ING INSURANCE SERVICES (NZ) LIMITED

Annual Report 2009

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Annual Report

For the year ended 31 December 2009

The Board of Directors present their Annual Report including the financial statements of the Company for the twelve month period ended 31 December 2009 and the Auditor's Report thereon.

The shareholders of the Company have exercised their right under section 211(3) of the Companies Act 1993 and unanimously agreed that this Annual Report need not comply with any of paragraphs (a), and (e) to (j) of section 211(1) of the Act.

For and on behalf of the Board:

Helen Troup, Director
26 March 2010

Paul Butler, Director
26 March 2010

ERNST & YOUNG

Chartered Accountants

Auditor's Report

To the Shareholders of ING Insurance Services (NZ) Limited

We have audited the financial statements on pages 5 to 40. The financial statements provide information about the past financial performance of the company and its financial position as at 31 December 2009. This information is stated in accordance with the accounting policies set out on pages 9 to 16 .

This report is made solely to the company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibilities
The directors are responsible for the preparation of financial statements which comply with generally accepted accounting practice in New Zealand and give a true and fair view of the financial position of the company as at 31 December 2009 and its financial performance and cash flows for the year ended on that date.

Auditor's Responsibilities
It is our responsibility to express an independent opinion on the financial statements presented by the directors and report our opinion to you.

Basis of Opinion
An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the directors in the preparation of the financial statements; and
- whether the accounting policies are appropriate to the circumstances of the company, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Ernst & Young provides assurance services and taxation advice to the company.

Unqualified Opinion
We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records; and
- the financial statements on pages 5 to 40:
  - comply with generally accepted accounting practice in New Zealand; and
  - comply with International Financial Reporting Standards; and
  - give a true and fair view of the financial position of the company as at 31 December 2009 and its financial performance and cash flows for the year ended on that date.

Our audit was completed on 26 March 2010 and our unqualified opinion is expressed as at that date.

Ernst & Young

Auckland

Statement of Comprehensive Income

For the year ended 31 December 2009

	Note	2009 $	2008 $
Premium revenue	4	66,916,114	65,501,920
Less outward reinsurance expense	4	(7,872,916)	(6,791,928)
Net premium revenue		59,043,198	58,709,992
Other revenue	5	11,070,897	5,646,461
		11,070,897	5,646,461
Claims, surrenders and maturities expense	6	(23,422,275)	(22,814,262)
Less reinsurance recoveries revenue	4	6,585,256	7,736,183
Net claims expense		(16,837,019)	(15,078,079)
Decrease in life policy liabilities		23,738,634	3,603,000
(Increase)/Decrease in net investment contract liabilities		(1,993,390)	4,273,858
Commissions and operating expenses	7, 8	(33,858,079)	(30,957,749)
Other expenses	8	(2,425,983)	(9,453,538)
Profit before income tax expense		**38,738,256**	**16,743,945**
Income tax expense	9	6,498,159	3,645,807
Profit after income tax expense		**32,240,097**	**13,098,138**
Other comprehensive income			
Net fair value (losses)/gains on available for sale financial assets	21	(719,838)	1,544,806
Other comprehensive income for the year, net of tax		(719,838)	1,544,806
Total comprehensive income for the year		**31,520,259**	**14,642,944**
Profit for the year is attributable to:			
Equity holders of the parent		32,240,097	13,098,138
		32,240,097	**13,098,138**
Total comprehensive income for the year is attributable to:			
Equity holders of the parent		31,520,259	14,642,944
		31,520,259	**14,642,944**

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes

Statement of Financial Position

As at 31 December 2009

	Note	2009 $	2008 $
Assets			
Cash and cash equivalents	10	28,660,871	5,663,876
Trade and other receivables	11	3,537,210	4,419,816
Income tax receivable	12	25,301	61,381
Investments	13	84,849,576	128,972,560
Deferred acquisition costs	14	346,879	435,504
Insurance contract liabilities - reinsurance	17	3,941,632	5,469,000
Related party balances		-	-
Intangible assets	15	23,912,395	26,007,670
Total Assets		145,273,864	171,029,807
Liabilities			
Trade and other payables	16	9,313,598	8,416,148
Deferred taxation liabilities	9	17,973,918	11,473,446
Related party balances	26	17,363,351	42,777,064
Insurance contract liabilities - gross	17	21,340,998	46,607,000
Investment contract liabilities	17	40,983,472	50,977,881
Total Liabilities		106,975,337	160,251,539
Net Assets		**38,298,527**	**10,778,268**
Equity			
Share capital	20	1,500,000	1,500,000
Retained earnings	21	35,600,465	7,360,368
Reserves	21	1,198,062	1,917,900
Total Equity		**38,298,527**	**10,778,268**

For and on behalf of the Board who authorised the issue of this report on 26 March 2010

Helen Troup, Director

Paul Butler, Director

The above Statement of Financial Position should be read in conjunction with the accompanying notes

Statement of Changes in Equity

For the year ended 31 December 2009

	Ordinary shares $	Available for sale reserves $	Retained Earnings $	Owners of the parent / Total 2009 $
At 1 January 2009	1,500,000	1,917,900	7,360,368	**10,778,268**
Profit for the year	-	-	32,240,097	32,240,097
Other comprehensive income	-	(719,838)	-	(719,838)
Total comprehensive income for the year	-	(719,838)	32,240,097	31,520,259
Transactions with owners in their capacity as owners				
Dividends paid	-	-	(4,000,000)	(4,000,000)
At 31 December 2009	**1,500,000**	**1,198,062**	**35,600,465**	**38,298,527**

	Ordinary shares $	Available for sale reserves $	Retained Earnings $	Owners of the parent / Total 2008 $
At 1 January 2008	1,500,000	373,094	31,262,230	33,135,324
Profit for the year	-	-	13,098,138	13,098,138
Other comprehensive income	-	1,544,806	-	1,544,806
Total comprehensive income for the year	-	1,544,806	13,098,138	14,642,944
Transactions with owners in their capacity as owners				
Dividends paid	-	-	(37,000,000)	(37,000,000)
At 31 December 2008	**1,500,000**	**1,917,900**	**7,360,368**	**10,778,268**

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes

Statement of Cash Flows

For the year ended 31 December 2009

	Note	2009 $	2008 $
Cash flows from operating activities			
Cash was provided from:			
Premium receipts		67,523,543	64,784,554
Contributions - Linked Investment Fund		146,950	497,413
Reinsurance receipts		6,491,925	7,844,955
Commission receipts		3,690,423	4,179,155
Interest receipts		4,558,777	6,260,988
Distributions		386,617	1,352,268
Taxation		38,393	1,304,744
		82,836,628	86,224,077
Cash was disbursed to:			
Policyholder payments		22,015,982	20,979,925
Withdrawals - Linked Investment Fund		10,758,305	12,451,721
Reinsurance payments		7,508,948	8,321,271
Commission payments		25,044,990	19,085,860
Payments to suppliers and employees		9,775,149	9,711,869
Goods and services tax		951,298	1,293,198
		76,054,672	71,843,844
Net cash flows from operating activities	22	6,781,956	14,380,233
Cash flows from investing activities			
Cash was provided from:			
Proceeds from sale of financial assets		135,371,561	96,931,464
		135,371,561	96,931,464
Cash was disbursed to:			
Purchase of financial assets		90,156,522	91,397,309
		90,156,522	91,397,309
Net cash flows from investing activities		45,215,039	5,534,155
Cash flows from financing activities			
Cash was disbursed to:			
Subordinated loan		25,000,000	-
Dividend paid		4,000,000	37,000,000
		29,000,000	37,000,000
Net cash flows from financing activities		(29,000,000)	(37,000,000)
Net increase/(decrease) in cash and cash equivalents		22,996,995	(17,085,612)
Cash at the beginning of the year		5,663,876	22,749,488
Cash and cash equivalents at the end of the year	10	28,660,871	5,663,876

The above Statement of Cash Flows should be read in conjunction with the accompanying notes

Notes to the Financial Statements

For the year ended 31 December 2009

1. Summary of Significant Accounting Policies

Reporting Entity

ING Insurance Services (NZ) Limited (the "Company") is a company incorporated and domiciled in New Zealand.

The financial report was authorised for issue by the directors on 26 March 2010.

ING Insurance Services (NZ) Limited operates in the life insurance industry in New Zealand.

Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with New Zealand generally accepted accounting practice, the Companies Act 1993, the Financial Reporting Act 1993, and other applicable Financial Reporting Standards as appropriate for profit-oriented entities. These financial statements comply with New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") and with International Financial Reporting Standards ("IFRS").

New accounting standards and interpretations

Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Company for the annual reporting period ending 31 December 2009. These are outlined in the table below.

Reference	Title	Summary	Application date of standard*	Impact on Group financial statements	Application date for Group*
Improvements to NZ Equivalents to IFRS	Amendments to New Zealand Accounting Standards arising from the Annual Improvements Project	The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes (some of which are summarised below), while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting. The amendment to NZ IFRIC 16 allows qualifying hedge instruments to be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements in NZ IAS 39 that relate to a net investment hedge are satisfied. More hedging relationships will be eligible for hedge accounting as a result of the amendment. The amendment to NZ IAS 17 removes the specific guidance on classifying land as a lease so that only the general guidance remains. Assessing land leases based on the general criteria may result in more land leases being classified as finance leases and if so, the type of asset which is to be recorded (intangible vs. property, plant and equipment) needs to be determined. The amendment to NZ IAS 1 stipulates that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification. The amendment to NZ IAS 7 explicitly states that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities.	1 July 2009 for amendments to NZ IFRS 2, NZ IAS 38 and NZ IFRIC 9 and 16. 1 January 2010 for *all* other amendments.	The Company has not determined at this stage the effect of the proposed amendments.	01 January 2010
NZ IFRS 3 (Revised)	Business Combinations	The revised standard introduces a number of changes to the accounting for business combinations, the most significant of which allows entities a choice for each business combination entered into, to measure a non-controlling interest (formerly a minority interest) in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets. This choice will effectively result in recognising goodwill relating to 100% of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. The changes apply prospectively.	01 July 2009	The Company has not determined at this stage the effect of the proposed amendments.	01 January 2010
Omnibus Amendments (2009-1)	Omnibus amendments	The amendments aim to correct and clarify a number of matters concerning the New Zealand specific paragraphs included in the standards. The main additional disclosure requirement is NZ IFRS 4 Insurance Contracts, Appendix C Life Insurance Entities which now requires disclosure of whether the amount of solvency reserves disclosed has been determined in accordance with the standards and guidelines of the New Zealand Society of Actuaries (Inc.).	01 July 2009	The Company has not determined at this stage the effect of the proposed amendments.	01 January 2010

*designates the beginning of the applicable annual reporting period unless otherwise stated.

