Kiwi Insurance Limited

Annual Report and Financial Statements

For the year ended 30 June 2014

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For the year ended 30 June 2014

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General Matters

Directory

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 Office

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

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 ("IPSA").

Section 82 of IPSA requires that a life insurer must at all times have at least one statutory fund in respect of its life business. Kiwi Insurance Limited (the"Company") established a statutory fund on 1 July 2013. The statutory fund includes the whole Company such that the statutory fund and the Company are one and the same.

Communications with Directors

Communications addressed to the directors may be sent to the Registered Office.

The Company's postal address is:

Private Bag 39888, Wellington Mail Centre, Lower Hutt 5045, New Zealand.

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.

Appointed Actuary

The Appointed Actuary is David Chamberlain BEc, FIAA, FNZSA, who is employed by Kiwibank 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. This rating was reaffirmed on 19 September 2013 by A.M. Best 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. On 12 November 2013, S&P affirmed NZP's credit rating of A+ with a negative outlook.

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).

Directors' Report

The Directors have pleasure in presenting the annual report of Kiwi Insurance Limited, incorporating the financial statements, auditor's report and the Appointed Actuary's Section 78 Report, for the year ended 30 June 2014.

With the agreement of the shareholder, the Company has taken advantage of the concessions available to it under section 211 (3) of the Companies Act 1993.

The Directors authorised the financial statements presented on pages 6 to 33 for issue on 23 September 2014.

For and on behalf of the Board

W S Hawkyard

Wayne Hawkyard
Director

Nick Astwick
Director

Income statement

For the year ended 30 June 2014

Dollars in thousands	Note	Year ended 30 June 2014	Year ended 30 June 2013
Premium revenue from insurance contracts		9,612	8,705
Outwards reinsurance expense		(4,629)	(4,592)
Net premium income		4,983	4,113
Inwards reinsurance income		688	861
Investment revenue	6	352	380
Total operating revenue		6,023	5,354
Other income		142	102
Total operating income		6,165	5,456
Claims expense		(3,639)	(2,980)
Reinsurance recovery		2,657	2,176
Net claims expense		(982)	(804)
Other operating expenses	7	(3,712)	(3,402)
Changes in policyholder liabilities	11	464	572
Total operating expenditure		(4,230)	(3,634)
Profit before taxation		1,935	1,822
Taxation expense	10	(202)	(397)
Profit for the year attributable to shareholders		1,733	1,425

Statement of comprehensive income

For the year ended 30 June 2014

Dollars in thousands	Year ended 30 June 2014	Year ended 30 June 2013
Profit for the year attributable to shareholders	1,733	1,425
Other comprehesive income that may subsequently be reclassified to profit or loss	-	-
Total comprehensive income for the year attributable to shareholders	1,733	1,425

The notes on pages 10 to 33 form part of these financial statements.

Statement of changes in equity

For the year ended 30 June 2014

Dollars in thousands	Share Capital	Accumulated Profit	Total Equity
Balance at 1 July 2012	6,638	5,455	12,093
Year ended 30 June 2013			
Profit for the period	-	1,425	1,425
Other comprehensive income	-	-	-
Total comprehensive income	-	1,425	1,425
Transactions with shareholders			
Dividends paid*	-	(1,000)	(1,000)
Balance at 30 June 2013	6,638	5,880	12,518
Year ended 30 June 2014			
Profit for the period	-	1,733	1,733
Other comprehensive income	-	-	-
Total comprehensive income	-	1,733	1,733
Transactions with shareholders			
Dividends paid*	-	-	-
Balance at 30 June 2014	6,638	7,613	14,251

- Dividends per share equates to 15.07 cents for the year ended 30 June 2013.

The notes on pages 10 to 33 form part of these financial statements.

