planned margins of revenues over expenses

At the time of writing a policy and at each reporting date, best estimate assumptions are used to determine all expected future payments and premiums. 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. 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.

The credit card repayment insurance and personal loan insurance are valued using an accumulation technique. All profits therefore related to this business fall into experience profits.

(iii) Changes to underlying assumptions

Assumptions used for measuring policy liabilities are reviewed each year. Where the review leads to a change in assumptions, the change is deemed to have occurred from the 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 policyholder liabilities made during the reporting period is recognised in the statement of profit or loss and other comprehensive income 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 the statement of profit or loss and other comprehensive income immediately. If 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

There are no participating policies.

4. Critical accounting judgements and estimates continued

Deferred acquisition costs

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 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.

Policy liabilities

Policy liabilities for life insurance contracts are computed using statistical or mathematical methods, which are expected to give approximately the same results as if an individual liability was calculated for each contract. The computations are made by a suitably qualified actuary on the basis of recognised actuarial methods, with due regard to relevant actuarial principles. The methodology takes into account the risks and uncertainties of the particular classes of insurance business written.

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

- the cost of providing benefits and administering these insurance contracts;
- mortality and morbidity experience on life insurance products, including enhancements to policyholder benefits;
- discontinuance experience, which affects Kiwi Insurance's ability to recover the cost of acquiring new business over the lives of the contracts; and
- the amounts credited to policyholders' accounts compared to the returns on invested assets.

In addition, factors such as regulation, competition, interest rates, taxes, securities market conditions and general economic conditions affect the level of these liabilities. Details of specific actuarial policies and methods are set out in note 5.

Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that Kiwi Insurance may not receive amounts due to it and these amounts can be reliably measured.

5. Actuarial policies and methods

The actuarial report on policyholder liabilities and solvency reserves for the current reporting period was prepared as at 30 June 2013. The actuary who prepared the report for Kiwi Insurance was David Chamberlain BEc, FIAA, FNZSA. The value of policy liabilities has been determined in accordance with Professional Standard 3 of the New Zealand Society of Actuaries. After making appropriate checks, the actuary was satisfied the data provided was satisfactory for the purposes of his valuation. There were no qualifications issued in the actuarial report.

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

A: Mortgage protection insurance

	30 June 2013	30 June 2012
Discount rate		
Gross	**3.39%**	3.05%
Net	**2.44%**	2.20%
Inflation on maintenance expenses	**2.5%**	2.5%
Maintenance expenses	**$77**	$41
Discontinuance	**10.00%**	14.00%

Discount rates

The assumed asset mix is 100% fixed interest.

Profit carriers

For mortgage protection insurance, the profit carrier is premium income.

Investment and maintenance expenses

An implicit allowance has been made for investment costs in the calculation of the net discount rate.

Taxation

The rate of taxation in effect at the date of the valuation, 28%, is assumed. The new taxation basis for life insurance applies from 1 July 2010. For this product there is a five year grandfathering period for business in force on this date. This grandfathering is allowed for in the modelling.

Mortality and morbidity

The mortality assumption is 80% of NZSA table NZ07. An adjustment was made for smoking by using a smoker to non-smoker ratio that starts at 160% at age 20 and increases to 250% at age 50. Adjusted reinsurance rates were used for permanent and temporary disablement. This is the same assumption as used last year.

5. Actuarial policies and methods continued

B: Term life insurance

	30 June 2013	30 June 2012
Discount rate		
Gross	**3.39%**	3.05%
Net	**2.44%**	2.20%
Inflation on maintenance expenses	**2.5%**	2.5%
Maintenance expenses	**$74**	$10
Discontinuance	**27% year 1, 20% year 2, 13% thereafter**	24% year 1, 15% year 2, 12% thereafter

Discount rates

The assumed asset mix is 100% fixed interest.

Profit carriers

For term life insurance, the profit carrier is premium income.

Investment and maintenance expenses

An implicit allowance has been made for investment costs in the calculation of the net discount rate.

Taxation

The rate of taxation in effect at the date of the valuation, 28%, is assumed. The new taxation basis for life insurance applies from 1 July 2010. For this product there is a five year grandfathering period for business in force on this date. This grandfathering is allowed for in the modelling.

