

PACIFIC LIFE LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED
31 DECEMBER 2013

PACIFIC LIFE LIMITED

CONTENTS

Page 1	Directory and Company Information
Page 2	Directors' Report
Page 3	Consolidated Statement of Financial Performance
Page 4	Consolidated Statement of Movements in Equity
Page 5	Consolidated Statement of Financial Position
Page 6 - 7	Consolidated Statement of Cash Flows
Page 8 - 27	Notes to the Consolidated Financial Statements
Page 28 - 29	Auditor's Report

PACIFIC LIFE LIMITED

DIRECTORY AND COMPANY INFORMATION

SHARE CAPITAL 2,000,000 Ordinary Shares Fully Paid

BUSINESS Life Insurance

SHAREHOLDERS Richard H Taylor
Pravir A Tesiram 2,000,000 Shares
(As Trustees of McNicoll
Family Trust)

DIRECTORS Donald McNicoll
Murray A Hilder
N Darcy McNicoll
Stuart B McNicoll

BUSINESS ADDRESS Mainprice King Chartered Brokers Ltd
11th Floor, Forsyth Barr Tower
P O Box 1006
AUCKLAND

ACTUARY Davies Financial & Actuarial Ltd

AUDITORS Staples Rodway

ACCOUNTANTS Hudson Kasper

REGISTERED OFFICE The Offices of Hudson Kasper
Level 2, Merial Building, Putney Way
MANUKAU CITY

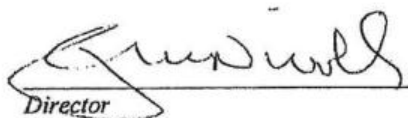
PACIFIC LIFE LIMITED
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013

The directors present the annual report of Pacific Life Limited for the year ended 31 December 2013.

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

- Completed and signed financial statements.
- Audit Report.

Signed for and on behalf of the Board of Directors:


Director


Director

12-5-14
Date

PACIFIC LIFE LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 31 DECEMBER 2013

	<u>Note</u>	<u>2013</u>	<u>2012</u>
<u>PREMIUMS AND CLAIMS</u>			
Premium Revenues		268,121	285,372
Reinsurance Expenses		(7,766)	10,642
Payments under Policies			
- Claims		(5,000)	(25,000)
- Benefits and Withdrawals		(100,000)	0
Commission Paid		(95,680)	(79,858)
Policy Maintenance Expenses		(15,460)	(14,023)
		<hr/>	<hr/>
<u>NET UNDERWRITING RESULT</u>		44,215	177,133
		<hr/>	<hr/>
<u>INVESTMENT REVENUES</u>			
Investment Revenues		249,140	130,810
Investment Management Expenses		(64,867)	(45,057)
		<hr/>	<hr/>
Net Investment Activities	6	184,273	85,753
		<hr/>	<hr/>
<u>OTHER EXPENDITURE</u>	7	(150,912)	(169,565)
		<hr/>	<hr/>
<u>OPERATING SURPLUS BEFORE MOVEMENT OF POLICY LIABILITIES AND TAXATION</u>			
		77,576	93,321
(Increase) / Decrease in Policy Liabilities	5b	134,176	(197)
Unrealised Net Change in Value of Investment Properties		522,117	340,512
		<hr/>	<hr/>
<u>OPERATING SURPLUS BEFORE TAXATION</u>		733,869	433,636
Less Taxation (Expense)/Benefit for Year	8(i)	390,834	267,290
		<hr/>	<hr/>
<u>OPERATING SURPLUS AFTER TAXATION</u>	\$	1,124,703	\$ 700,926
		<hr/> <hr/>	<hr/> <hr/>

These Statements are to be read in conjunction with the Notes to the Financial Statements on pages 8 to 27.