Balance sheet

As at 30 June 2014

Dollars in thousands	Note	As at 30 June 2014	As at 30 June 2013
ASSETS			
Current assets			
Cash and cash equivalents	13	11,719	10,230
Financial assets held at fair value through profit or loss		1,031	1,067
Trade and other receivables	8	2,269	1,782
Current taxation receivable		179	160
Total current assets		15,198	13,239
Non-current assets			
Intangible assets	17	1,495	1,415
Total non-current assets		1,495	1,415
Total assets		16,693	14,654
LIABILITIES			
Current liabilities			
Trade and other payables	9	3,116	2,557
Due to related parties	13	330	289
Total current liabilities		3,446	2,846
Non-current liabilities			
Policyholder liabilities	11	(1,720)	(1,256)
Deferred tax	10	716	546
Total non-current liabilities		(1,004)	(710)
Total liabilities		2,442	2,136
EQUITY			
Share capital	12	6,638	6,638
Accumulated profit	12	7,613	5,880
Total equity		14,251	12,518
Total equity and liabilities		16,693	14,654

The Directors of Kiwi Insurance Limited authorised these financial statements for issue on 23 September 2014.

W S Hawkyard

Wayne Hawkyard
Director

Nick Astwick
Director

The notes on pages 10 to 33 form part of these financial statements.

Statement of Cash Flows

For the year ended 30 June 2014

Dollars in thousands	Note	Year ended 30 June 2014	Year ended 30 June 2013
Cash flows from operating activities			
Premiums received		9,653	8,702
Interest received		396	413
Reinsurance premium received		653	959
Reinsurance recovery received		2,233	1,604
Other revenue		67	-
Reinsurance expenses paid		(4,548)	(4,569)
Claims expenses paid		(3,247)	(2,299)
Taxes paid		(51)	(432)
Payments to suppliers and employees		(3,180)	(3,153)
Net cash flows from operating activities		1,976	1,225
Cash flows from investing activities			
Sale of investments		-	1,000
Purchase of investments		-	(1,068)
Purchase of intangible assets		(487)	(312)
Net cash flows from investing activities		(487)	(380)
Cash flows from financing activities			
Dividends paid		-	(1,000)
Net cash flows from financing activities		-	(1,000)
Increase/(decrease) in cash and cash equivalents		1,489	(155)
Cash and cash equivalents at beginning of the year	13	10,230	10,385
Cash and cash equivalents at end of year		11,719	10,230
Represented by:			
Cash and cash equivalents		11,719	10,230

Reconciliation of profit after tax to net cash flows from operating activities

Profit after tax		1,733	1,425
Non cash movements and non-operating activities			
Amortisation of intangible assets		407	344
Change in deferred tax		170	321
Change in policyholder liabilities		(464)	(572)
Unrealised loss on investments held at fair value through profit or loss		36	51
Net cash flows before movements in working capital		1,882	1,569
Movements in operating assets and liabilities			
Change in payables to related parties		41	(172)
Change in current taxation payable		(19)	(356)
Change in trade and other receivables		(487)	(596)
Change in trade and other payables		559	780
Net cash flows from operating activities		1,976	1,225

The notes on pages 10 to 33 form part of these financial statements.

Notes to the financial statements

1. Reporting entity

These financial statements are for Kiwi Insurance Limited (the "**Company**"), as a separate legal entity, for the year ended 30 June 2014 and were approved for issue by the Board of Directors on 23 September 2014. The Company is a wholly owned and controlled entity of Kiwi Group Holdings Limited ("KGH"). The Company's ultimate parent is New Zealand Post Limited ("NZP").

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

2. Summary of significant accounting policies

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

2.1 Basis of preparation

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

Statutory base

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993. The Company is an issuer for the purposes of the Financial Reporting Act 1993.

Historical cost convention

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets and liabilities.

Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. While management believe that estimates can be reliably measured, actual amounts may differ from those estimates. It is not anticipated that such differences would be material. Estimates and underlying assumptions are reviewed on an ongoing basis.

Comparative balances

Comparative balances from the audited financial statements for the year ended 30 June 2013 have been presented.

2.2 Changes in accounting policies

Voluntary change in accounting policies

The Company has amended the presentation of the primary statements, in accordance with NZ IAS 1, to improve the readability of the financial statements.

There have been no other voluntary changes in accounting policies.

Notes to the financial statements continued

2. Summary of significant accounting policies continued

2.2 Changes in accounting policies continued

No new standards or amendments have been adopted before their effective date. The following standards have been adopted by the Company for the first time for the financial year beginning on 1 July 2013:

External Reporting Board ("XRB") Standard A1 – This standard establishes a for-profit tier structure and outlines which suite of accounting standards entities in different tiers must follow. The Company is a Tier 1 entity.