Mortality and morbidity

Mortality assumption is 100% of NZSA table NZ04M and 90% of NZSA table NZ04F. An adjustment was made for smoking by using smoker to non-smoker ratio that starts at 150% at age 20 and increases to 250% at age 55. This is the same assumption as used last year.

5. Actuarial policies and methods continued

C: Life & Living insurance

	30 June 2013	30 June 2012
Discount rate		
Gross	**3.39%**	-
Net	**2.44%**	-
Inflation on maintenance expenses	**2.5%**	-
Maintenance expenses	**$98**	-
Discontinuance	**15%**	-

Discount rates

The assumed asset mix is 100% fixed interest.

Profit carriers

For Life and Living insurance, the profit carrier is premium income.

Investment and maintenance expenses

An implicit allowance has been made for investment costs in the calculation of the net discount rate.

Taxation

The rate of taxation in effect at the date of the valuation, 28%, is assumed.

Mortality and morbidity

The mortality assumption is 80% of NZSA table NZ07. An adjustment was made for smoking by using a smoker to non-smoker ratio that starts at 160% at age 20 and increases to 250% at age 50. Adjusted reinsurance rates were used for permanent and temporary disablement.

5. Actuarial policies and methods continued

D: Credit card insurance

	30 June 2013	30 June 2012
Discount rate		
Gross	**3.39%**	3.05%
Net	**2.44%**	2.20%
Maintenance expenses	**Expressed as a percentage of premium**	Expressed as a percentage of premium
Discontinuance	**14.5%**	14.5%

Discount rates

The assumed asset mix is 100% fixed interest.

Profit carriers

Credit card insurance is valued using an accumulation method. The carrier for recoverable unrecouped acquisitions costs is premium.

Investment and maintenance expenses

An implicit allowance has been made for investment costs in the calculation of the net discount rate.

Taxation

The rate of taxation in effect at the date of the valuation is 28%. The new taxation basis for life insurance applies from 1 July 2010 and is used in the modelling to test the ability to recover the un-recouped acquisition costs.

Mortality and morbidity

Based on actual experience and expressed as a percentage of premium.

5. Actuarial policies and methods continued

E: Personal loan insurance

	30 June 2013	30 June 2012
Discount rate		
Gross	**3.39%**	3.05%
Net	**2.44%**	2.20%
Maintenance expenses	**Expressed as a percentage of premium**	Expressed as a percentage of premium
Discontinuance	**No allowance was made**	No allowance was made

Discount rates

The assumed asset mix is 100% fixed interest.

Profit carriers

Personal loan insurance is valued using an accumulation method. The carrier for recoverable unrecouped acquisitions costs is premium.

Investment and maintenance expenses

An implicit allowance has been made for investment costs in the calculation of the net discount rate.

Taxation

The rate of taxation in effect at the date of the valuation is 28%. The new taxation basis for life insurance applies from 1 July 2010 and is used in the modelling to test the ability to recover the un-recouped acquisition costs.

Mortality and morbidity

Based on actual experience and expressed as a percentage of premium.

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Kiwi Insurance Limited
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5. Actuarial policies and methods continued

F: Effect of changes in actuarial assumptions for the reporting period

The table below quantifies the changes in present value of future profit margins at 30 June 2013 due to the change in assumptions from 2012 to 2013. The change in assumptions has no effect on the policy liabilities except for the discount rate assumption change.

Assumption Change	30 June 2013		30 June 2012	
	Change in Future Profit Margins ($)	Change in Current Period Policy Liability ($)	Change in Future Profit Margins ($)	Change in Current Period Policy Liability ($)
Discount Rate	(118,758)	3,796	391,827	29,858
Mortality / Morbidity	-	-	-	-
Discontinuances	440,684	-	-	-
Expenses	(2,200,380)	-	18,515	-
Other	(417,649)	-	-	-

G: Sensitivity analysis

Kiwi Insurance conducts sensitivity analysis to quantify the impacts of changes in the key variables driving profits. The valuation included in the reported results is Kiwi Insurance's best estimates of these variables. The analysis below is performed to gauge the impact of reasonably possible movements in these best estimate assumptions for those variables. Some of the assumptions are correlated but for this analysis the assumptions were changed on an individual basis to demonstrate the sensitivity to each variable. Note the response to changes in assumptions is not linear. None of Kiwi Insurance's related product groups is in "loss recognition" or would move into "loss recognition" upon the changes set out in the table.