1. Summary of Significant Accounting Policies (continued)

New accounting standards and interpretations (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial statements	Application date for Group*
NZ IAS 24	Related Party Disclosures (Revised 2009)	This Standard makes amendments to New Zealand Accounting Standard NZ IAS 24 *Related Party Disclosures*. The amendments simplify the definition of a related party and provide a partial exemption from the disclosure requirements for government-related entities.	01 January 2011	The Company has not determined at this stage the effect of the proposed amendments.	01 January 2011
NZ IFRS 9	Financial Instruments	This standard is part of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. The standard applies to financial assets, their classification and measurement. All financial assets are required to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs and subsequently measured at amortised cost or fair value.	01 January 2013	The Company has not determined at this stage the effect of the proposed amendments.	01 January 2013

*designates the beginning of the applicable annual reporting period unless otherwise stated.

Basis of Preparation

The financial statements are prepared on a historical cost basis, except for financial instruments, which have been measured at fair value, with changes in fair value recognised in the income statement, with the exception of available for sale financial assets as set out below.

The Company is required to hold statutory deposits, which are held in New Zealand Government stock - under NZ IAS 39 the Company has classified these as available for sale financial assets and any unrealised gains or losses are required to be held in an investment revaluation reserve.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest dollar ($) unless otherwise stated.

The accounting policies set out below have been applied consistently to all periods presented in the financial statements.

Specific Accounting Policies

a) Foreign Currency

(i) Functional and presentation currency
Both the functional and presentation currency of the Company is New Zealand dollars ($).

(ii) Transactions and balances
Transactions in foreign currencies are initially recorded in the functional currency by applying exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the Statement of Comprehensive Income.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the exchange rates ruling at the dates the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

b) Business Units

A business unit is a distinguishable component of the Company that is engaged in providing products or services which are subject to risks and rewards that are different from those of other units.

c) Cash and Cash Equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

1. Summary of Significant Accounting Policies (continued)

d) Trade and Other Receivables

Trade receivables, which generally have a 30-90 day term, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for any uncollectible amounts.

Accounts receivable have been valued at estimated realisable value. Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the Company will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 90 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

e) Investments and Other Financial Assets

Financial assets in the scope of NZ IAS 39 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments or available-for-sale financial assets. When financial assets are recognised initially they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Company determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Company commits to purchase the asset. Regular purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period generally by regulation or convention in the market place.

(i) Financial assets at fair value through profit or loss
Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Gains or losses on investments held for trading are recognised in Statement of Comprehensive Income.

(ii) Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held to maturity such as bonds are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in Statement of Comprehensive Income when the investments are derecognised or impaired, as well as through the amortisation process.

(iii) Loans and receivables
Loans and receivables including loan notes and loans to key management personnel are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains or losses are recognised in Statement of Comprehensive Income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(iv) Available-for-sale investments
Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for-sale investments are measured at fair value, with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in Statement of Comprehensive Income.

The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair values are determined using valuation techniques. Such techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; and discounted cash flow analysis.

(v) Investments in debt and equity securities
Debt and equity securities are financial assets and are initially recognised at fair value. Initial fair value is determined as the purchase cost of the asset. For securities backing policyholder liabilities, designated as fair value through profit and loss, realised and unrealised gains or losses arising from the subsequent change in the fair value are recognised in the Statement of Comprehensive Income in the period in which they arise. For securities not backing policyholder liabilities, classified as available for sale, unrealised gains or losses arising from a subsquent change in the fair value, are recorded in equity, whilst realised gains or losses are recognised in the Statement of Comprehensive Income in the period the disposal is recorded.

(vi) Unit Trusts
Units held in unit trusts are stated at net market value based on the last sale price quoted by the fund manager.

1. Summary of Significant Accounting Policies (continued)

f) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased items, are recognised as an expense on a straight-line basis over the lease term, except where an alternative basis is more representative of the benefits to be derived from the lease property.

g) Impairment of Non-Financial Assets Other Than Goodwill

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels from which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may be reversed.

h) Intangibles

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the Statement of Comprehensive Income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or infinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Comprehensive Income in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is accounted for on a prospective basis.

i) Trade and Other Payables

Trade and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

1. Summary of Significant Accounting Policies (continued)

j) Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

k) Taxation

Income tax is recognised on the Statement of Comprehensive Income for the year and comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance date, and any adjustment to tax payable in respect of prior years.

Deferred tax is provided using the Statement of Financial Position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The value reported in the Statement of Financial Position represents the net position of the Company. The following temporary differences are not accounted for:

- When the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- When the taxable temporary difference is associated with investments in subsidiaries, associates and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The amount of the 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 tax asset is included in deferred tax only to the extent that is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

(i) Other taxes
Revenues, expenses and assets are recognised net of the amount of GST except:

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables and payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of the operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to the taxation authority.

(ii) Taxation for life insurers
Life insurers are subject to a special tax regime. Two tax bases are maintained; the life office base which is subject to tax on investment income less expenses plus underwriting income, and the policyholder base which seeks to tax benefits as they accrue to policyholders under the policies in the form of claim, surrender and maturity payments and increments in the value of policies. The life insurer pays tax on the higher of the two bases at the company rate of 30%. As the life insurer is taxed as a proxy for the policyholder, returns to the policyholders are tax exempt.

The comprehensive basis of tax effect accounting is applied. Future income tax benefits are only recognised when their realisation is probable.

The value of current tax payable or current income tax benefit is shown separately within receivables or other liabilities. The present value of the future tax benefit or provision for deferred tax is calculated at the applicable future tax rate enacted at balance date.

The Taxation (International, Life Insurance and Remedial Matters) Act 2009 passed into legislation on 6 October 2009, changing prospectively the basis of taxation for life insurance business. In order to achieve the accounting policy set out in note 1(n) a gross of tax model to determine certain life insurance contract liabilities has been adopted (2008: net of tax). The resulting life insurance contract liabilities has deferred tax liabilities are not materially different from those calculated previously using a net of tax model. This is considered a change in accounting estimate.

1. Summary of Significant Accounting Policies (continued)

l) Cash Flows

For the purpose of the Statement of Cash Flows, cash includes cash on hand, which is used as part of day-to-day cash management.

The following are definitions of the terms used in the Statement of Cash Flows:

1) Operating activities include all transactions and other events that are not investing or financing activities. Cash flows from claims, surrenders and maturities paid include the interest element of term deposit bond payments.

2) Investing activities are those activities relating to the acquisition and disposal of fixed assets and investments.

3) Financing activities are those activities that result in changes in the size and composition of the capital structure, including debt not falling within the definition of cash.

4) Cash is considered to be cash on hand, call deposits and current accounts with banks, net of bank overdrafts, if any.

m) Life Insurance Business

(i) Principles underlying conduct of Life Insurance business

The life insurance operations consist of insurance contract and investment contract business.

Insurance contract business relates to a transfer of significant insurance risks from the policyholder to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. The compensation, referred to as insured benefits, is payable on death, or on the occurrence of a contingency dependent on the termination or continuance of human life, or on the occurrence of injury or disability caused by accident or illness, and the financial risk of the occurrence of the event which crystallises the payment of the insured benefit is borne by the Company.

Investment contract business is business in which the Company issues a contract where the benefit amount is typically linked to the market value of the investments held in the particular investment contract fund. Whilst the underlying assets are registered in the name of the Company and the investment contract policy owner has no direct access to the specific assets, the contractual arrangements are such that the investment contract policy owner typically bears the risks and rewards of the fund's investment performance. The Company derives fee income from the administration of the investment contract funds.

(ii) Life insurance revenue and expenses

Recognition of Income

Premium income
Premiums are separated into risk and savings components. Premiums earned by providing services and bearing risks are treated as revenue. Other premium amounts, net of initial fee income, which are akin to deposits, are recognised as an increase in investment contract liabilities. For insurance contract business, all premiums are recognised as revenues. For investment contract business, premiums are recognised as an increase in the policy liability in the Statement of Financial Position.

Premiums with a regular due date are recognised when the premium becomes due and payable, usually on a monthly basis. The unearned portion of regular premiums payable six-monthly or annually is deferred. Premiums with no due date are recognised on a cash basis.

Investment income
Interest income is recognised in the Statement of Comprehensive Income as it accrues. Distributions from unit trusts are recognised in the Statement of Comprehensive Income when declared and are recorded net of imputation credits.

Investment income also includes realised and unrealised changes in the net market value of investments designated as fair value though the profit or loss. Investment income from unit trusts is shown net of the external fund manager's costs.

Expenses

Claims, surrenders and maturities
Claims, surrenders and maturities are separated into risk and savings components. Claims incurred that relate to the provision of services and bearing risks are treated as expenses and are recognised in the Statement of Comprehensive Income.

Claims in respect of investment contract business represent investment withdrawals and are recognised as a reduction in the policy liability in the Statement of Financial Position.

Death and all other claims are recognised when the liability to the policyholder under the policy contract has been established. Surrenders are recognised when requested by the policyholder.

An outstanding claims reserve is held within policy liabilities to provide for the estimated costs of all claims notified but not settled at balance date together with the estimated costs of claims incurred but not reported as at balance date.