Amendment to NZ IFRS 7 – *Financial instruments: Disclosures* – Offsetting financial Asset and Financial Liabilities - This amendment includes new disclosures to facilitate comparison between those entities that prepare NZ IFRS financial statements to those that prepare financial statements in accordance with US GAAP.

NZ IFRS 13 – Fair value measurement – This standard establishes a single source of guidance under NZ IFRS for all fair value measurements. NZ IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure fair value under NZ IFRS when fair value is required or permitted. NZ IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7: Financial Instruments: Disclosures.

The adoption of the above standards does not have a material effect on the financial results of the Company.

2.3 New accounting standards and interpretations not yet effective

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 IAS 32 (Amendment) – *Financial Instruments: Presentation* – Offsetting Financial Assets and Financial Liabilities	1 January 2014
NZ IFRS 9 – *Financial Instruments*	1 January 2017
NZ IFRS 15 – *Revenue from Contracts with Customers*	1 January 2017

The Directors expect to adopt the above standards and interpretations in the period in which they become mandatory.

With the exception of NZ IFRS 9 the directors anticipate that the above standards, amendments and interpretations will have no material impact on the financial statements of the Company in the period of initial application.

NZ IFRS 9: *Financial Instruments*

NZ IFRS 9, - Financial instruments, was issued in September 2014 as a complete version of the standard. NZ IFRS 9 replaces the parts of NZ IAS 39 that relate to the classification and measurement of financial instruments, hedge accounting and impairment. NZ IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost.

The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the NZ IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

The new hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risks. NZ IFRS 9 introduces a new expected credit loss model for calculating the impairment of financial assets. This standard is effective for reporting periods beginning on or after 1 January 2018. The Company is yet to assess the full impact of this standard.

Notes to the financial statements continued

2. Summary of significant accounting policies continued

2.4 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 under IPSA and NZ IFRS.

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.

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

2.5 Foreign currency translation

Functional and presentation currency

The functional and presentation currency of the Company is New Zealand dollars. All amounts are expressed in thousands of New Zealand dollars, unless otherwise stated.

Transactions and balances

Transactions in foreign currencies are translated into the functional currency at the exchange rate ruling at the date of the transaction. Foreign exchange gains or losses resulting from the settlement of such transactions are recognised in the income statement. At the reporting date, foreign currency denominated monetary assets and liabilities are translated at the closing exchange rate, with gains or losses arising from exchange variations being recognised in the income statement.

2.6 Financial instruments

The designation of financial instruments into categories is determined by the business purpose of the financial instrument, policies and practices for its management, its relationship with other instruments and the reporting costs and benefits associated with each designation.

Financial assets

The Company classifies its financial assets, for the purposes of NZ IAS 39 *Financial Instruments: Recognition and Measurement*, as follows:

- Call balances due from related entities have been classified as loans and receivables
- Investments have been classified as financial assets at fair value through profit or loss.

Loans and receivables are initially recognised 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.

Management determines the classification of its investments at initial recognition. The Company holds no assets classified as held-to-maturity or available for sale.

Interest, impairment losses and foreign exchange gains and losses are recognised in the income statement.

Financial liabilities

The Company classifies its financial liabilities at amortised cost. Financial liabilities are initially recognised at fair value less transaction costs and are subsequently measured at amortised cost using the effective interest rate method. Financial liabilities entered into with a duration of less than 12 months are recognised at their notional value. Amortisation and foreign exchange gains and losses, are recognised in the income statement, as is any gain or loss when the liability is derecognised. Financial liabilities include trade and other payables and amounts due to related parties.

Financial assets and financial liabilities are recorded as current assets and current liabilities based on contractual maturities that are expected to be settled within 12 months or liabilities where there is no unconditional right to defer.

Notes to the financial statements continued

2. Summary of significant accounting policies continued

2.7 Impairment of financial assets

At each reporting date an assessment is made as to whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an impairment allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

2.8 Trade and other receivables

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

2.9 Determination of policy liabilities

Life insurance liabilities (policyholder liabilities) in the balance sheet and the change in policyholder liabilities in the income statement 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".