30 June 2013			
Assumption	Change to Assumption	Change in Future Profit Margins ($)	Change in Future Profit Margins (%)
Discount rate	+ 10 basis points	(38,147)	(0.6%)
Mortality	+10%	(739,133)	(11.2%)
Morbidity	+10%	(91,896)	(1.4%)
Discontinuances	+10%	(694,941)	(10.6%)
Renewal Expense	+10%	(570,183)	(8.7%)
30 June 12			
Assumption	Change to Assumption	Change in Future Profit Margins ($)	Change in Future Profit Margins (%)
Discount rate	+ 10 basis points	(52,979)	(0.5%)
Mortality	+10%	(724,019)	(7.5%)
Morbidity	+10%	(54,130)	(0.6%)
Discontinuances	+10%	(1,043,792)	(10.8%)
Renewal Expense	+10%	(243,397)	(2.5%)

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5. Actuarial policies and methods continued

H: Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, the risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that Kiwi Insurance faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. Kiwi Insurance has developed its insurance strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

(a) **Methods to limit or transfer risk exposures**

Reinsurance
The Company's reinsurance activities and needs are monitored. Reinsurance programmes are put in place to assess the impact on the Company's exposure to risk and to ensure the achievement of the optimal choice of type of reinsurance and retention levels.

Underwriting procedures
Strategic underwriting decisions are put into effect using the underwriting procedures detailed in the Company's underwriting manual. Such procedures include limits to delegated authorities and signing powers. The underwriting process is monitored to ensure adequate controls are in place over the underwriting process and that the controls are effective.

Claims management
Strict claims management procedures ensure the timely and correct payment of claims in accordance with policy conditions.

(b) **Concentration of insurance risk**

Insurance risks associated with human life events
The Company aims to maintain a stable age profile and gender mix within its portfolio of policyholders. This policy maintains a balance between the current and future profitability of the life business, a stable base of assets under management and exposure to the significant external events such as those described above.

The age profile and gender mix within the population of policyholders is sufficiently spread so that the Company risk concentration in relation to any particular age group is minimal.

6. Profit after tax

	Year ended 30 June 2013 $	Year ended 30 June 2012 $
Net profit after tax arose from:		
Planned margins of revenues over expenses	**1,185,516**	1,005,527
Difference between actual and assumed experience	**(136,182)**	687,947
Changes to underlying assumptions	**(3,796)**	(29,857)
Investment earnings on assets in excess of policyholder liabilities	**380,054**	331,729
Net profit per statement of profit or loss and other comprehensive income	**1,425,592**	1,995,346

7. Investment income

	Year ended 30 June 2013 $	Year ended 30 June 2012 $
Debt Securities		
NZ Government stock	**60,970**	67,693
Other interest income	**304,411**	264,036
Unrealised gains/(losses) on financial assets held at FVTPL	**14,672**	(2,599)
Total investment income	**380,053**	329,130

8. Other operating expenses

	Year ended 30 June 2013 $	Year ended 30 June 2012 $
Auditor's remuneration		
Audit of financial statements	**44,550**	44,153
Other assurance services		
Half year agreed upon procedures	**5,250**	1,500
Solvency return	**3,500**	-
Statutory fund actuarial advice	**7,250**	-
Commissions paid to related parties (note 14)	**1,081,204**	1,094,643
Personnel	**1,300,171**	822,678
Transaction costs	**59,522**	46,228
Computer and office expenses	**556,283**	364,916
Amortisation	**344,008**	281,039
Total	**3,401,738**	2,655,157
Actuarial classification		
Commissions	**1,081,204**	1,094,643
Policy acquisition expenses	**567,456**	464,504
Policy maintenance expenses	**1,626,576**	786,010
Other	**126,502**	310,000
Total	**3,401,738**	2,655,157

9. Trade and other receivables

	As at 30 June 2013 $	As at 30 June 2012 $
Reinsurance premiums receivable	**77,357**	88,354
Reinsurance recoveries	**1,545,968**	974,242
Profit share receivable	**135,358**	120,000
Interest receivable	**17,534**	-
Premiums receivable	**5,653**	3,146
Total	**1,781,870**	1,185,742