1. Summary of Significant Accounting Policies (continued)

m) Life Insurance Business (continued)

(ii) Life insurance revenue and expenses (continued)

Commission and management expenses

Commission and management expenses incorporate all other expenditure involved in running of the life insurance companies business, including costs of issuing new business, salaries and related costs and other management expenses which include, for example, office accommodation costs.

For the purposes of determining policy liabilities, life insurance expenses are categorised into acquisition, maintenance or investment management expenses based on a detailed functional analysis of activities carried out by the Company.

Acquisition expenses are the fixed and variable expenses of acquiring new business including commissions and similar distribution expenses, and expenses related to accepting, issuing and initially recording policies. They do not include general growth and development costs incurred by the Company.

Under Margin on Services ("MoS"), where overall product profitability of new business written during the period is expected to support the recovery of acquisition expenses incurred in that period, these expenses are effectively deferred as an element of policy liabilities and amortised over the life of the policies written. Note that for investment contract business, initial commissions do not form part of policy liabilities. Instead, they are recognised separately in the Statement of Financial Position as Deferred Acquisition Costs.

For Insurance Contract Liabilities, acquisition expenses are effectively recognised in the Statement of Financial Position as a component of 'movement in net policy liabilities' at the same time as profit margins are released. For Investment Contract Liabilities, deferred acquisition costs are systematically amortised over the expected life of the policies in the Statement of Comprehensive Income as a component of 'commission and operating epenses'.

Acquisition expenses are allowed for when determining expected profit margins by setting standard expense allowances based on each policy type issued. Actual acquisition expenses in any one period may vary from standard for a number of reasons including new business volume, product mix, distribution mix, cost efficiency and new strategic initiatives.

As a result of these variances, acquisition expenses may, in total, be less or greater than standard expense allowances. In both cases the acquisition expense component of the policy liability is determined as the actual expenses incurred in the period so that neither a profit nor a loss arises on acquisition, subject to only the overriding constraint that the present value of future profit margins on new business written in the period is not negative.

Investment management expenses are the fixed and variable expenses of managing investment funds. As the Company contracts this function out to external fund managers it does not directly incur any investment management expenses. However, it does incur an investment management fee for this service.

Maintenance expenses are the fixed and variable expenses of administering policies subsequent to sale and the fixed and variable operating and management expenses of maintaining the life insurance companies operations such that they are sufficient to service in-force policies. These include general growth and development expenses. Maintenance expenses include all operating expenses other than acquisition and investment management expenses.

Investment management and maintenance expenses are recognised in the income statement in the period to which they relate.

Reinsurance

As the reinsurance agreements provide for indemnification of the Company against loss or liability, reinsurance income and expenses are recognised separately in the Statement of Comprehensive Income when they become due and payable in accordance with the reinsurance agreements.

Reinsurance recoveries on claims are recognised in the Statement of Comprehensive Income as part of reinsurance income. Reinsurance premiums payable are recognised in the Statement of Comprehensive Income as part of reinsurance expenses.

The present value of future reinsurance recoveries by the Company are recognised separately from policy liabilities in the Statement of Financial Position.

1. Summary of Significant Accounting Policies (continued)

m) Life Insurance Business (continued)

(iii) Life policy liability measurement

Determination of policy liabilities
The amount of policy liabilities has been determined in accordance with methods and assumptions disclosed in this financial report and the requirements of the New Zealand Life Insurance Act 1908.

Policy liabilities of ING Insurance Services (NZ) Limited are 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 of the New Zealand Society of Actuaries, effective from January 2007.

MoS is designed to recognise profits on life insurance as services are provided to policyholders and income is received. Profits are deferred and amortised over the life of policies, whereas losses are recognised immediately as they arise. Services used to determine profit recognition include premiums expected to be received from policyholders, the cost of expected claims, maintaining policies and investment management.

Policy liabilities are generally determined as the present value of all future expected payments, expenses and profit margins reduced by the present value of all future expected premiums, except in the case of some investment business where policy liabilities are determined as the accumulated benefits to policyholders.

Profits emerging under the MoS methodology can be categorised as follows:

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

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

3) Changes to underlying assumptions
Assumptions used for measuring policy liabilities are reviewed each period. Where the review leads to a change in assumptions the change is deemed to have occurred from the end of the financial period and the impact of the assumption change is absorbed within the future value of profit margins, provided sufficient profit margins exist.

The calculation of policy liaiblities includes the use of published investment market yields (e.g. govenrment bond yields). The changes in these yields are not treated the same as other actuarial assumption changes as changes in investment yields impact both the life policy liabilities and the asset values in the Statement of Financial Position and any change in relative value between the two is recognised during the reporting period.

The financial effect of changes to the assumptions underlying the measurement of policy liabilities made during the reporting period are recognised in the Statement of Comprehensive Income over the future reporting periods during which services are provided to policyholders. However, if based on best estimate assumptions, written business for a group of related products is expected to be unprofitable, the entire expected loss for that related product group is recognised in the Statement of Comprehensive Income immediately. When loss making business becomes profitable, it is necessary to reverse previously recognised losses.

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

5) Terms and other liabilities
Term and other liabilities are recognised in the Statement of Financial Position at the present value of future cash outflows to be incurred as a result of the life insurance Company's obligations at balance date.

n) Changes in accounting policies and disclosures

The Company has adopted the following new and amended New Zealand Equivalents to International Financial Reporting Standards and interpretations as of 1 January 2009. The accounting policies adopted are consistent with those used in the previous year except as follows

NZ IAS 1 (Revised) Presentation of Financial Statements and consequential amendments to other New Zealand Accounting Standards introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.

Amendments to IFRS 7 requires fair value measurements to be disclosed by the source of inputs, using the following three-level hierarchy:
- Quoted prices in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

2. Critical Accounting Judgements, Estimates and Assumptions

The preparation of a financial report in conformity with New Zealand Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The results form the basis of the adjustments about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may vary from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The areas where critical accounting judgements and estimates are applied are noted below.

(a) Intangibles

The assessment of impairment of intangibles is an inherently uncertain process, involving assumptions about factors such as inflation and investment returns. Refer to Note h) in the Summary of Significant Accounting Policies for further details.

(b) Life Insurance Business

(i) Insurance contract liabilities

Policy liabilities for life insurance contracts are computed using statistical or mathematical methods, expected to give approximately the same results as if an individual liability was calculated for each contract. The computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles and standards. The methodology takes into account the risks and uncertainties of the particular classes of life insurance business written. Deferred policy acquisition costs are connected with the measurement basis of life insurance liabilities and are equally sensitive to the factors that are considered in the liability measurement.

The key factors that affect the estimation of these liabilities and related assets are:
- The cost of providing the benefits and administering these insurance contracts;
- Mortality and morbidity experience, which affects the life insurance company's ability to recover the cost of acquiring new business over the lives of the contracts; and
- Discontinuance experience, which affects the life insurance company'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 through asset-liability management and strategic and tactical asset allocation.

In addition, factors such as regulation, competition, interest rates, taxes, security market conditions and general economic conditions affect the level of these liabilities. Details of specific actuarial policies are set out in Note 3.

(ii) Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also computed using the same methods as for insurance contract liabilities. 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 the Company may not receive amounts due to it and these amounts can be reliably measured.

(iii) Reinsurance contracts

The Company has entered into reinsurance agreements in respect of all regular premium policies containing risk benefits.

The reinsurance agreements provide for indemnification of the Company by the reinsurers against loss and liability.

The Directors have satisfied themselves, on the basis of actuarial advice, that sufficient policy liabilities have been set up to meet any future cash flows arising from these arrangements.

The reinsurance is structured on a modified risk premium co-insurance basis. The Company receives a commission from the reinsurers as policies containing risk benefits are issued. Risk premiums are paid in relation to benefits reinsured.

3. Summary of Significant Actuarial Methods and Assumptions and Risk Management Policies and Procedures for Insurance Contracts

The actuarial reports on policy liabilities and solvency reserves for the current reporting year were prepared as at 31 December 2009.

The actuary who prepared the reports for the Company was Eric Judd, BSc., FIAA, FNZSA, who is a Fellow of the Institute of Actuaries of Australia and a Fellow of the New Zealand Society of Actuaries.

The amount of policy liabilities has been determined in accordance with Professional Standard 3: Determination of Life Insurance Policy Liabilities of the New Zealand Society of Actuaries. After making appropriate checks, the actuary was satisfied as to the accuracy of the data from which the amount of the policy liabilities had been determined.

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

Profit carriers
Risk business has been valued using the projection method. The profit carrier used for the risk business to achieve the systematic release of planned margins is the gross cost of expected claims.

Discount rates
The discount rates used to determine policy liabilities were determined from the inter-bank swap rate curve. These rates are then adjusted to remove the inherent credit risk margin and get back to a risk free rate. A credit risk margin of 0.03% (2008: 0.03%) has been used. The risk free rate (before tax) varied by duration between 2.90% and 6.45% (2008: 4.33% and 5.46%).

Inflation
The inflation assumption was determined on a basis consistent with the medium to long term RBNZ inflation target of between 1% - 3%.
The rate assumed is 2.50% pa (2008: 2.50% pa).

Future expenses and indexation
Future maintenance and investment expense assumptions were derived from an analysis of planned expenses for the coming year. The rates vary by premium payment type and are experessed as a unit cost per policy. Expense assumptions are assumed to increase each year by the inflation rate set out above. The maintenance expenses used are as follows:

	2009	2008
Single Premium	$44.73	$25.65
Regular Premium	$46.87	$34.44

Asset mix
The assumptions regarding asset mix are based on the target mix of assets.

Asymmetric risks
An asymmetric risk is characterised by a movement (of the same magnitude) that can occur in either direction (eg up or down), but results in an absolute impact that is a lot bigger one way than it is the other. Given the nature of the business no additional reserve is required for asymmetric risks.

Rates of taxation
The rates and bases of taxation assumed are those applicable to the relevant type of product under current legislation. For periods commencing 1 January 2009 this is 30%.