2.10 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 deferred acquisition expenses.

2.11 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.

2.12 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.

2.13 Interest income

Interest income is accrued using the effective interest rate method. The effective interest rate method discounts estimated future cash receipts through the expected life of a financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest income each period. The application of this method has the effect of recognising income on financial assets evenly in proportion to the amount outstanding over the period to maturity.

2.14 Claims expenses

Life insurance contracts

All claims are risk related and recognised as expenses in the income statement. 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.

Notes to the financial statements continued

2. Summary of significant accounting policies continued

2.15 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.

2.16 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 the Company.

2.17 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.

2.18 Other expenses

Other expenses are recognised in the period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

2.19 Reinsurance

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

2.20 Impairment of non-financial assets

At each reporting date non-financial assets are reviewed for impairment. A provision for impairment is established where there is objective evidence that the present value of estimated future cash flows, discounted at the effective interest rate, is less than the carrying amount.

2.21 Share capital

Ordinary shares are classified as equity.

2.22 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of the Company.

2.23 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the normal course of business from suppliers. These obligations are unsecured and are usually settled net, off-setting receivables from the same counterparty. Trade and other payables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method.

Notes to the financial statements continued

2. Summary of significant accounting policies continued

2.24 Taxation

Income tax expense is the income tax charge incurred on profit or loss and is the aggregate of the movements in deferred tax and the amount of income taxes payable in respect of taxable profit for the reporting period at the applicable tax rate.

Deferred tax is provided 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 reporting 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.

2.25 Goods and services tax

Revenues and expenses are recognised net of the amount of goods and services tax ("GST") except where the amount of GST incurred is not recoverable from the Inland Revenue Department ("IRD"). In these circumstances, the GST is recognised as part of the expense. Trade and other receivables and Trade and other payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the IRD is included the Balance Sheet.

2.26 Contingencies

Contingent assets and contingent liabilities are recognised in accordance with IAS 37. Contingent liabilities are disclosed if they are deemed probable. Contingent assets are disclosed if it is probable that the benefits will be realised.

2.27 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, cash in transit, bank accounts and deposits with an original maturity of no more than three months.

2.28 Statement of cash flows

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

- Investing activities are those relating to the acquisition, holding and disposal of property, plant and equipment and of investments not falling within the definition of cash.
- Financing activities are those activities which result in changes in the size and composition of the capital structure of the Company. This includes equity, and debt not falling within the definition of cash.
- Operating activities include all transactions and other events that are not investing or financing activities.

2.19 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost.

2.20 Dividend distribution

Dividend distributed in respect of equity instruments are recognised as a liability in the financial statements in the reporting period in which the dividend distribution is approved.

Notes to the financial statements continued

3. Critical 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 Income Statement 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 Income Statement 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.

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.

Policyholder liabilities

Policyholder 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; and
- discontinuance experience, which affects Kiwi Insurance's ability to recover the cost of acquiring new business over the lives of the contracts.

Notes to the financial statements continued

3. Critical estimates continued

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 4.

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.

4. Actuarial policies and methods

The actuarial report on policyholder liabilities and solvency reserves for the current reporting period was prepared as at 30 June 2014.
The actuary who prepared the report for Kiwi Insurance was David Chamberlain BEc, FIAA, FNZSA.
The value of policyholder 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

	Year ended 30 June 2014	Year ended 30 June 2013
Discount rate		
Gross	4.09%	3.39%
Net	2.94%	2.44%
Inflation on maintenance expenses	2.50%	2.50%
Maintenance expenses	$77	$77
Discontinuance	13.50%	10.00%

Discount rates

The discount rate used is the 5 year government stock rate.

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.

Notes to the financial statements continued

4. Actuarial policies and methods

B. Term Life insurance

	Year ended 30 June 2014	Year ended 30 June 2013
Discount rate		
Gross	4.09%	3.39%
Net	2.94%	2.44%
Inflation on maintenance expenses	2.50%	2.50%
Maintenance expenses	$67	$74
Discontinuance	13.50%	27% year 1, 20% year 2, 13% thereafter

Discount rates

The discount rate used is the 5 year government stock rate.