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Kiwi Insurance Limited
Notes to the financial statements
For the year ended 30 June 2013
10. Trade and other payables

	As at 30 June 2013 $	As at 30 June 2012 $
Reinsurance payable	**365,238**	342,372
Claims accruals	**2,010,793**	1,334,977
Sundry creditors	**158,863**	78,081
GST payable	**22,012**	20,451
Total	**2,556,906**	1,775,881

11. Taxation

	Year ended 30 June 2013 $	Year ended 30 June 2012 $
Tax expense		
Profit before tax	**1,822,426**	2,239,813
Tax calculated at a rate of 28%	**(510,279)**	(627,148)
Income not subject to tax	**1,234,821**	1,226,060
Expenses not subject to tax	**(1,107,415)**	(823,516)
Other permanent differences	**(13,961)**	(19,863)
Tax expense as per statement of profit or loss and other comprehensive income	**(396,834)**	(244,467)
Comprising:		
Current year income tax expense	**(130,896)**	(195,970)
Deferred income tax	**(251,977)**	(109,894)
Prior year adjustment	**(13,961)**	61,397
Tax expense recognised in statement of profit or loss and other comprehensive income	**(396,834)**	(244,467)

Deferred tax

The movement in deferred income tax liabilities during the year is as follows:

	Accelerated tax depreciation	Policyholder liabilities	Total
At 1 July 2011	-	(115,553)	(115,553)
Charged to the statement of profit or loss and other comprehensive income	-	(109,894)	(109,894)
Prior period adjustment	-	-	-
At 30 June 2012	-	(225,447)	(225,447)
Charged to the statement of profit or loss and other comprehensive income	**(105,968)**	**(146,009)**	**(251,977)**
Prior period adjustment	**(69,033)**	**-**	**(69,033)**
At 30 June 2013	**(175,001)**	**(371,456)**	**(546,457)**

Represented by:	As at 30 June 2013 $	As at 30 June 2012 $
Deferred Tax liabilities to be used within 12 months	**(35,000)**	-
Deferred Tax liabilities to be used after 12 months	**(511,457)**	(225,447)
Deferred Tax Liabilities	**(546,457)**	(225,447)

Kiwi Insurance Limited does not maintain an imputation credit account as it is part of the NZP tax group.

12. Policyholder liabilities

	As at 30 June 2013 $	As at 30 June 2012 $
Opening policyholder liabilities	**(684,910)**	(326,923)
Change in policyholder liabilities recognised in the statement of profit or loss and other comprehensive income	**(571,503)**	(357,987)
Total gross policyholder liabilities	**(1,256,413)**	(684,910)
Policyholder liabilities contains the following components:		
Future policy benefits	**11,031,009**	9,944,602
Balance of future expenses	**14,299,203**	9,144,797
Planned margins of revenues over expenses	**6,555,652**	9,668,009
Future charges for acquisition costs	**(173,712)**	(103,760)
Balance of future revenues	**(32,597,109)**	(29,113,111)
Closing policyholder liabilities	**(884,957)**	(459,463)
Total net policyholder liabilities	**(884,957)**	(459,463)
Deferred taxation	**(371,456)**	(225,447)
Total gross policyholder liabilities	**(1,256,413)**	(684,910)

13. Equity

	Year ended 30 June 2013 $	Year ended 30 June 2012 $
Issued and paid up capital		
Share capital	**6,637,500**	6,637,500
Retained earnings	**5,880,390**	5,454,798
Total equity	**12,517,890**	12,092,298
Retained earnings		
Balance at the beginning of the year	**5,454,798**	4,459,452
Net profit for the year	**1,425,592**	1,995,346
Dividend paid	**(1,000,000)**	(1,000,000)
Balance at the end of the year	**5,880,390**	5,454,798

At 30 June 2013 there were 6,637,500 authorised ordinary shares issued and fully paid (30 June 2012; 6,637,500). Ordinary shares do not have a par value. All shares have equal voting rights and share equally in dividends and surplus on winding up.