Mortality and morbidity
Mortality was assumed to be the following percentages of the tables of assured lives mortality published by the New Zealand Society of Actuaries. Most are unchanged since 31 December 2008 with details of changes given below:

YRT (NBNZ CTW)	100% of NZ97 ultimate with smoker loading factors
Mastercare	100% of NZ97 ultimate
Home Loan/Term Life	70% of NZ97 (5) Select with smoker loading factors
Loan Protection	Female 30%, Male 50% of NZ97 ultimate
Lifestyle Protection	70% of NZ97 (5) Select with smoker loadings
Mortgage Protection	100% of NZ97 ultimate

For the 31 December 2008 valuation smoker loading factors did not apply, Mastercare was at 80% of NZ97 ultimate and Loan Protection Males were at 30% of NZ97 ultimate.

Assumptions for trauma, disability and redundancy benefits were based on reinsurance risk premiums and investigations of the Company's experience.

Rates of discontinuance
Future rates of discontinuance were based on the experience of the Company, varying depending on the product and the duration in force and range from 1% to 40% (2008: 1% to 45%).

Solvency requirement
Solvency reserves are amounts required to meet the prudential standards specified by the Life Insurance Act 1908, to provide protection to policyholders against the impact of fluctuations in and unexpected adverse experience of the Company's business.

The methods and bases used for determining the solvency requirements were in accordance with the New Zealand Society of Actuaries Professional Standard No. 5: Solvency Reserving for Life Insurance Business effective from 1 January 2007.

Surrender value
Surrender values are based on the provisions specified in the policy contracts and include a recovery of policy establishment and maintenance costs. It is assumed that the current surrender value bases will be maintained.

Unit prices
Unit prices are assumed to grow at the assumed investment earnings rate for the relevant asset pool, less tax and applicable management charges.

Solvency requirement
Solvency reserves are amounts required to meet the prudential standards specified by the Life Insurance Act 1908, to provide protection to policyholders against the impact of fluctuations in and unexpected adverse experience in the Company's business.The method and bases used for determining the solvency requirements are in accordance with the New Zealand Society of Actuaries Professional Standard No. 5: Solvency Reserving for Life Insurance.

3. Summary of Significant Actuarial Methods and Assumptions and Risk Management Policies and Procedures for Insurance Contracts (continued)

Risk Management Policies and Procedures for Insurance Contracts

The financial condition and operating results of the Company are affected by a number of key financial and non-financial risks. Financial risks include interest rate risk, currency risk, credit risk, market risk, insurance risk and liquidity risk. The non-financial risks are insurance risk, compliance risk and operational risk. The Company's objectives and policies in respect of managing these risks are set out in the remainder of this section.

(a) Risk management objectives and polices for mitigating financial risk and insurance risk

The Company's objective is to satisfactorily manage risks in line with ING's Global Risk Management Standards. Various procedures are put in place to control and mitigate the risks faced by the Company depending on the nature of the risk. The Company's exposure to all financial and insurance risks is monitored regularly.

Financial risks are generally monitored and controlled by selecting appropriate assets to back liabilities. The assets are regularly monitored by the Asset Liability Committee (ALCO) to ensure that there is no material asset and liability mismatching issues and other risks such as liquidity risk and credit risk are maintained within acceptable limits. For those life insurance contracts where the benefits paid are directly impacted by the value of the underlying assets, the Company is exposed to the risk of future decreased asset management fees as a result of a decline in assets under management.

Insurance risks are controlled through the use of underwriting procedures and reinsurance arrangements, all of which are approved by the Chief Insurance Risk Officer. Controls are also maintained over claims management practices to assist in the correct and timely payment of insurance claims.

(b) Strategy for managing insurance risk

Portfolio of Risks

The performance of the Company and its continuing ability to write business depends on its ability to pre-empt and control risks. The Company has a risk strategy which summarises the Company's approach to risk and risk management.

Risk Strategy

A strategy is in place to ensure that the risks underwritten satisfy policyholders' risk and reward objectives whilst not adversely affecting the Company's ability to pay benefits and claims when due. The strategy involves the identification of risks by type, impact and likelihood, the implementation of processes and controls to mitigate the risks, and continuous monitoring and improvement of the procedures in place to minimise the chance of an adverse compliance or operational risk event occurring. Included in this strategy is the process for underwriting and product pricing to ensure products are appropriately priced. Capital management is also a key aspect of the Company's risk management strategy. Capital requirements are measured using a risk based capital model and any regulatory reporting requirements to which the Company is subject.

Allocation of Capital

Capital is allocated by the Company to portfolios of contracts with similar risks or is held in a central reserve based on management's assessment of the risks to which each line of business is exposed and its view of the profitability of the products that are sold.

Solvency margin requirements are in place to reinforce safeguards for policyholders' interest, which are primarily the ability to meet future claims payments in respect of existing policies. The solvency margin measures the excess of the value of the insurers' assets over the value of its liabilities, each element being determined in accordance with the applicable valuation rules. These solvency requirements also take into account specific risks faced by the Company. Where the outcome of specific adverse scenario differs from expectations, this has also been identified.

(c) Methods to monitor and assess insurance risk exposures

Exposure to risk

In an effort to protect and enhance shareholder value, the Company actively manages its exposure to risks so that it can react in a timely manner to changes in financial markets, insurance cycles, and economic and political environments. Risk exposures are managed using various analysis and valuation techniques, such as asset-liability matching analysis to calculate the economic capital required to support adverse risk scenarios, along with other cash flow analysis, and prudent and diversified underwriting and investing.

Capital Adequacy requirements

The Company's insurance operations are subject to capital requirements which prescribe the amount of capital to be held depending on the type, quality and concentration of investments held.

Management Reporting

The Company reports monthly financial and operational results, and exposure for each portfolio of contracts (gross and net of reinsurance) to the Management Committee. This information is combined with the detail of the Company's reinsurance programme to provide a central view of the Company's performance and its gross and net exposure.

(d) Methods to limit or transfer insurance risk exposures

Reinsurance

All reinsurance treaties are analysed using a number of analytical modelling tools to assess the impact of the Company's exposure to risk with the objective of achieving the optimal choice of type of reinsurance and retention levels. These tools produce financial projections based on a number of possible scenarios providing a detailed analysis of the potential exposures.

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 by the Company's internal auditors to ensure adequate controls are in place over the underwriting process and that the controls are effective.

Claims management

Strict claims management procedures are in place to assist in the timely and correct payment of claims in accordance with policy conditions.

3. Summary of Significant Actuarial Methods and Assumptions and Risk Management Policies and Procedures for Insurance Contracts (continued)

Asset and liability management techniques
Assets are allocated to different classes of business using a risk based approach. Duration analysis is primarily used for interest-sensitive products and policies with long-term fixed payout patterns.

Management of market risk is generally less critical for short-term insurance products, as the amounts and timing of claims do not vary significantly with interest rates or other market changes that affect the underlying investments. The premiums received and the investment returns (net investment income and realised gains and losses) provide substantial liquidity to meet claims payments and associated expenses as they arise. Consequently, there is greater flexibility in investment strategies while managing investments to ensure sufficient liquidity to meet the claims as they become due, based on actuarial assessments.

(e) Concentration of insurance risk
Insurance risks associated with human life events:
The Company aims to maintain a stable age profile and mix of the sexes 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.

Despite the inevitable growth in policyholders at the age of retirement, the age profile and mix of sexes within the population of policyholders is sufficiently spread so that the Company's risk concentration in relation to any particular age group is minimal.

(f) Terms and conditions of insurance contracts
The nature of the terms of insurance contracts written is such that certain external variables can be identified on which related cash flows for claim payments depend. The table below provide an overview of the key variables upon which the amount of related cash flows are dependent.

Type of Contract	*Detail of Contract Workings*	**Nature of Compensation for Claims**	**Key Variables that affect the timing and uncertainty of future cash flows**
Non-participating life insurance contracts with fixed and guaranteed terms (Term Life and Disability)	Guaranteed benefits paid on death or disability that are fixed and guaranteed and not at the discretion of the issuer	Benefits, defined by the insurance contract, are determined by the contract and are not directly affected by the performance of underlying assets or the performance of the contracts as a whole	Market interest rates Expenses Mortality Morbidity Discontinuance rates

Notes to the Financial Statements

For the year ended 31 December 2009

4. Revenue

	2009 $	2008 $
a(i) Gross Operating Revenue		
Premium income	66,916,114	65,501,920
Reinsurance income	6,585,256	7,736,183
Total Gross Operating Revenue	73,501,370	73,238,103
a(ii) Life Insurance Premium Income		
Single premiums	12,363,746	17,557,026
Regular premiums	54,552,368	47,944,894
	66,916,114	65,501,920
a(iii) Reinsurance income		
Reinsurance recoveries on claims	6,585,256	7,736,183
	6,585,256	7,736,183
b(i) Reinsurance expenses		
Reinsurance expenses	7,872,916	6,791,928
	7,872,916	6,791,928

5. Other Revenue

	2009 $	2008 $
Interest income	4,310,409	5,861,339
Distributions received	123,159	1,078,817
Dividends	263,458	273,451
Realised gains / (losses) from:		
- Debt securities	(9,259,347)	(265,134)
- Unit trusts	945,518	3,436,329
- Equity	-	(21,612)
Accrued unrealised gains / (losses)	10,353,140	(9,861,148)
Commission income	4,330,480	4,931,555
Other income	4,080	212,864
Total Other Revenue	11,070,897	5,646,461

6. Claims and Surrenders

	2009 $	2008 $
Death and disability claims	18,159,255	16,790,227
Surrenders	5,263,020	6,024,035
Net claims	23,422,275	22,814,262

7. Commissions and Operating Expenses

	2009 $	2008 $
Acquisition costs:		
Commissions	19,843,416	17,110,082
Operating expenses	3,200,922	3,420,401
	23,044,338	20,530,483
Maintenance costs:		
Commissions	4,281,049	3,577,929
Operating expenses	6,354,069	6,639,603
	10,635,118	10,217,532
Investment management costs	178,623	209,734
	33,858,079	30,957,749