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.

C. Life and Living insurance

	Year ended 30 June 2014	Year ended 30 June 2013
Discount rate		
Gross	4.09%	3.39%
Net	2.94%	2.44%
Inflation on maintenance expenses	2.50%	2.50%
Maintenance expenses	$98	$98
Discontinuance	20% year 1, 13.5% thereafter	15.00%

Notes to the financial statements continued

4. Actuarial policies and methods continued

C. Life and living insurance continued

Discount rates

The discount rate used is the 5 year government stock rate.

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.

D. Credit Card insurance

	Year ended 30 June 2014	Year ended 30 June 2013
Discount rate		
Gross	4.09%	3.39%
Net	2.94%	2.44%
Maintenance expenses	Expressed as a percentage of premium	Expressed as a percentage of premium
Discontinuance	14.50%	14.50%

Discount rates

The discount rate used is the 5 year government stock rate.

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.

Notes to the financial statements continued

4. Actuarial policies and methods continued

E. Personal Loan insurance

	Year ended 30 June 2014	Year ended 30 June 2013
Discount rate		
Gross	4.09%	3.39%
Net	2.94%	2.44%
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 discount rate used is the 5 year government stock rate.

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.

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 2014 due to the change in assumptions from 2013 to 2014. The change in assumptions has no effect on the policy liabilities except for the discount rate assumption change.

	Year ended 30 June 2014		Year ended 30 June 2013	
Dollars in thousands	Change in Future Profit Margins	Change in Current Period Policy Liability	Change in Future Profit Margins	Change in Current Period Policy Liability
Assumption Change				
Discount rate	(130)	24	(119)	4
Mortality/Morbidity	-	-	-	-
Discontinuances	(896)	-	441	-
Expenses	1,267	-	(2,200)	-
Other*	(2,684)	-	(418)	-

*Related to the treatment of data

Notes to the financial statements continued

4. Actuarial policies and methods continued

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 on both profit and equity 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 2014			30 June 2013		
Dollars in thousands	Change to assumption	Change in Future Profit Margins	Change in Future Profit Margins	Change to assumption	Change in Future Profit Margins $000's	Change in Future Profit Margins (%)
Assumption						
Discount rate	+ 10 basis points	(27)	(0.7%)	+ 10 basis points	(38)	(0.6%)
Mortality	+10%	(663)	(16.8%)	+10%	(739)	(11.2%)
Morbidity	+10%	(120)	(3.0%)	+10%	(92)	(1.4%)
Discontinuances	+10%	(581)	(14.7%)	+10%	(695)	(10.6%)
Renewal expenses	+10%	(498)	(12.6%)	+10%	(570)	(8.7%)

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.

Notes to the financial statements continued

4. Actuarial policies and methods continued

H: Insurance risk continued

(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.

5. Profit after tax

Dollars in thousands	Year ended 30 June 2014	Year ended 30 June 2013
Profit after tax arose from:		
Planned margins of revenues over expenses	794	1,186
Difference between actual and assumed experience	610	(136)
Changes to underlying assumptions	(23)	(5)
Investment earnings on assets in excess of policyholder liabilities	352	380
Profit after tax per income statement	1,733	1,425

6. Investment income

Dollars in thousands	Year ended 30 June 2014	Year ended 30 June 2013
Debt securities		
NZ Government stock	60	61
Other interest income	328	365
Unrealised gains/(losses) on financial assets held at FVTPL	(36)	(46)
Total investment income	352	380

Notes to the financial statements continued

7. Other operating expenses

Dollars in thousands	Year ended 30 June 2014	Year ended 30 June 2013
Auditor's remuneration		
Audit of financial statements	56	45
Other assurance services		
Half year agreed upon procedures	-	5
Solvency return	4	4
Statutory fund actuarial advice	-	7
Commissions paid to related parties (note 13)	1,223	1,081
Personnel	1,614	1,300
Transaction costs	69	60
Computer and office expenses	339	556
Amortisation	407	344
Total operating expenses	3,712	3,402
Actuarial classification		
Commissions	1,223	1,081
Policy acquisition expenses	653	567
Policy maintenance expenses	1,828	1,627
Other	8	127
Total operating expenses	3,712	3,402