PACIFIC LIFE LIMITED
CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

	<u>Note</u>	<u>2013</u>	<u>2012</u>
<u>EQUITY AT START OF YEAR</u>		6,857,625	6,156,698
		<hr/>	<hr/>
Operating Surplus/(Loss) after Taxation for Year		1,124,703	700,926
		<hr/>	<hr/>
Total Recognised Income & Expense for the Year		1,124,703	700,926
		<hr/>	<hr/>
<u>EQUITY AT END OF YEAR</u>	13	<u>\$ 7,982,328</u>	<u>\$ 6,857,625</u>

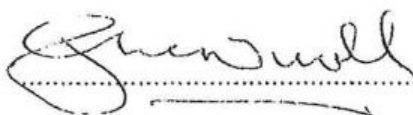
These Statements are to be read in conjunction with the Notes to the Financial Statements on pages 8 to 27.

PACIFIC LIFE LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	<u>Note</u>	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>			
Bank Accounts		1,089,206	1,101,902
Outstanding Premiums		23,912	25,129
Other Current Assets	10	21,531	13,607
Investments	9	6,906,036	6,290,210
Income Tax Receivable		219,769	224,132
Deferred Tax Benefit	8(ii)	30,808	
Property, Plant and Equipment	12	404	1,039
		<hr/>	<hr/>
<u>TOTAL ASSETS</u>		<u>\$ 8,291,666</u>	<u>\$ 7,656,019</u>
<u>LIABILITIES</u>			
Accounts Payable	11	86,008	79,889
Policy Liabilities	5a	223,329	357,505
		<hr/>	<hr/>
<u>TOTAL LIABILITIES</u>		<u>309,337</u>	<u>798,394</u>
<u>EQUITY</u>	13	<u>7,982,328</u>	<u>6,857,625</u>
		<hr/>	<hr/>
<u>TOTAL LIABILITIES AND EQUITY</u>		<u>\$ 8,291,666</u>	<u>\$ 7,656,019</u>

For and on behalf of the Board

D McNicoll
Director



Date:

12/5/14

M A Hilder
Director



Date:

12/5/14,

These Statements are to be read in conjunction with the Notes to the Financial Statements on pages 8 to 27.

PACIFIC LIFE LIMITED**CONSOLIDATED STATEMENT OF CASH FLOWS**
FOR THE YEAR ENDED 31 DECEMBER 2013

	<u>Note</u>	<u>2013</u>	<u>2012</u>
<u>OPERATING ACTIVITIES</u>			
Cash was Provided From:			
Premiums Received		269,338	287,000
Interest Received			
- Banks		30,205	45,501
- Debt Securities		55,639	55,435
Dividends Received		21,110	7,643
- Equity Securities			
Property Rents Received (Net)*		(11,558)	6,161
Income Tax Received		3,968	0
		<hr/>	<hr/>
		368,701	401,740
		<hr/>	<hr/>
Cash was Applied To:			
Reinsurance Expenses		(7,766)	10,642
Claims		(5,000)	(25,000)
Benefits and Withdrawals		(100,000)	0
Commission Payments		(95,680)	(79,858)
Policy Maintenance		(15,460)	(14,023)
Operating Expenses		(154,283)	(161,516)
		<hr/>	<hr/>
		(378,189)	(269,755)
		<hr/>	<hr/>
<u>Net Cash Inflow From Operating Activities</u>	18	(9,488)	131,985
		<hr/>	<hr/>
Cash was Provided from:			
Sale of Investments (Net)*		(32,657)	(769,609)
Sale of Operating Assets		0	0
		<hr/>	<hr/>
<u>Net Cash Inflow From Investing Activities</u>		(32,657)	(769,609)
		<hr/>	<hr/>
Carried Forward		(42,145)	(637,624)

* Certain items have presented on a net basis in order to give more meaningful information.

These Statements are to be read in conjunction with the Notes to the Financial Statements on pages 8 to 27.