120 ordinary $1 shares were issued on 31 October 2001 and 849,880 ordinary $1 shares were issued on 13 August 2003. These shares were paid up to 75 cents per share as at 30 June 2010. The remaining 25 cents per share was paid on 30 June 2011.

On 30 June 2011, Kiwi Insurance issued 5,787,500 fully paid up ordinary $1 shares.

The whole of the issued share capital is owned by Kiwi Group Holdings Limited which is incorporated in New Zealand. All shares rank equally, have no par value and are entitled to one vote.

13. Equity continued

Equity required for solvency purposes

Based on actuarial advice the Directors have determined that $2,867,657 (30 June 2012: $1,900,236) is the required Minimum Solvency Capital determined in accordance with the "Solvency Standard for Life Insurance Business", issued by the Reserve Bank of New Zealand under the Insurance (Prudential Supervision) Act 2010. For the purposes of this calculation the company is treated as having and being one statutory fund.

The Actual Solvency Capital determined under that standard is $11,102,413 (30 June 2012: $10,645,547). Therefore the Solvency Margin is $8,234,756 (30 June 2012: $8,745,311). The standard requires a minimum of $5m Fixed Capital. The Actual Solvency Capital is required to exceed the Fixed Capital, $5m, at all times.

Therefore any dividend paid should not reduce Actual Solvency Capital to less than the Fixed Capital ($5m).

Solvency requirement

	As at 30 June 2013	At as 30 June 2012
Minimum Solvency Capital (B)	2,867,657	1,900,236
Actual Solvency Capital (A)	11,102,413	10,645,547
Solvency Margin	8,234,756	8,745,311
Solvency Ratio (A/B)	387%	560%

Capital management

Kiwi Insurance's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, Kiwi Insurance may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

14. Related parties

Related parties comprise companies within the New Zealand Post Limited (NZP) group. In addition to the NZP group, the ultimate shareholder of Kiwi Insurance is the Crown. The immediate parent company is Kiwi Group Holdings Limited.

Kiwibank Limited (a commonly controlled entity) pays for certain Kiwi Insurance expenses on its behalf. Kiwi Insurance subsequently reimburses Kiwibank Limited for this expenditure. This expenditure totalled $1.9m (30 June 2012: $1.3m).

Certain shared service activities have been provided to Kiwi Insurance in common with other NZP group companies. The remuneration for these services has been agreed and is consistent with amounts charged to other group companies. Amounts owed to and by related parties are disclosed in the statement of financial position. Interest is not charged on amounts owing to related parties.

Included in Kiwi Insurance's statement of profit or loss and other comprehensive income are commission payments totalling $1.1m (30 June 2012: $1.1m) made to the commonly controlled entity, Kiwibank Limited, in consideration for the origination of new insurance business. The Company also paid $0.04m to NZP in consideration for the origination of new insurance business (30 June 2012: $0.04m). Balances outstanding to Kiwibank at 30 June 2013 were $0.3m (30 June 2012: $0.5m). No amounts were written off or forgiven during the year (30 June 2012: Nil).

As at reporting date, Kiwi Insurance has $9.5m of cash deposited with Kiwibank (30 June 2012: $8.9m). Included in Kiwi Insurance's statement of profit and loss and other comprehensive income are interest receipts on these related party deposits of $0.3m (30 June 2012: $0.3m).

Key management personnel of Kiwi Insurance are remunerated through Kiwibank Limited, which is reimbursed.

15. Contingent liabilities

There were no material contingent liabilities at reporting date. (30 June 2012: Nil).

16. Capital commitments

Kiwi Insurance had no material capital commitments at reporting date. (30 June 2012: Nil).

17. Risk management

Risk management framework

The Company's financial condition and operating activities are affected by a number of key financial risks (insurance risk, credit risk, currency risk and liquidity risk) as well as non-financial risks (compliance risk and operational risk).

The Board determines the Company's overall risk appetite and approves the management strategies, policies and practices to ensure that risks, including compliance risks, are identified and managed within the context of this appetite.

Inherent in the investment process are the requirements to:

- protect the capital base;
- ensure decision making is based on sound analysis; and
- create value via ensuring risks are more than compensated for by expected returns.

Executive management is responsible for implementing and assessing the effectiveness of risk management strategies and internal controls of the Company in accordance with risk management policies and procedures covering risk identification, rating, assessment, treatment and ongoing management (including reporting).