8. Trade and other receivables

Dollars in thousands	As at 30 June 2014	As at 30 June 2013
Reinsurance premiums receivable	57	77
Reinsurance recoveries	1,975	1,546
Profit share receivable	211	135
Interest receivable	10	18
Premiums receivable	16	6
Total trade and other receivables	2,269	1,782

9. Trade and other payables

Dollars in thousands	As at 30 June 2014	As at 30 June 2013
Reinsurance payable	446	365
Claims accruals	2,402	2,011
Sundry creditors	268	181
Total trade and other payables	3,116	2,557

Notes to the financial statements continued

10. Taxation

Reconciliation of income tax expense shown in the income statement with prima facie tax payable on the accounting profit.

Dollars in thousands	Year ended 30 June 2014	Year ended 30 June 2013
Tax expense		
Profit before tax	1,935	1,822
Prima facie income tax at 28%	(542)	(510)
Income not subject to tax	1,087	1,235
Expenses not subject to tax	(837)	(1,108)
Other permanent differences	90	(14)
Tax expense per income statement	(202)	(397)
Comprising:		
Current year income tax expense	(122)	(131)
Deferred income tax	(170)	(252)
Prior year adjustment	90	(14)
Tax expense per income statement	(202)	(397)

Deferred taxation

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

	Accelerated tax depreciation	Policyholder liabilities	Total
Balance at 1 July 2012	-	(225)	(225)
Year ended 30 June 2013			
Charged to the income statement	(106)	(146)	(252)
Prior year adjustment	(69)	-	(69)
Balance at 30 June 2013	(175)	(371)	(546)
Year ended 30 June 2014			
Charged to the income statement	(36)	(134)	(170)
Prior year adjustment	-	-	-
Balance at 30 June 2014	(211)	(505)	(716)

Dollars in thousands	As at 30 June 2014	As at 30 June 2013
Represented by:		
Deferred tax liabilties to be used within 12 months	(42)	(35)
Deferred tax liabilties to be used after 12 months	(674)	(511)
Total deferred tax	(716)	(546)

Imputation credit account

The Company does not maintain an imputation credit account as it is part of the NZP tax group.

Notes to the financial statements continued

11. Policyholder liabilities

Dollars in thousands	Year ended 30 June 2014	Year ended 30 June 2013
Opening policyholder liabilities	(1,256)	(684)
Change in policyholder liabilities recognised in income statement	(464)	(572)
Total gross policyholder liabilities	(1,720)	(1,256)
Policyholder liabilities contains the following components:		
Future policy benefits	10,669	11,031
Balance of future expenses	12,358	14,299
Planned margins of revenues over expenses	3,944	6,556
Future charges for acquisition costs	(244)	(174)
Balance of future revenues	(27,942)	(32,597)
Closing policyholder liabilities	(1,215)	(885)
Total net policyholder liabilities	(1,215)	(885)
Add back deferred taxation	(505)	(371)
Total gross policyholder liabilities	(1,720)	(1,256)

12. Equity

Dollars in thousands	As at 30 June 2014	As at 30 June 2013
Issued and paid up capital		
Share capital	6,638	6,638
Retained earnings	7,613	5,880
Total equity	14,251	12,518
Retained earnings		
Balance at beginning of year	5,880	5,455
Profit for the year	1,733	1,425
Dividends paid	-	(1,000)
Balance at end of year	7,613	5,880

At 30 June 2014 there were 6,637,500 authorised ordinary shares issued and fully paid (30 June 2013; 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.

Capital management

The Company'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, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

Notes to the financial statements continued

12. Equity continued

Equity required for solvency purposes

Based on actuarial advice the Directors have determined that $3,511k (30 June 2013: $2,868k) 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 $11,755k (30 June 2013: $11,102k), which includes provision for a dividend of $1,000k. Therefore the Solvency Margin is $8,244k (30 June 2013: $8,234k). 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

Dollars in thousands	As at 30 June 2014	As at 30 June 2013
Minimum Solvency Capital (B)	3,511	2,868
Actual Solvency Capital (A)	11,755	11,102
Solvency margin	8,244	8,234
Solvency ratio	335%	387%

13. Related party transactions

Related parties comprise companies within the New Zealand Post Limited (NZP) group. The immediate parent company is Kiwi Group Holdings Limited.