PACIFIC LIFE LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

	<u>2013</u>	<u>2012</u>
Brought Forward	(42,145)	(637,624)
<u>FINANCING ACTIVITIES</u>		
Cash was Provided from / (Applied) to:		
Director's Loan	3,131	(11,430)
<u>Net Cash Inflow/(Outflow) From Financing Activities</u>	3,131	(11,430)
<u>NET INCREASE/(DECREASE) IN CASH HELD</u>	(39,014)	(649,054)
Add Cash at Bank at Start of Year	1,101,902	1,762,645
Effect of Exchange Rate Changes on Foreign Currency Balances	26,318	(11,689)
<u>CASH AT BANK AT YEAR END</u>	<u>\$ 1,089,206</u>	<u>1,101,902</u>

PACIFIC LIFE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. **STATEMENT OF ACCOUNTING POLICIES**

Reporting Entity

Pacific Life Limited is a company registered under the Companies Act 1993.

The Group consists of Pacific Life Limited and its wholly owned subsidiary Mainprice King Limited.

Pacific Life Limited is not currently an issuer of new securities for the purposes of the Securities Act 1978. Pacific Life Limited holds a Full Licence in accordance with the provisions of the Insurance (Prudential Supervision) Act 2010. The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP).

The group financial statements of Pacific Life Limited have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the Financial Reporting Standard (FRS) No 34: "Life Insurance Business".

Measurement Base

The financial statements have been prepared in accordance with generally accepted accounting practices applicable to life insurance companies. All assets and liabilities are stated at valuation as described in the statement of specific accounting policies.

Nature of Business

The Company is a Life Insurance company operating in New Zealand.

2. **SPECIFIC ACCOUNTING POLICIES**

The following specific accounting policies which materially affect the measurement of financial performance and the financial position have been applied.

a. **Basis of Consolidation**

The consolidated financial statements include Pacific Life Limited and its subsidiary. Separate financial statements of the parent company have not been prepared as they are not materially different to the consolidated statements, (see Note 14 for details).

b. **Income Recognition**

- i. Premium income is recognised on an accruals basis.
- ii. Interest income is recognised on an accrual basis.
- iii. Rental income from the property is included in Investment Revenues and the expenses are included in Investment Management Expenses. The properties are managed by a property manager and only net income is paid to Pacific Life Limited.

PACIFIC LIFE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

2. SPECIFIC ACCOUNTING POLICIES – Continued

b. Income Recognition – Continued

- iv. Investment income earned from overseas investments managed by Brewin Dolphin, Jersey is included in Investment Revenues. The fees are included in Investment Management Expenses.
- v. Unrealised gains/losses on investments are brought to account through the Statement of Financial Performance. They represent the difference between market value at the beginning and end of the current financial year.

Realised gains/losses on investments represent the difference between the market value at the beginning of the year and the sale price (or maturity amount).

c. Expenses

i. Claims

Claims are recognised as expenses in the Statement of Financial Performance.

Maturity claims are accounted for on the policy maturity date. Surrenders are accounted for when paid. Death claims and other claims are accounted for when the liability to the policyholder under the policy contract has been established.

ii. Depreciation

Operating Assets are depreciated on a straight line basis at rates between 20% to 60%.

iii. Expenses

All Expenses have been recognised as incurred. These have been apportioned as follows:

- Investment Management Expenses, include the expenses relating to the property investments and portfolio management fees for overseas investments.
- Policy Maintenance Expenses relate mainly to fees charged by the Actuary.
- Other Expenditure – all other management expenses.

iv. Taxation

Income tax expense has been calculated in accordance with the Life Insurance regime enacted in the Income Tax Act 2007.

The income tax expense charged to the Statement of Financial Performance includes both the current year's provision and the income tax effects of timing differences calculated using the liability method.

PACIFIC LIFE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

2. SPECIFIC ACCOUNTING POLICIES – Continued

iv. Taxation - Continued

Tax effect accounting has been applied on a comprehensive basis to all timing differences. A debit balance in the Deferred Tax Account, arising from timing differences, or income tax benefits from income tax losses, is only recognised if there is virtual certainty of realisation. However, the tax benefits from income tax losses have been used to reduce the Deferred Tax Provision in respect to future tax payments arising from timing differences in the recognition of income for accounting and taxation purposes.

v. Reinsurance

The reinsurance agreements provide for partial indemnification of the Group by the reinsurers against loss or liability. Revenue and expense are recognised separately in the Statement of Financial Performance when they become due and payable in accordance with the reinsurance agreements.