8. Expenses

	2009 $	2008 $
Other expenses include the following:		
a) Amortisation of intangible assets	3,054,881	2,939,356
b) Asset deficiency/ (gain) for guaranteed products	(1,376,444)	6,514,183
These expenses are included in Operating Expenses in Note 7		
i) Operating lease charges	309,897	308,434
ii) Donations	-	8,128
iii) Auditor's remuneration:		
Ernst & Young - audit of financial statements	115,500	85,398
Ernst & Young - other services	131,690	54,855
Total auditor's remuneration	247,190	140,253

9. Income Tax

(a) Current income tax expense / (benefit)	2009 $	2008 $
Current income tax		
Current income tax charge / (benefit)	-	-
Adjustments for prior years	(2,312)	28,212
Deferred Income Tax		
Origination and reversal of temporary differences	6,500,471	3,617,595
Income tax expense/(benefit) reported in the Statement of Comprehensive Income	6,498,159	3,645,807
(b) Amounts charged directly to equity	-	-
(c) Numerical reconciliation between tax expense and profit before tax		
Profit before tax	38,738,257	16,743,945
Income tax on profit at statutory income tax rate of 30%	11,621,477	5,023,184
(Decrease) / Increase in income tax due to:		
- Non-assessable policyholder income and expenses	(8,686,937)	(8,544,831)
- Non-assessable policyholder transfer	(4,014,527)	(1,720,757)
- Deferred acquisition cost - insurance contracts	5,952,514	5,805,000
- Underwriting profit	966,792	1,051,455
- Other non-assessable income	(286,390)	(1,044,786)
- Other non-assessable expenditure	446,023	2,809,225
- PIE income	72,973	1,736,804
- Tax credits	(116,927)	(1,520,697)
- Recognised tax losses	461,972	-
- Movement in asset revaluation reserve	13,486	22,998
- Under/(Over) provided in prior period	67,703	28,212
Income tax expense/(benefit) reported in the Statement of Comprehensive Income	**6,498,159**	3,645,807
(d) Net deferred tax (liabilities)/benefits		
Balance at beginning of the year	(11,473,446)	(8,474,860)
Deferred tax charge / (benefit) charged to income	(6,430,457)	(3,617,595)
Prior period adjustment	(70,015)	619,009
Balance at end of the year	**(17,973,918)**	(11,473,446)
The balance of deferred tax liabilities / benefits comprises:		
d(i) Deferred tax benefits		
Insurance contract liabilities - non-life	835,653	3,344,700
Staff provisions	47,023	50,424
Tax losses	4,903,950	4,347,838
Other	(154,487)	(641,516)
	5,632,139	7,101,446
d(ii) Deferred tax liabilities		
Unexpired premium reserve	(4,999,479)	(5,894,241)
Deferred acquisition costs - insurance contracts	(18,502,514)	(12,550,000)
Deferred acquisition costs - investment contracts	(104,064)	(130,651)
	(23,606,057)	(18,574,892)
Net deferred tax liabilities	**(17,973,918)**	(11,473,446)

9. Income Tax (continued)

(e) Imputation credits	2009	2008
	$	$
Balance at beginning of the year	12,273,644	12,273,644
Transfer to policyholder credit account	(12,273,644)	-
Balance at end of the year	-	12,273,644

(f) Policyholder Credit Account		
Balance at beginning of period	-	-
Transfer to imputation credit account	12,273,644	-
Transfer from ING Insurance (NZ) Consolidated group dividend withholding payment account	237,885	-
Transfer from ING Insurance NZ Consolidated Group imputation credit account	535,393	-
Balance at end of period	13,046,922	-

(g) Deferred tax on insurance contract liabilities

Life insurance contract liabilities represent the net present value of estimated future cash flows and planned profit margins. Using the margin on services methodology, planned after tax profit margins are recognised in the income statement over the period services are provided to policyholders. A deferred tax liability of $18,502,247 (2008: $12,550,000) has been separately disclosed and included in the deferred tax liabilities balance representing taxable temporary differences which are implicitly embedded within insurance contract liabilities.

(h) Profit after income tax (Insurance Business)

The profit after income tax (MoS) profit can be analysed into the following categories:

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

The difference between actual and assumed experience
Experience profits or losses are realised where actual experience differs from best estimate assumptions. Instances giving rise to experience profits or losses include variations in claims, expenses, mortality, discontinuance and investment returns.

Changes to underlying assumptions
Assumptions used for measuring policy liabilities are reviewed each period (refer Note 2). Where the review leads to a change in assumptions the change is deemed to have occurred from the end of the financial period and the impact of the assumption change is absorbed within the future value of profit margins, provided sufficient profit margins exist.

The calculation of policy liaiblities includes the use of published investment market yields (e.g. govenrment bond yields). The changes in these yields are not treated the same as other actuarial assumption changes as changes in investment yields impact both the life policy liabilities and the asset values in the balance sheet and any change in relative value between the two is recognised during the reporting period.

Loss recognition on groups of related products
Based on best estimate assumptions, if the business written for a group of related products is expected to be unprofitable, the whole expected loss for that related product group is recognised in the Income Statement immediately. When loss making business becomes profitable, it is necessary to reverse previously recognised losses.

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

9. Income Tax (continued)

(i) Profit after income tax (Insurance Business) (continued)

	2009 $	2008 $
Sources of Profit after income tax		
Movements in Policy Liabilities:		
Planned margins of revenues over expenses	26,752,021	29,972,499
The difference between actual and assumed experience	4,882,243	(977,361)
Changes to underlying assumptions	2,885,579	(7,140,343)
Investment earnings on assets in excess of policy liabilities	295,287	865,658
Other Movements:		
Business valued on accumulation basis	1,286,922	(6,643,686)
Inwards commission	(1,011,789)	(128,463)
Amortisation of management rights	(2,850,166)	(2,850,166)
Profit After Income Tax	32,240,097	13,098,138

10. Cash and Cash Equivalents

	2009 $	2008 $
Cash	1,919,202	3,994,968
On-call deposits	26,741,669	1,668,908
Total cash and cash equivalents	28,660,871	5,663,876
Reconciliation to Statement of Cash Flows		
For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise the following at 31 December		
Cash at bank and in hand	28,660,871	5,663,876
Total cash and cash equivalents	28,660,871	5,663,876

11. Trade and Other Receivables

	2009 $	2008 $
Outstanding premiums	448,323	353,568
Accrued interest	3,823	20,693
Reinsurance recoverable	2,623,824	2,987,792
Sundry debtors	461,240	1,057,763
Total trade and other receivables	3,537,210	4,419,816

12. Income Tax Receivable

	2009 $	2008 $
Balance at beginning of period	61,381	2,013,347
Tax paid/(received) during the period	(38,392)	(1,304,744)
Prior period adjustment	2,312	(647,222)
Balance at end of period	25,301	61,381

13. Investments

	2009	2008
	$	$
New Zealand Government stock	20,744,949	1,581,957
Unit trust investments	11,258,327	82,161,729
Debt security investments	47,707,758	40,101,790
Equity investments	5,138,542	5,127,084
Total Investments	84,849,576	128,972,560

Investments held in Life funds

Investments held in Life funds can only be used within the restrictions imposed under the New Zealand Life Insurance Act 1908. The main restrictions are that the assets in a Fund can only be used to meet the liabilities and expenses of that Fund, to acquire investments to further the business of the Fund or as distributions where solvency and capital adequacy standards are met. Shareholders can only receive a distribution when the higher level of capital adequacy standards are met.

New Zealand Government Stock

The interest rate on the New Zealand Government stock is fixed to maturity.

The New Zealand Government stock is held on the Company's behalf by the Public Trustee as authorised deposits under the Life Insurance Act 1908 and the Insurance Companies' Deposits Act 1953.

14. Deferred Acquisition Costs

	2009	2008
	$	$
Balance at beginning of period	435,504	546,772
Amortisation	(88,625)	(111,268)
Balance at end of period	346,879	435,504
Cost	679,537	679,537
Accumulated amortisation	(332,658)	(244,033)
Balance at end of period	346,879	435,504

Amortisation of Deferred Acquisition Costs (DAC) are included in Commission Expense in the Income Statement.

15. Intangible Assets

	2009	2008
	$	$
Management Rights		
Balance at beginning of year	25,571,103	28,421,269
Amortisation	(2,850,166)	(2,850,166)
Balance at end of year	22,720,937	25,571,103
Cost	30,558,893	30,558,893
Accumulated amortisation and impairment	(7,837,956)	(4,987,790)
Balance at end of year	22,720,937	25,571,103
Computer Software		
Balance at beginning of year	369,081	137,930
Additions	963,088	320,341
Amortisation	(204,715)	(89,190)
Balance at end of year	1,127,454	369,081
Cost	1,429,403	466,315
Accumulated amortisation	(301,949)	(97,234)
Balance at end of year	1,127,454	369,081
Capital Work in Progress - Software		
Balance at beginning of period	67,486	5,155
Additions	64,004	67,486
Disposals	(29,735)	-
Capitalisations	(37,751)	(5,155)
Balance at end of year	64,004	67,486
Total Intangible Assets	23,912,395	26,007,670

Management Rights

Management Rights represent the contractual rights of the Company to have the first right of refusal in providing insurance products for the ANZ National Bank. As part of acquiring these rights, the Company also earns a portion of commission income received from third party insurance providers. Management rights are carried at cost less accumulated amortisation and accumulated impairment losses. This intangible asset has been assessed as having a finite life and is amortised on a straight-line basis over a period of 12 - 20 years. The amortisation is recognised in the Income Statement in the line item 'Other Expenses'. If an indication of impairment arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount. The remaining amortisation period is between 4 - 12 years.

Computer Software

Computer software is recognised at cost less accumulated depreciation and any accumulated impairment losses. Its useful life is finite and the amortisation rate is 30% per year.