The life insurance activities of the Company are concerned with the pricing, acceptance and management of the mortality and morbidity risks of lives insured. The risks underwritten by the Company are actively managed to ensure they do not adversely affect the Company's ability to pay benefits and claims when due. Compliance and operational risks are controlled and monitored to maintain the efficiency of the Company as well as to manage the risk of non-compliance.

Management assurance programme

The Company has a management assurance programme designed to identify the key risks of the business, the controls in place to mitigate those risks and to obtain assurance that those controls have continued to operate effectively.
The programme allows senior management to affirm their satisfaction with the quality of the process under their responsibility and with the effectiveness of the controls that support that assurance.
This system of management assurance assists the Board in satisfying itself that the Company's risk management systems are adequate, that they operate effectively and any deficiencies have been identified and are being addressed.

Credit risk

Cash and liquid assets, accounts receivable and investments are subject to credit risk in the event of non-performance by the counter-parties. The maximum exposure is equivalent to their carrying amount. No collateral exists for any of the investments held by Kiwi Insurance. There are no financial assets past due but not impaired at reporting date (30 June 2012: Nil). There are no impaired assets at reporting date (30 June 2012: Nil). Cash and cash equivalents are held with Kiwibank which has a Standard and Poor's credit rating of A+ (2012; AA-) or BNZ which has a Standard and Poor's credit rating of AA- (2012: AA-). Financial assets held at fair value comprise New Zealand Government Bonds with a Standard and Poor's credit rating of AA+ (2012; AA+).

Kiwi Insurance Limited
Notes to the financial statements
For the year ended 30 June 2013
17. Risk management continued

Currency risk

Kiwi Insurance is not exposed to currency risk as all transactions are denominated in New Zealand dollars.

Fair values

The fair value of financial assets and financial liabilities is considered to be equivalent to carrying value as reflected in the statement of financial position.

Liquidity risk

Liquidity risk is the risk that Kiwi Insurance is unable to meet its payments obligations associated with its financial liabilities when they fall due. The consequence may be the failure to meet obligations to reinsure insurance contracts or the failure to settle claims as they fall due.

Liquidity risk management process

The liquidity management process as carried out within Kiwi Insurance includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This involves the maintenance of a sufficiently large stock of cash and Government securities ("prime liquidity") to meet future obligations.
- Monitoring statement of financial position liquidity ratios.

Cash flows

The tables below summarises the cash flows payable by Kiwi Insurance for financial liabilities by remaining contractual maturities as at reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows.

30 June 2013

Dollars	No more than 1 month	1 to 3 months	3 to 12 months	Between 1 & 5 years	More than 5 years	Total
Liabilities						
Trade and other payables	-	**2,556,906**	-	-	-	**2,556,906**
Balances with related parties	-	**289,350**	-	-	-	**289,350**
Total Liabilities	-	**2,846,256**	-	-	-	**2,846,256**

30 June 2012

Dollars	No more than 1 month	1 to 3 months	3 to 12 months	Between 1 & 5 years	More than 5 years	Total
Liabilities						
Trade and other payables	-	1,775,881	-	-	-	1,775,881
Balances with related parties	-	461,242	-	-	-	461,242
Total Liabilities	-	2,237,123	-	-	-	2,237,123

17. Risk management continued

Sensitivity analysis

The tables below summarise the pre-tax sensitivity of financial assets and liabilities to changes in the interest rate risk variable. The market value of the assets and liabilities were used as the basis for the analysis and financial modelling was used to determine the impact on those values of changes in each risk scenario.