Reinsurance recoveries for claims are recognised as part of reinsurance revenue. Reinsurance premiums are recognised as part of reinsurance expense.

d. Valuation of Assets

i. Investments and Property

The property is stated at the net market value at year end. Unrealised gains and losses are taken to the Statement of Financial Performance. Market value has been determined by advice received from the following registered valuer.

Carter Jonas London Residential Limited – United Kingdom (valuation as at 31 December 2013). The valuation undertaken was based upon fair value. The fair value represents the amount at which the asset could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in a arms length transaction at the date of the valuation.

The Directors consider the currently owned property to be held for investment purposes and accordingly it is not subject to periodic charges for depreciation.

Other investments are stated at their net market values at year end. Any unrealised gains and losses are taken to the Statement of Financial Performance.

ii. Operating Assets

Operating Assets are valued at cost, less accumulated depreciation.

PACIFIC LIFE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

2. SPECIFIC ACCOUNTING POLICIES – Continued

e. Liabilities

i. Policy Liabilities

In accordance with the requirements of accounting standard FRS-34, the Group's policy liabilities are required to be valued by the Group's Actuary using the margin on services method of valuation (MoS). The policy liabilities as stated in the Statement of Financial Position have been calculated using the MoS basis. (See Notes 4 and 5).

ii. Other Liabilities recorded at cost.

f. Foreign Currency

Transactions in foreign currencies are converted at the New Zealand rate of exchange ruling at the date of the transaction.

At balance date, foreign assets are translated at the closing rate and exchange variations arising from these translations are included in the Statement of Financial Performance.

g. Goods and Services Tax (GST)

Certain insurance products, such as Disablement Insurance, are subject to GST.

The Statements of Financial Performance and Statement of Cash Flows have been prepared exclusive of recoverable GST and inclusive of non-recoverable GST. The same treatment has been applied to the Statement of Financial Position except that receivables and payables include all GST where applicable.

h. Financial Instruments

Financial instruments including bank balances and investments, other assets and other liabilities have been entered into in the normal course of operating an insurance company.

Financial instruments are carried in the financial statements at their net market values.

With the exception of outstanding premiums, the financial assets and investments of the Group are subject to credit risk. Financial assets are unsecured and do not require collateral.

Financial instruments are subject to risk that market values may change subsequent to their acquisition due to movements in interest rates.

i. Statement of Cash Flows

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

- a. Operating activities include all transactions and other events that are not investing or financing activities.
- b. Investing activities are those activities relating to the acquisition, holding and disposal of operating assets and of investments.
- c. Financing activities are those activities that result in changes in the size and composition of the capital structure. This includes equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.
- d. Cash is considered to be cash on hand and current accounts in banks, net of bank overdrafts.

PACIFIC LIFE LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

3. **CHANGES IN ACCOUNTING POLICIES**

There were no changes in accounting policies during the year. All policies are consistent with the previous year.

4. **POLICY LIABILITY MEASUREMENT**

a. **Determination of Policy Liabilities**

Life insurance liabilities 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* issued in December 1998.

b. **Overview of MoS Methodology**

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. Policy services used to determine profit recognition for the Group are the costs of expected claims and the cost of supportable bonuses. The policy services for each product grouping that is used to defer and amortise the profit over the life of the policy, are called profit carriers. Policy liabilities are generally determined as the present value of all future expected net future cash-flows. In case of some business, policy liabilities are determined as the accumulated benefits to policyholders.

c. **MoS Profit**

MoS profit can be analysed into the following categories:

(i) **Planned Margins of Revenues over Expenses**

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

(ii) **The Difference Between Actual and Assumed Experience**

Experience profits/(losses) are realised where actual experience differs from best estimate assumptions. Instances giving rise to experience profits/(losses) include variations in claims, expenses, mortality, discontinuance and investment returns.