Impairment tests for management rights

(i) The recoverable amount of the managed funds have been determined based on a value in use calculation using cash flow projections as at 31 December and financial budgets approved by senior management covering a three-year period.

(ii) Key assumptions used in the calculations for the managed funds unit for 31 December 2009 and 31 December 2008

- discount rate,
- revenue growth rates,
- investment performance,
- net cash flows, new KiwiSaver members and the level of KiwiSaver contributions, and
- expense cost-income ratio

Discount rate: The discount rate reflect managment's estimate of the time value of money and the risks specific to each unit that are not already reflected in the cash flows. The discount rate for the managed funds unit refelcts the weighted average cost of capital for the Company and the business risk specific to the operation.
The discount rate used is 11.5%, (2008: 11.5%).

Revenue growth rates: The revenue growth depends on the growth in the assets under management and the average investment margin. The growth in assets under management is driven by investment performance, net cash flows, new KiwiSaver members and the level of KiwiSaver contributions. These assumptions are based on experience and managment expectation on future developments.

Investment performance: Investment performance will reflect the investment returns on the underlying assets. For the purpose of impairment testing an average investment return used is 6.5%.

Net cash flows, new KiwiSaver members and the level of KiwiSaver contributions: The assumed net cash flows is based management's expectation on future developments at the same time recognising the current market volatility. New KiwiSaver members are expected to increase over the next 2-3 years and then stablise. Future KiwiSaver contributions are based on current experience and management's expectation on future developments.

Expense cost-income ratio: Expenses are based on an aggregate cost-income ratio. The initial cost-income reflect is based on the current expenses and over a fixed period is expected to merge to an utilimate cost-income ratio based on management expectations.
Sensitivity testing has been performed on the assumptions. The analysis indicates that the discount rate and ultimate cost-income ratio are key assumptions.

16. Trade and Other Payables

	2009	2008
	$	$
Premiums in suspense	24,162	131,624
Outstanding claims	8,045,823	6,701,936
Reinsurance payable	728,326	683,511
Other payables	515,287	899,077
	9,313,598	8,416,148

17. Policy Liabilities

	2009 $	2008 $
a) Movement in Insurance Contract Liabilities - Gross		
Insurance contract liabilities - gross at beginning of period	46,607,000	48,963,000
Increase/(decrease) recognised in the statement of comprehensive income	(25,266,002)	(2,356,000)
Insurance Contract Liabilities - Gross at end of period	21,340,998	46,607,000
b) Movement in Insurance Contract Liabilities - Reinsurance		
Insurance contract liabilities - reinsurance at beginning of period	(5,469,000)	(4,222,000)
Increase/(decrease) recognised in the statement of comprehensive income	1,527,368	(1,247,000)
Insurance Contract Liabilities - Reinsurance at end of period	(3,941,632)	(5,469,000)
c) Movement in Investment Contract Liabilities - Gross		
Investment contract liabilities at beginning of period	50,977,881	60,691,864
Increase/(decrease) recognised in the statement of comprehensive income	1,993,390	(4,273,858)
Contributions	146,950	497,413
Withdrawals	(10,758,305)	(12,451,721)
Increase/(decrease) in asset deficiency	(1,376,444)	6,514,183
Investment Contract Liabilities at end of period	40,983,472	50,977,881
Summary of Policy Liabilities		
Insurance contract liabilities - gross	21,340,998	46,607,000
Investment contract liabilities - gross	40,983,472	50,977,881
Gross policy liabilities	62,324,470	97,584,881
Insurance contract liabilities - reinsurance	(3,941,632)	(5,469,000)
Net policy liabilities	58,382,838	92,115,881

17. Policy Liabilities (continued)

	2009 Investment Linked $	2009 Non-Investment Linked $	2009 Total $
Policy liabilities contain the following components:			
Future policy benefits		108,890,297	108,890,297
Future expenses		45,377,907	45,377,907
Future premiums		(260,602,879)	(260,602,879)
Future planned margins of revenues over expenses		123,734,041	123,734,041
Policy liabilities for business not projected	40,983,472	-	40,983,472
Closing net policy liabilities	40,983,472	17,399,366	58,382,838

	2008 Investment Linked $	2008 Non-Investment Linked $	2008 Total $
Policy liabilities contain the following components:			
Future policy benefits	-	106,356,554	106,356,554
Future expenses	-	31,318,050	31,318,050
Future premiums	-	(259,890,300)	(259,890,300)
Future planned margins of revenues over expenses	-	163,566,651	163,566,651
Policy liabilities for business not projected	50,977,881	(212,955)	50,764,926
Closing net policy liabilities	50,977,881	41,138,000	92,115,881

Included within the Policy Liabilities for Investment Linked business are investment contract liabilities of $39,957,420 (2008: $49,899,126) that contain investment performance guarantees to policyholders arising from the Company's lump sum bond portfolio.

	2009 $	2008 $
Estimated Discounted Cash Flows from Insurance Contract Liabilities - Gross		
< 1 Year	(1,678,355)	6,964,947
1 - 5 Years	966,116	9,415,437
5 + Years	22,053,237	30,226,616
Total Insurance Contract Liabilities - Gross	21,340,998	46,607,000
Estimated Discounted Cash Flows from Insurance Contract Liabilities/(Assets) - reinsurance		
< 1 Year	(187,654)	(660,632)
1 - 5 Years	(1,354,979)	(2,186,564)
5 + Years	(2,398,999)	(2,621,804)
Total Insurance Contract Liabilities - reinsurance	(3,941,632)	(5,469,000)

18. Financial Risk Management and Objectives

The Company's principal financial position and operating results are affected by a number of key financial and non-financial risks. Financial risks include interest rate risk, currency risk, credit risk, market risk, and liquidity risk. The non-financial risks are insurance risk, compliance risk and operational risk. The Company's objectives and policies in respect of managing these risks are set out below.

Risk Management

Risks arising from holding financial instruments are inherent in the Company's activities, and are managed through a process of ongoing identification, measurement and monitoring. The Company is exposed to interest rate risk, currency risk, credit risk, market risk, and liquidity risk.

Financial instruments of the Company comprise investments in financial assets for the purpose of generating a return on its investments, cash and cash equivalents, net assets and other financial instruments such as trade debtors and creditors, which arise directly from its operations.

The Company is responsible for identifying and controlling the risks that arise from these financial instruments.

The risks are measured using methods that reflect the expected impact on the results and net assets attributable to the Company from reasonably possible changes in the relevant risk variables. These methods include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate, foreign exchange and commodity prices. Information about the total fair value of financial instruments exposed to risk, as well as compliance with established investments mandate limits, is also monitored by the Company. These mandate limits reflect the investment strategy and market environment of the Company, as well as the level of risk that the Company is willing to accept, with additional emphasis on selected industries.

This information is prepared and reported to relevant parties within the Company on a regular basis, as deemed appropriate, including key management personnel and ultimately the Board of Directors of the Group.

Market Risk

The risk that the value of a financial instrument will fluctuate as a result of changes in the market.

The market risk of the Company is primarily related to interest rate risk.

Market risk is effectively managed through the Statement of Investment Policy and Objectives (SIPO) which defines the investment strategy for the Company. The SIPO also contains the investment mandate which is used to establish asset classes and weightings . The investment manager is charged with the responsibility for maintaining investment holdings within designated asset classes and weightings. The SIPO, including the investment mandate, is reviewed at least annually.

The Company's exposure to equity securities price rises is minimal.

Equity securities price risk arises from investments in equity securities. To limit this risk the Company diversifies its portfolio in accordance with limits set by the Board of Directors. The majority of the equity investments are of a high quality. The price risk for both listed and unlisted securities is immaterial in terms of a possible impact on profit and loss or total equity and as such a sensitivity analysis has not been completed.

a) Interest rate risk

The Company has exposure to interest rate risk to the extent that it borrows or invests for a fixed term at fixed rates. Debt securities and cash deposits are subject to market risk in the event of changes in interest rates. As these securities are carried at net market value, the effective interest rate is reflected in the market price.

The Company has established limits on investments in interest bearing assets, which are monitored on a daily basis. The Company may use derivatives to hedge against unexpected fluctuations in interest rates.

Through scenario analyses, the Company measures the potential changes in earnings of the insurance operations from an instantaneous increase/decrease in interest rates of 100 basis points.

The interest rate sensitivity of the Income Statement is the effect of the assumed changes in interest rates on:
- the interest income for one year, based on floating rate financial assets
- changes in fair value of investments for the year, based on revaluing the fixed rate financial assets at 31 December
- changes in insurance contract liabilities

The following table demonstrates the sensitivity of the Company's Income Statement (Profit after income tax expense) to a reasonably possible change in interest rates, with all other variables held constant:

	Net Profit After Tax		Comprehensive Income	
	Higher / (Lower)	Higher / (Lower)	Higher / (Lower)	Higher / (Lower)
	2009	2008	2009	2008
Judgements of reasonably possible movements:	$	$	$	$
+1% (100 basis points)	2,722,000	2,428,220	3,016,575	1,883,690
-1% (100 basis points)	(2,991,000)	(2,750,743)	(3,228,753)	(2,206,213)

For 2008, the above movements have been calculated excluding the impact of distressed assets, as their change in market value was not directly correlated to changes in interest rates, but was caused by a material decline in the securities underlying value.