		30 June 2013 Interest rate risk	
	Carrying amounts	**-1% Net profit & equity**	**+1% Net profit & equity**
Financial assets			
Cash and cash equivalents	**10,229,651**	-	-
Financial assets held at fair value through profit or loss	**1,066,905**	**18,159**	**(17,759)**
Other financial assets	**1,781,870**	-	-
Total financial assets	**13,078,426**	**18,159**	**(17,759)**
Financial liabilities			
Trade and other payables	**2,556,906**	-	-
Balances with relates parties	**289,350**	-	-
Total financial liabilities	**2,846,256**	-	-

		30 June 2012 Interest rate risk	
	Carrying amounts	**-1% Net profit & equity**	**+1% Net profit & equity**
Financial assets			
Cash and cash equivalents	10,384,551	-	-
Financial assets held at fair value through profit or loss	1,048,884	8,047	(7,946)
Other financial assets	1,185,742	-	-
Total financial assets	12,619,177	8,047	(7,946)
Financial liabilities			
Trade and other payables	1,775,881	-	-
Balances with relates parties	461,242	-	-
Total financial liabilities	2,237,123	-	-

Kiwi Insurance Limited
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For the year ended 30 June 2013
18. Financial instruments

Financial instruments are valued in accordance with the accounting policies disclosed in relation to each type of asset and liability. No off balance sheet assets or liabilities exist. As at 30 June 2013, Kiwi Insurance has not derecognised any financial assets where they have a continuing involvement (30 June 2012: nil).

Financial instruments by category

As at 30 June 2013

Dollars	Loans and receivables	Designated at fair value through profit or loss	Total
Assets			
Cash and cash equivalents	**10,229,651**	**-**	**10,229,651**
Trade and other receivables	**1,781,870**	**-**	**1,781,870**
Financial assets held at fair value through profit or loss (FVTPL)	**-**	**1,066,905**	**1,066,905**
Total financial assets	**12,011,521**	**1,066,905**	**13,078,426**

	Other financial liabilities at amortised cost	Total
Liabilities		
Trade and other payables	**2,556,906**	**2,556,906**
Balances with related parties	**289,350**	**289,350**
Total financial liabilities	**2,846,256**	**2,846,256**

As at 30 June 2012

Dollars	Loans and receivables	Designated at fair value through profit or loss	Total
Assets			
Cash and cash equivalents	10,384,551	-	10,384,551
Trade and other receivables	1,185,742	-	1,185,742
Financial assets held at FVTPL	-	1,048,884	1,048,884
Total financial assets	11,570,293	1,048,884	12,619,177

	Other financial liabilities at amortised cost	Total
Liabilities		
Trade and other payables	1,775,881	1,775,881
Balances with related parties	461,242	461,242
Total financial liabilities	2,237,123	2,237,123

18. Financial instruments continued

Fair value hierarchy

As at 30 June 2013 **Dollars**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Fair value through profit or loss assets				
NZ Government stock	**1,066,905**	**-**	**-**	**1,066,905**
Total financial assets	**1,066,905**	**-**	**-**	**1,066,905**

As at 30 June 2012 Dollars	Level 1	Level 2	Level 3	Total
Financial assets				
Fair value through profit or loss assets				
NZ Government stock	1,048,884	-	-	1,048,884
Total financial assets	1,048,884	-	-	1,048,884

Kiwi Insurance uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: Techniques using inputs which have a significant effect on the recorded fair value and which are not based on observable market data.

19. Disaggregated information

All of Kiwi Insurance's business relates to the issue of life insurance policies, which are risk related and non-investment linked.

20. Intangible assets

	As at 30 June 2013 $	As at 30 June 2012 $
Computer software (internally developed)	**1,409,837**	1,124,157
Computer software work in progress (internally developed)	**5,640**	322,594
Total intangible assets	**1,415,477**	1,446,751
Computer software (internally developed)		
Balance brought forward	**1,124,157**	-
Additions	**629,688**	1,405,196
Amortisation	**(344,008)**	(281,039)
Balance carried forward	**1,409,837**	1,124,157
Computer software work in progress (internally developed)		
Balance brought forward	**322,594**	708,940
Additions	**312,734**	1,018,850
Transfers to computer software	**(629,688)**	(1,405,196)
Balance carried forward	**5,640**	322,594

21. Events occurring after reporting date

One of the conditions of the Company being granted a licence under section 19 of the Insurance (Prudential Supervision) Act 2010, is that the Company establish a statutory fund which effectively separates life insurance assets and policy liabilities from any other business carried out by the Company. The statutory fund has been established by the Company on 1 July 2013 and will be disclosed in the Company's first set of interim financial statements for the six months ending 31 December 2013.