PACIFIC LIFE LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
FOR THE YEAR ENDED 31 DECEMBER 2013**4. POLICY LIABILITY MEASUREMENT (Continued)****(iii) Changes to Underlying Assumptions**

Assumptions used for measuring policy liabilities are reviewed each year. Where the review leads to a change in assumptions, the change is deemed to have occurred from the end of the year. The financial effect of changes to the assumptions underlying the measurement of policy liabilities made during the reporting year are recognised in the Statement of Financial Performance over the future reporting years during which services are provided to policyholders.

(iv) Loss Recognition on Groups of Related Products

Based on best estimate assumptions, written business for a group of related products is expected to be unprofitable, the whole expected loss for that related product group is recognised in the Statement of Financial Performance immediately. When loss making business becomes profitable, previously recognised losses are reversed immediately.

(v) Investment Earnings on Assets in Excess of Policy Liabilities

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

	<u>2013</u>	<u>2012</u>
(vi) <u>Sources of Profit</u>		
The Operating Profit of	\$ 1,124,703	700,926
contains the following components:		
a. Surplus related to movement in policy liabilities:		
- Planned margins of revenues over expenses	28,058	4,906
- The difference between actual and assumed experience	594,841	398,887
- Effect of changes to underlying assumptions	10,058	(2,706)
b. Investment earnings on assets in excess of policy liabilities	491,746	299,839
Operating Profit	\$ 1,124,703	700,926

PACIFIC LIFE LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
FOR THE YEAR ENDED 31 DECEMBER 2013**5. POLICY LIABILITIES**

a. <u>Policy Liabilities</u> contain the following components:	<u>2013</u>	<u>2012</u>
Present value of:		
- Future policy benefits (including tax thereon)	142,819	243,037
- Future expenses	40,650	46,511
- Future net premiums (net of reinsurance)	24,838	25,121
- Planned profit margins	15,022	42,836
	<hr/>	<hr/>
Policy Liabilities at Year End	\$ <u>223,329</u>	\$ <u>357,505</u>
b. <u>Increase in Policy Liabilities</u>		
Value at end of year	223,329	357,505
Value at beginning of year	357,505	357,308
	<hr/>	<hr/>
(Decrease)/Increase for year	\$ <u>(134,176)</u>	\$ <u>197</u>

6. INVESTMENT INCOME

	<u>Total</u>	<u>Banks</u>	<u>Equity Securities</u>	<u>Debt Securities</u>	<u>Properties</u>
<u>31 December 2013</u>					
Income Earned	122,366	29,083	21,688	55,639	15,956
Realised Gains on Sales	0	0	0	0	0
Unrealised (Losses)/Gains	61,458	0	82,258	(20,800)	see note below
Exchange Losses	449	29	420	0	0
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	\$ <u>184,273</u>	\$ <u>29,112</u>	\$ <u>104,366</u>	\$ <u>34,839</u>	\$ <u>15,956</u>
Interest Revenue	84,722				
Dividend	21,688				
Other Revenue	<u>15,956</u>				
	<hr/>				
	\$ <u>122,366</u>				

Note: There was an unrealised gain in the value of an Investment property of \$522,117.

PACIFIC LIFE LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
FOR THE YEAR ENDED 31 DECEMBER 2013**6. INVESTMENT INCOME - Continued**

	<u>Total</u>	<u>Banks</u>	<u>Equity Securities</u>	<u>Debt Securities</u>	<u>Properties</u>
<u>31 December 2012</u>					
Income Earned	85,023	47,425	8,322	55,435	(26,159)
Realised Gains on Sales	0	0	0	0	0
Unrealised (Losses)/ Gains	7,243	0	20,690	(13,447)	see note below
Exchange Losses	(6,513)	(6,676)	163	0	0
	<u>\$ 85,753</u>	<u>\$ 40,749</u>	<u>\$ 29,175</u>	<u>\$ 41,988</u>	<u>\$ (26,159)</u>
Interest Revenue	102,860				
Dividend	8,322				
Other Revenue	(26,159)				
	<u>\$ 85,023</u>				

Note: There was an unrealised gain in the value of an Investment property of \$340,512.