18. Financial Risk Management and Objectives (continued)

The weighted average effective interest rates by class of financial asset are as follows:

	2009		2008	
	$	%	$	%
Financial Assets				
Maturing within 12 months				
Cash	1,919,202	2.50	3,994,968	5.00
Trade and other receivables	3,537,210	n/a	4,419,816	n/a
On-call bank deposits	26,741,669	2.49	1,668,908	5.07
NZ government stock	-	0.00	524,237	6.83
Debt security investments	4,654,023	3.28	6,283,101	7.88
Units in unit trusts	11,258,327	n/a	82,161,729	n/a
Equity investments	5,138,542	n/a	5,127,084	n/a
Insurance contract liabilities - reinsurance	187,654	n/a	660,632	n/a
Total 0 – 12 months	53,436,627		104,840,475	
Maturing within 1 – 2 years				
NZ government stock	19,415,053	5.73	-	-
Debt security investments	12,350,131	5.45	36,614	6.99
Insurance contract liabilities - reinsurance	338,745	n/a	546,641	n/a
Total 1 – 2 years	32,103,929		583,255	
Maturing within 2 – 5 years				
NZ government stock	966,513	6.11	1,057,720	5.92
Debt security investments	13,637,492	5.66	13,033,328	6.39
Insurance contract liabilities - reinsurance	1,016,234	n/a	1,639,923	n/a
Total 2 – 5 years	15,620,239		15,730,971	
Maturing greater than 5 years				
NZ government stock	363,383	5.80	-	
Debt security investments	17,066,112	3.96	20,748,747	6.84
Insurance contract liabilities - reinsurance	2,398,999	n/a	2,621,804	n/a
Total greater than 5 years	19,828,494		23,370,551	
Total financial assets	120,989,289		144,525,252	
Financial Liabilities				
Maturing within 12 months				
Trade and other payables	9,313,598	n/a	8,416,148	n/a
Related party balance	2,725,825	n/a	12,218,171	n/a
Insurance contract liabilities - gross	(1,678,355)	n/a	6,964,947	n/a
Investment contract liabilities	40,983,472	n/a	50,977,881	n/a
Total 0 – 12 months	51,344,540		78,577,147	
Maturing within 1 – 2 years				
Insurance contract liabilities - gross	241,529	n/a	2,353,859	n/a
Total 1 – 2 years	241,529		2,353,859	
Maturing within 2 – 5 years				
Insurance contract liabilities - gross	724,587	n/a	7,061,578	n/a
Total 2 – 5 years	724,587		7,061,578	
Maturing greater than 5 years				
Related party balance	14,637,526	n/a	30,558,893	n/a
Insurance contract liabilities - gross	22,053,237	n/a	30,226,616	n/a
Total greater than 5 years	36,690,763		60,785,509	
Total financial liabilities	89,001,419		148,778,093	

Investments in unit trusts and receivables do not carry any market yield and are all realisable in less than 12 months.

b) Foreign currency risk

Currency risk is the risk of loss to the Company arising from changes in exchange rates. Foreign currency exposures and risks arise as the Company invests offshore; the investments being denominated in foreign currencies. The market value of these investments is therefore affected by movements in the New Zealand dollar relative to the currency in which the investments are denominated.

Currency risk is actively managed by varying hedging levels of international equity investments.

The Company has no foreign currency assets or liabilities.

18. Financial Risk Management and Objectives (continued)

c) Credit risk

The risk that a counter party to a transaction will fail to perform according to the terms and conditions of the contract. In the normal course of business the Company incurs credit risk from debtors and financial institutions.

To the extent the Company has a receivable from another party, there is a credit risk in the event of non-performance by that counterparty. Financial instruments which potentially subject the Company to credit risk principally consist of cash and short term deposits, unit trusts, convertible notes, fixed interest securities (issued by banks, corporations, government and semi-government bodies, debentures, floating rate notes and discounted securities) and receivables.

The Company manages its exposure to credit risk by placing its cash and investments with high credit quality financial institutions and sovereign bodies. The Company continuously monitors the credit quality of all institutions that are counterparties to its financial instruments, and does not anticipate non-performance by the counterparties. The Company further minimises its credit exposure by limiting the amount of funds placed in or invested with any one institution at any one time.

No collateral exists for any of the investments held by the Company. The maximum exposure to credit risk at balance date to each class of recognised financial assets is the carrying amount of those assets as indicated on the Balance Sheet. However, as a large proportion of investments are made in governments, local authorities, corporate and financial institutions, losses from credit risk are not expected to occur. The Company seeks to ensure that its counterparties, and investments, are with reputable financial institutions and other entities.

Maximum exposures to credit risk at balance date are shown in the table below.

	2009	2008
	$	$
Cash	1,919,202	3,994,968
Trade and other receivables	3,537,210	4,419,816
On-call bank deposits	26,741,669	1,668,908
NZ Government Stock	20,744,949	1,581,957
Units in unit trusts	11,258,327	82,161,729
Debt security investments	47,707,758	40,101,790
Equity investments	5,138,542	5,127,084
	117,047,657	139,056,252

Concentrations of Credit Risk

Significant concentrations of credit risk as a percentage of the total exposure are as follows:

	2009	2008
Institution	**%**	%
NZ Government Stock	17.7	1.1
ANZ National Bank Limited	13.6	7.0
ASB Bank	10.3	-
Westpac Banking Corporation	7.8	-
ING Wholesale Fixed Interest - High grade	4.8	19.5
ING Wholesale Fixed Interest - Sovereign	4.8	15.5
ING International Bond Fund	-	10.3
ING Cash Plus Fund	-	10.0

18. Financial Risk Management and Objectives (continued)

d) Liquidity risk

The Company's investments are disclosed in Note 13. The Company manages its exposure to liquidity risk by investing in predominantly short dated deposits and securities. All of the Company's investments are highly liquid.

Demands for funds can usually be met through ongoing normal operations, premiums received and the injection of new capital from the Company's parent in line with capital projections prepared by the Company's actuary in order that the Company continue to meet its solvency requirements.

The table below summaries the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

	On demand 2009 $	Less than 3 months 2009 $	3 to 12 months 2009 $	1 to 5 years 2009 $
Trade and other payables	-	9,313,598	-	-
Related party balance	-	2,725,825	-	14,637,526
Insurance contract liabilities/(assets) - gross	-	-	(1,678,355)	23,019,353
Investment contract liabilities	40,983,472	-	-	-

	On demand 2008 $	Less than 3 months 2008 $	3 to 12 months 2008 $	1 to 5 years 2008 $
Trade and other payables	-	8,416,148	-	-
Related party balance	-	12,218,171	-	30,558,893
Insurance contract liabilities/(assets) - gross	-	-	6,964,947	39,642,053
Investment contract liabilities	50,977,881	-	-	-

The following table shows the financial assets used by management to manage liquidity risk:

	Date of Maturity	2009 $	Date of Maturity	2008 $
ANZ Bank - total cash	1 Jan 10	10,336,909	1 Jan 09	5,655,400
Westpac Bank - total cash	19 May 10	9,114,408	n/a	-
ASB Bank - total cash	19 Aug 10	9,194,915	n/a	-
ING Cash Plus Fund	n/a	-	1 Jan 09	5,655,400

e) Sensitivity to Insurance Risk

Life insurance and investment contracts are affected by the same subset of variables (mainly arising from financial risks and risks associated with events in human life death or disease) and as a result are presented together in this note.

The tables below illustrates the sensitivity of reported profit and loss to changes in assumptions that have a material effect on them:

		2009	
		31 December 2009 Profit/(Loss)	
	Change	Gross of Reinsurance $	Net of Reinsurance $
Change in mortality and morbidity	+ 10%	(1,653,029)	(829,439)
	- 10%	1,653,186	829,577
Change in lapse rate	+ 10%	89,319	89,319
	- 10%	(95,933)	(95,933)
Change in expense assumption	+ 10%	(372,286)	(372,286)
	- 10%	372,286	372,286

18. Financial Risk Management and Objectives (continued)

e) Sensitivity to Insurance Risk (continued)

		2008	
		31 December 2008 Profit/(Loss)	
	Change	Gross of Reinsurance	Net of Reinsurance
		$	$
Change in mortality and morbidity	+ 10%	(1,679,023)	(905,404)
	- 10%	1,679,023	905,404
Change in lapse rate	+ 10%	(180,721)	(180,721)
	- 10%	180,721	180,721
Change in expense assumption	+ 10%	(282,289)	(282,289)
	- 10%	282,289	282,289

f) Concentration of Insurance Risk

Concentration of risk based on individual lives are managed through the use of surplus reinsurance arrangements whereby the life insurance companies maximum exposure to any individual life is capped.

The tables below illustrate the concentration of risk based on 5 bands of benefits assured for each life assured:

	As at 31 December 2009	
Sum Assured ($000)	**Before Reinsurance**	**After Reinsurance**
	%	%
0 - 50	7.3	11.5
50 - 150	32.6	35.1
150 - 250	26.3	27.8
250 - 500	27.5	23.5
More than 500	6.3	2.2
	100.0	100.0

	As at 31 December 2008	
Sum Assured ($000)	Before Reinsurance	After Reinsurance
	%	%
0 - 50	13.5	42.0
50 - 150	35.2	29.2
150 - 250	25.3	20.1
250 - 500	22.0	8.7
More than 500	4.0	-
	100.0	100.0

18. Financial Risk Management and Objectives (continued)

g) Capital management

The primary objective of the Company in the management of capital is to comply with New Zealand Society of Actuaries Professional Standard No 5.01 "Solvency Reserving for Life Insurance Business". Additional capital levels are maintained in excess of that required by PS5.01 to provide a buffer to these solvency requirements and cover the inherent risks of the business.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the period.

The Company monitors capital using a solvency ratio which is determined as the total assets available for solvency divided by the total solvency requirement.

	2009	2008
	$	$
Asset available for solvency		
Total assets	145,273,864	171,029,807
Reinsurance liability	(3,941,632)	(5,469,000)
Related party subordinated loans	(5,558,893)	(30,558,893)
Total assets available for solvency	**135,773,339**	**135,001,914**
Solvency requirement		
Total liabilities	106,975,337	160,251,539
Reinsurance liability	(3,941,632)	(5,469,000)
Related party subordinated loans	(5,558,893)	(30,558,893)
Solvency reserve	11,042,429	-
Total solvency requirement	**108,517,241**	**124,223,646**
Solvency ratio	125%	109%
Target solvency ratio	110%	110%

19. Financial Instruments - Determination of fair value and fair value hierarchy

The Company uses various methods in estimating the fair value of a financial instrument. The methods comprise:
Level 1 - Included in this category are financial assets and liabilities that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occuring market transactions on an arm's length basis. Main asset classes included in this category are financial assets for which the fair value is obtained via pricing vendors or binding broker quotes and assets for which the fair value is determined by reference to indices.