No other material events have occurred subsequent to reporting period date that requires recognition in these financial statements.

pwc

Independent Auditor's Report

To the readers of Kiwi Insurance Limited's financial statements for the year ended 30 June 2013

The Auditor-General is the auditor of Kiwi Insurance Limited ("the Company"). The Auditor-General has appointed me, Chris Barber, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the financial statements of the Company, on her behalf.

We have audited the financial statements of the Company on pages 4 to 32, that comprise the statement of financial position as at 30 June 2013, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

Opinion

Financial statements
In our opinion the financial statements of the Company on pages 4 to 32:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the Company's:
    - financial position as at 30 June 2013; and
    - financial performance and cash flows for the year ended on that date.

Other legal requirements
In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

Our audit was completed on 10 September 2013. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards and the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Company's financial statements that give a true and fair view of the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

pwc

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements; and
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing financial statements that:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the Company's financial position, financial performance and cash flows.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements, whether in printed or electronic form.

The Board of Directors' responsibilities arise from the State-Owned Enterprises Act 1986 and the Financial Reporting Act 1993.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 19(1) of the State-Owned Enterprises Act 1986.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

In addition to the audit we have carried out assignments in the areas of taxation advice, other assurance services and financial risk services, which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the Company.

Chris Barber

Chris Barber
On behalf of the Auditor-General
Wellington, New Zealand

PricewaterhouseCoopers

PricewaterhouseCoopers

Kiwi Insurance Limited
Level 12, New Zealand Post House
7 Waterloo Quay
Wellington 6011
New Zealand

Section 78 report in respect of Kiwi Insurance Limited for 30 June 2013

a) The Appointed Actuary is David Chamberlain, a Fellow of the New Zealand Society of Actuaries.
b) The Appointed Actuary has:
   i. Determined the Policy Liabilities as at 30 June 2013.
      - The policy liabilities have been determined in accordance with the NZ Society of Actuaries Professional Standard for the determination of Life Insurance Policy Liabilities (PS3).
   ii. Determined the Solvency Position as at 30 June 2013.
      - The solvency position has been determined in accordance with the "Solvency Standard for Life Insurance Business", dated August 2011, issued by the Reserve Bank of New Zealand under the Insurance (Prudential Supervision) Act 2010.
c) The scope of the work was to provide a report in accordance with the NZ Society of Actuaries Professional Standard for the determination of Life Insurance Policy Liabilities and a solvency calculation determined in accordance with the "Solvency Standard for Life Insurance Business", dated August 2011, issued by the Reserve Bank of New Zealand. There were no limitations placed on the work.
d) In addition to the Appointed Actuary role I am an employee of Kiwibank Limited with the title of Head of Insurance. The remuneration for that role has a component that is related to the performance of the New Zealand Post financial services group entities which includes Kiwi Insurance Limited as well as Kiwibank Limited. The Appointed Actuary has no other financial interest in the insurer.
e) The Appointed Actuary has obtained all information and explanations required by him.
f) In the Appointed Actuary's opinion and from an actuarial perspective:
   i. The actuarial information contained in the financial statements has been appropriately included in those statements;
   ii. The actuarial information used in the preparation of the financial statements has been used appropriately in those financial statements.
g) In the Appointed Actuary's opinion and from an actuarial perspective, Kiwi Insurance Limited is maintaining the required solvency margin that applies under the "Solvency Standard for Life Insurance Business" imposed under section 21(2)(b) of the Insurance (Prudential Supervision) Act 2010 as at 30 June 2013. This is reported on in Note 12 to the Financial Statements.
h) As at 30 June 2013 Kiwi Insurance Limited is not required to have a statutory fund. For the purposes of this solvency calculation the company is treated as having and being one statutory fund.
i) It is Kiwi Insurance's policy to seek the advice of the Appointed Actuary in respect of actuarial information and to adopt that advice in Kiwi Insurance's financial statements.

DC

Kiwi Insurance Limited
Level 12, New Zealand Post House
7 Waterloo Quay
Wellington 6011
New Zealand

This report is provided solely in my capacity as Kiwi Insurance's Appointed Actuary. To the fullest extent permitted by law, I do accept responsibility to anyone for the contents of this report other than the Reserve Bank of New Zealand, Kiwi Insurance, its Directors and shareholder.

David B Chamberlain BEc, FIAA, FNZSA **10 September 2013**