7. OTHER EXPENDITURE

<u>Other Expenditure includes:</u>	<u>2013</u>	<u>2012</u>
Audit Fees	25,902	25,986
Other Assurance Related Services	3,044	0
Depreciation of Operating Assets	635	552
Depreciation of Investment Chattels	855	917
Loss on Sale of Fixed Assets	0	0

PACIFIC LIFE LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
FOR THE YEAR ENDED 31 DECEMBER 2013

	<u>2013</u>	<u>2012</u>
8. TAXATION		
(i) <u>Taxation (Benefit)/Expense</u>		
<u>Operating Profit For Year Before Taxation</u>	\$ <u>733,869</u>	\$ <u>433,636</u>
<u>Net Taxable Profit for Year</u> before timing differences but after permanent differences	(34,526)	(75,503)
Income Tax Losses brought forward from prior years	(75,503)	0
Other Adjustments re Previous year	<u>0</u>	<u>0</u>
Profit (Losses available to Parent Company)	(110,029)	(75,503)
Income Tax Losses available - wholly owned subsidiary	<u>0</u>	<u>0</u>
<u>Total Taxable Profit (Losses)</u>	\$ (110,029)	\$ (75,503)
<u>Total Losses available to be Carried Forward to Future Years (Note - see below)</u>		
<u>Future benefit losses calculated at company income tax rate of 28 c in \$</u>	\$ <u>30,808</u>	\$ <u>21,141</u>
<u>Policyholder Base</u>		
<u>Taxable Profit (Losses)</u>	1,414	108
<u>Provision for Taxation</u>		
Tax charge current year at 28 c in \$ Shareholder Base	0	0
Tax charge current year at 28 c in \$ Policyholder Base	396	30
Tax charge for previous year		
Overseas tax paid during the year not available as credit against New Zealand tax	<u>578</u>	<u>680</u>
Total Current Tax	974	710
Deferred Income Tax Provision Increase/(Reduction)	<u>(391,808)</u>	<u>(268,000)</u>
<u>Taxation (Benefit) for Year</u>	\$ <u>(390,834)</u>	\$ <u>(267,290)</u>

PACIFIC LIFE LIMITEDNOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

	<u>2013</u>	<u>2012</u>
8. <u>TAXATION - Continued</u>		
(ii) <u>Deferred Income Tax/(Benefit)</u>		
Balance at beginning of Year	361,000	629,000
Current Year Timing Differences and adjustment in respect to future tax benefits from tax losses	<u>(391,808)</u>	<u>(268,000)</u>
<u>BALANCE AT END OF YEAR</u>	<u>\$ (30,808)</u>	<u>\$ 361,000</u>
(iii) <u>Imputation Credit Memorandum Account</u>		
Balance at beginning of Year	22,794	5,455
Taxation Payments Made	<u>(1,709)</u>	<u>17,339</u>
<u>CREDIT BALANCE AT 31 DECEMBER</u>	<u>\$ 21,085</u>	<u>\$ 22,794</u>

PACIFIC LIFE LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
FOR THE YEAR ENDED 31 DECEMBER 2013

	<u>2013</u>	<u>2012</u>
9. <u>INVESTMENTS</u>		
Banks	362,152	874,215
Equity Securities	905,477	290,270
Debt Securities	1,194,228	1,202,806
Properties	4,444,178	3,922,919
	<u>\$ 6,906,035</u>	<u>\$ 6,290,210</u>
10. <u>OTHER CURRENT ASSETS</u>		
Interest Receivable	7,185	8,307
Expenses Paid in Advance	14,346	4,873
Amount due by D McNicoll - Director (Note 16)	0	427
	<u>\$ 21,531</u>	<u>\$ 13,607</u>
11. <u>ACCOUNTS PAYABLE</u>		
Sundry Creditors	78,501	47,569
Amount due to D McNicoll - Director (Note 16)	2,704	0
UK Rent Received in Advance	4,803	32,320
	<u>\$ 86,008</u>	<u>\$ 79,889</u>