Kiwibank Limited (a commonly controlled entity) pays for certain of the Company's expenses on its behalf. The Company subsequently reimburses Kiwibank Limited for this expenditure.

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 table over page.

Included in Kiwi Insurance's income statement are commission payments made to both Kiwibank Limited and NZP, in consideration for the origination of new insurance business. These amounts are disclosed in the table over page.

No related party balances are past due or impaired and there are no provisions raised against these. No related party balances have been written off in the current year.

Other related party balances

Key management personnel are defined as being Directors and management of the Company. No compensation was paid by the Company to key management personnel during the year ended 30 June 2014 (30 June 2013: $nil). The key management personnel of the Company are employed and compensated by Kiwibank Limited.
Directors' fees of $25k were paid by the Company during the year ended 30 June 2014 (30 June 2013: $31k).

Notes to the financial statements continued

13. Related party transactions continued

Operating expenses

The following table shows the transactions and balances with related parties for the relevant financial year.

Dollars in thousands	Year ended 30 June 2014	Year ended 30 June 2013
Revenue		
Investment revenue - Kiwibank Limited	304	349
Expenses		
Expense reimbursement - Kiwibank Limited	2,071	1,900
Commission payment - Kiwibank Limited	1,162	1,041
Commission payment - New Zealand Post Limited	61	40

Dollars in thousands	As at 30 June 2014	As at 30 June 2013
Related party balances		
Receivable		
Cash and cash equivalents - Kiwibank Limited	10,830	9,456
Trade and other receivables - Kiwibank Limited	10	18
Total amount receivable	10,840	9,474
Payable		
Due to related parties - Kiwibank Limited	317	264
Due to related parties - New Zealand Post	13	25
Total amount payable	330	289

14. Risk management policies

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.

Notes to the financial statements continued

14. Risk management policies continued

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 2013: Nil). There are no impaired assets at reporting date (30 June 2013: Nil). Cash and cash equivalents are held with Kiwibank which has a Standard and Poor's credit rating of A+ (2013; AA-) or BNZ which has a Standard and Poor's credit rating of AA- (2013: AA-). Financial assets held at fair value comprise New Zealand Government Bonds with a Standard and Poor's credit rating of AA+ (2013; AA+).

Currency risk

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

Fair values

The carrying value of financial assets and financial liabilities is considered to approximate to their fair value as reflected in the balance sheet.

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 the Company 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 balance sheet liquidity ratios.

Notes to the financial statements continued

14. Risk management policies continued

Cash flows

The tables below summarises the cash flows payable by the Company 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 2014					
Dollars in thousands	On demand	Up to 3 months	3 to 12 months	1 & 5 years	More than 5 years	Total
Financial assets						
Cash and cash equivalents	11,719	-	-	-	-	11,719
Financial assets held at fair value through profit or loss	-	-	1,060	-	-	1,060
Other financial assets	-	2,269	-	-	-	2,269
Total financial assets	11,719	2,269	1,060	-	-	15,048
Financial liabilities						
Due to related parties	-	330	-	-	-	330
Trade and other payables	-	3,116	-	-	-	3,116
Total financial liabilities	-	3,446	-	-	-	3,446

	30 June 2013					
Dollars in thousands	On demand	Up to 3 months	3 to 12 months	1 & 5 years	More than 5 years	Total
Financial assets						
Cash and cash equivalents	10,230	-	-	-	-	10,230
Financial assets held at fair value through profit or loss	-	-	60	1,060	-	1,120
Other financial assets	-	1,782	-	-	-	1,782
Total financial assets	10,230	1,782	60	1,060	-	13,132
Financial liabilities						
Due to related parties	-	289	-	-	-	289
Trade and other payables	-	2,557	-	-	-	2,557
Total financial liabilities	-	2,846	-	-	-	2,846

Notes to the financial statements continued

14. Risk management policies continued

Sensitivity analysis

The tables below summarise the pre-tax sensitivity of financial assets and liabilities to changes in the interest rate risk variable. This includes fair value and earnings risk. 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. The sensitivity to interest rate movements models the impact of a 1% parallel movement both up and down in the yield curve on fair values and earnings.