Level 2 - Included in this category are financial assets and liabilities that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions in the same instrument or based on available market data. Main assets classes included in this category are financial assets for which pricing is obtained via pricing services but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in hedge funds, private equity funds with fair values obtained via fund managers and assets that are valued using own models whereby the majority of assumptions are market observable.

Level 3 - Not based upon market observable input means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Main asset classes in this category are hedge funds, private equity funds and limited partnerships.

The Company uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1 – the fair value is calculated using quoted prices in active markets
Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below

Financial Assets	Level 1 2009 $	Level 2 2009 $	Level 3 2009 $	Total Fair Value 2009 $
Fair value through profit or loss				
Debt security investments		31,731,176		31,731,176
Equity investments	5,138,542			5,138,542
Units in unit trusts	17,579			17,579
Available for sale				
NZ government stock		20,744,949		20,744,949
Debt security investments		15,976,582		15,976,582
Units in unit trusts	11,240,748			11,240,748
	16,396,869	68,452,707	-	84,849,576

20. Share Capital

	2009 Number	2009 $
Authorised, issued and fully paid up		
Ordinary shares	1,500,000	1,500,000

	2008 Number	2008 $
Authorised, issued and fully paid up		
Ordinary shares	1,500,000	1,500,000

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

Equity of Life Insurance business

	2009 $	2008 $
Equity retained for solvency purposes		
Equity of shareholder	38,298,527	10,778,268
Less: equity retained for solvency purposes	(11,042,429)	-
Equity available for distribution	**27,256,098**	**10,778,268**

Based on Actuarial advice the Directors have determined that $11,042,429 (2008: nil) of shareholder equity is required as a contribution to solvency and is therefore not distributable.

Equity retained for solvency reserves has been calculated in accordance with Guidance Note no. 5 of the New Zealand Society of Actuaries.

The basis of determining the solvency reserves was as follows:

For each related product group, a prudential liability was determined in the same manner as the best estimate liability, but with margins for adverse deviations from expected experience. The discount rate used was the risk free discount rate (see Note 3), and the future expense inflation rate was 2.0%. The margins on other assumptions were as follows (all positive):

	2009 %	2008 %
Mortality	10.0	10.0
Total and permanent disability	20.0	20.0
Trauma	30.0	30.0
Redundancy	30.0	30.0
Total and temporary disability	50.0	50.0
Lapses	25.0	25.0
Maintenance expenses	2.5	2.5

21. Retained Earnings and Available for Sale Reserves

	2009 $	2008 $
(a) Retained earnings		
Balance 1 January	7,360,368	31,262,230
Net profit for the period	32,240,097	13,098,138
Dividend paid	(4,000,000)	(37,000,000)
Balance 31 December	35,600,465	7,360,368
(b) Available for Sale Reserve		
Balance 1 January	1,917,900	373,094
Change in fair value of available-for-sale portfolio	(719,838)	1,544,806
Balance 31 December	1,198,062	1,917,900

The dividend paid during the year was $2.67 per share (2008: $24.67 per share).

No dividend has been declared before the balance sheet date and not paid out.

The available for sale reserve records the movements in the fair value of available for sale financial assets.

22. Cash Flow Reconciliation

	2009 $	2008 $
Net profit after tax	32,240,097	13,098,138
Non-cash items		
Investment income	(1,811,893)	6,881,748
Amortisation of deferred acquisition costs	88,625	111,268
Amortisation of management rights	2,850,166	2,850,166
Amortisation of software	204,715	89,190
	33,571,710	23,030,510
Non-operating items:		
(Decrease) / Increase in policy liabilities	(23,121,688)	(1,362,675)
(Decrease) / Increase in investment contract liabilities	(10,611,355)	(11,954,308)
Increase / (Decrease) in subordinated loan	25,000,000	-
	(8,733,043)	(13,316,983)
Movement in working capital:		
(Increase) / Decrease in outstanding premiums	(94,755)	(129,949)
Decrease / (Increase) in accrued interest	16,870	16,603
Decrease / (Increase) in reinsurance receivable	363,968	(1,529,344)
Decrease / (Increase) in sundry debtors	596,523	(431,526)
(Increase) / Decrease in intangible assets	(959,606)	(382,672)
(Decrease) / Increase in premiums in suspense	(107,462)	(14,060)
Increase / (Decrease) in outstanding claims	1,343,887	1,807,109
Increase / (Decrease) in reinsurance payable	44,815	108,771
(Increase) / Decrease in other payables	(383,790)	(375,480)
(Increase) / Decrease in related party	(25,413,713)	646,702
Increase / (Decrease) in current tax	36,080	1,951,966
Increase / (Decrease) in deferred tax	6,500,472	2,998,586
	(18,056,711)	4,666,706
Net cash flows from operating activities	6,781,956	14,380,233

23. Business Units

The Company operates in one industry segment being life insurance and one geographic location being New Zealand.

24. Commitments

(a) Operating Lease Commitments

Company as a lessee

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2009 $	2008 $
Within one year	321,526	283,507
After one year but not more than five years	643,053	850,521
	964,579	1,134,028

(b) Capital Commitments

The Company has no commitments at 31 December 2009 (2008: nil).

25. Contingencies

The Company has no contingent liabilities at 31 December 2009 (2008: nil).

26. Related Parties

(a) Ultimate Parent

The Company's ultimate parent is the ANZ National Bank Limited (registered in New Zealand).

(b) Balances with Related Parties

Company	Counterparty	Relationship	2009 $ Receivable (Payable)	2008 $ Receivable (Payable)
ING Insurance Services (NZ) Limited	ING Life (NZ) Limited	A	25,000,000	-
ING Insurance Services (NZ) Limited	ING Insurance Holdings Limited	B	(9,078,633)	(9,078,633)
ING Insurance Services (NZ) Limited	ING (NZ) Limited	B	(32,323,075)	(31,628,561)
ING Insurance Services (NZ) Limited	ING Property Trust	B	-	(1,832)
ING Insurance Services (NZ) Limited	ANZ National Bank Limited	C	(961,643)	(2,068,038)
Total Balances			(17,363,351)	(42,777,064)

Relationship

A. Parent company
B. Subsidiary of ultimate parent company
C. Banker (100% ultimate parent company)

(c) Transactions with Related Parties

Company	Counterparty	Transaction Type	2009 $ Paid / (Received)	2008 $ Paid / (Received)
ING Insurance Services (NZ) Limited	ING Life (NZ) Limited	Subordinated Loan paid	25,000,000	-
ING Insurance Services (NZ) Limited	ING Life (NZ) Limited	Operating expenses paid	-	6,642
ING Insurance Services (NZ) Limited	ING (NZ) Limited	Shared services paid	3,348,000	2,778,000
ING Insurance Services (NZ) Limited	ING (NZ) Limited	Management fees paid	164,300	188,395
ING Insurance Services (NZ) Limited	ING Property Trust Management Limited	Rent & Opex paid	309,897	308,434
ING Insurance Services (NZ) Limited	ANZ National Bank Limited	Commissions paid	23,996,390	20,533,864
ING Insurance Services (NZ) Limited	ANZ National Bank Limited	Interest received	(517,050)	(1,275,978)
ING Insurance Services (NZ) Limited	ANZ National Bank Limited	Bank Charges	287,873	277,582
ING Insurance Services (NZ) Limited	ANZ National Bank Limited	Shared services paid	74,203	68,869

26. Related Parties (continued)

(d) Terms and Conditions of Transactions with Related Parties

Sales to and purchases from related parties are made in arm's length transactions both at normal market prices and on normal commercial terms.

Outstanding balances at the year-end are unsecured, interest free, and settlement occurs in cash.

Intercompany loans are established on a commercial basis, interest is based on a market rate and is payable on demand.

27. Disaggregated Information

The Company offers the following insurance contract benefits:
- Life cover with optional trauma, disablement and redundancy riders
- Consumer credit term insurance

In addition, the Company has unit-linked investment contract business where a policyholder may add an investment premium (contribution) to their policy which will purchase units in the designated asset class associated with that product. While existing policyholders may make additional contributions, these products are closed to new business.

	2009		
	Investment linked policies	Non-Investment linked policies	Total
	$	$	$
Investment assets	39,100,439	74,410,008	113,510,447
Other assets	1,734,633	30,028,784	31,763,417
Liabilities other than policy liabilities	(148,400)	44,799,267	44,650,867
Policy liabilities	40,983,472	21,340,998	62,324,470
Retained profits, attributable to shareholders	-	38,298,527	38,298,527
Premium revenue	-	59,043,198	59,043,198
Investment revenue	3,584,450	3,151,887	6,736,337
Claims expense	-	16,837,019	16,837,019
Commission and management expenses	10,787	33,847,292	33,858,079
Surplus before taxation	(994,003)	39,732,259	38,738,256
Surplus after tax	-	32,240,097	32,240,097

	2008		
	Investment linked policies	Non-Investment linked policies	Total
	$	$	$
Investment assets	46,754,292	87,882,144	134,636,436
Other assets	4,071,565	32,321,806	36,393,371
Liabilities other than policy liabilities	(152,024)	62,818,682	62,666,658
Policy liabilities	50,977,881	46,607,000	97,584,881
Retained profits, attributable to shareholders	-	10,778,268	10,778,268
Premium revenue	-	58,709,992	58,709,992
Investment revenue	(5,142,867)	5,644,909	502,042
Claims expense	-	15,078,079	15,078,079
Commission and management expenses	18,674	30,939,075	30,957,749
Surplus before taxation	1,656,857	15,087,088	16,743,945
Surplus after tax	-	13,098,138	13,098,138

28. Policyholder Tax Losses

Under the Policyholder Tax Base, the Company has tax losses to carry forward of $411,589,805 (2008: $358,422,328).

Directory

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