	30 June 2014			30 June 2013		
Dollars in thousands	Carrying amounts	-1% Net profit & equity	+1% Net profit & equity	Carrying amounts	-1% Net profit & equity	+1% Net profit & equity
Financial assets						
Cash and cash equivalents	11,719	(94)	94	10,230	(90)	90
Financial assets held at fair value through profit or loss	1,031	7	(8)	1,067	18	(18)
Other financial assets	2,269	-	-	1,782	-	-
Total financial assets	15,019	(87)	86	13,079	(72)	72
Financial liabilities						
Trade and other payables	3,116	-	-	2,557	-	-
Due to related parties	330	-	-	289	-	-
Total financial liabilities	3,446	-	-	2,846	-	-

Notes to the financial statements continued

15. 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 2014, Kiwi Insurance has not derecognised or transferred any financial assets where they have a continuing involvement (30 June 2013: nil).

Financial instruments by category

	30 June 2014			30 June 2013		
Dollars in thousands	Loans and receivables	Designated at fair value through profit or loss	Total	Loans and receivables	Designated at fair value through profit or loss	Total
Financial assets						
Cash and cash equivalents	11,719	-	11,719	10,230	-	10,230
Financial assets held at fair value through profit or loss	-	1,031	1,031	-	1,067	1,067
Trade and other receivables	2,269	-	2,269	1,782	-	1,782
Total financial assets	13,988	1,031	15,019	12,012	1,067	13,079
		Other financial liabilities at amortised cost	Total		Other financial liabilities at amortised cost	Total
Financial liabilities						
Due to related parties		330	330		289	289
Trade and other payables		3,116	3,116		2,557	2,557
Total financial liabilities		3,446	3,446		2,846	2,846

Fair value hierarchy

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.

Notes to the financial statements continued

15. Financial instruments continued

Fair value hierarchy continued

Dollars in thousands	As at 30 June 2014 Level 1	Level 2	Level 3	Total
Financial assets at fair value				
NZ Government stock	1,031	-	-	1,031
Total financial assets at fair value	1,031	-	-	1,031

Dollars in thousands	As at 30 June 2013 Level 1	Level 2	Level 3	Total
Financial assets at fair value				
NZ Government stock	1,067	-	-	1,067
Total financial assets at fair value	1,067	-	-	1,067

16. Disaggregated information

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

17. Intangibles

Dollars in thousands	As at 30 June 2014	As at 30 June 2013
Computer software	1,003	1,410
Computer software work in progress	492	5
Total intangible assets	1,495	1,415
Computer software		
Balance at beginning of year	1,410	1,124
Additions	-	630
Amortisation	(407)	(344)
Balance at end of year	1,003	1,410
Computer software work in progress		
Balance at beginning of year	5	323
Additions	487	312
Transfer to computer software	-	(630)
Balance at end of year	492	5

Notes to the financial statements continued

18. Capital commitments and contingencies

There are no capital commitments or contingent assets or liabilities at reporting date (30 June 2013: nil).

19. Events subsequent to the reporting date

On 23 September 2014 a dividend of $1.0m was declared by the Board of the Company. This equates to 15.07 cents per share.

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

Independent Auditor's Report

To the readers of Kiwi Insurance Limited's financial statements for the year ended 30 June 2014

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 6 to 33, that comprise the balance sheet as at 30 June 2014, the income statement, statement of 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 6 to 33:

- 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 2014; 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 23 September 2014. 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.

Independent Auditor's Report

Kiwi Insurance Limited

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 other assurance 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

Section 78 report in respect of Kiwi Insurance Limited for 30 June 2014

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 2014.

      - 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 2014.

      - 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 2014. This is reported on in Note 12 to the Financial Statements.

h) 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.

This report is provided solely in my capacity as Kiwi Insurance's Appointed Actuary. To the fullest extent permitted by law, I do not accept responsibility to anyone for the contents of this report other than the Reserve Bank of New Zealand, Kiwi Insurance Limited, its Directors and shareholder.

David B Chamberlain BEc, FIAA, FNZSA **23 September 2014**