PACIFIC LIFE LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
FOR THE YEAR ENDED 31 DECEMBER 2013

	<u>2013</u>	<u>2012</u>
12. <u>PROPERTY, PLANT AND EQUIPMENT</u>		
<u>Furniture, Fittings, Office Equipment</u>		
At Cost	3,965	3,965
Accumulated Depreciation	(3,561)	(2,926)
Net book amount - As per Statement of Financial Position	\$ <u>404</u> \$	<u>1,039</u>
Depreciation Expense	635	552
	<u>2013</u>	<u>2012</u>
13. <u>EQUITY</u>		
<u>Issued Share Capital</u>		
2,000,000 Ordinary Shares fully paid up to \$1 per share	2,000,000	2,000,000
<u>Retained Earnings</u>		
Balance at end of the year	5,982,327	4,857,624
	<u>\$ 7,982,328</u>	<u>\$ 6,857,625</u>

Solvency Margin

Under the Reserve Bank of New Zealand Solvency Standard for Life Insurers, issued February 2012 \$3,272,228 is required as a Solvency Margin (2012: \$2,896,231 in accordance with Guidance Note no. 5 of the New Zealand Society of Actuaries regarding prudential reserving).

The Company has complied with its regulatory requirements during the year.

PACIFIC LIFE LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
FOR THE YEAR ENDED 31 DECEMBER 201314. **INVESTMENT IN SUBSIDIARY - Pacific Life Ltd**

	<u>2013</u>	<u>2012</u>
Mainprice King Limited - 100% Owned - Developer of Residential Sections, which were sold during 1998.		

The statement of the position of the subsidiary at 31 December 2013 was:

Share Capital at Cost	50,000	50,000
Advances Interest Free - due to subsidiary company by parent company	(4,413)	(4,413)
	<u>45,587</u>	<u>45,587</u>
	\$	\$

The subsidiary company did not trade during the year ended 31 December 2013.

15. **FINANCIAL INSTRUMENTS****Credit Risk**

The maximum credit risk associated with each class of financial asset held by the Group is the carrying value plus undrawn facilities of \$33,000.

The Group pursues a policy of diversification in its investment portfolio and only invests in highly rated instruments. The Group believes that the risk of non-recovery of amounts due on financial assets is negligible.

The Group has a policy of reinsuring certain risks. The Group actively pursues a policy of minimising its exposure to significant individual risks or accumulation of risks through reinsurance. Under the Group's reinsurance risk management policy, the Group only reinsures with highly rated, internationally recognised reinsurance providers.

The Mortgage over the NZ property for \$485,000 together with a revolving credit facility for \$200,000 are secured by a first mortgage granted over the borrowers' interest in the property.

PACIFIC LIFE LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
FOR THE YEAR ENDED 31 DECEMBER 201315. **FINANCIAL INSTRUMENTS - Continued****Currency Risk**

The Group has exposure to foreign exchange risk as a result of investments denominated in foreign currencies. At balance date, such investments are revalued and the foreign currency is converted to New Zealand dollars at the rate of exchange ruling at balance date. The unrealised exchange variations thereon are included in the Statement of Financial Performance.

At balance date the following overseas bank accounts and investments were held:

	<u>2013</u>	<u>2012</u>
<u>United Kingdom (Pounds Sterling)</u>		
Property at Valuation	4,441,752	3,919,638
- Furnishings	2,426	3,281
UK Bank Accounts	131,886	119,029
Investments managed by Brewin Dolphin, Jersey		
- Amounts on Call	8,039	6,332
- Equities	127,712	110,094
Westpac NZ GBP Amounts on Call	691,908	715,364
	\$NZ <u>5,403,723</u>	\$NZ <u>4,873,738</u>
 <u>Euro</u>		
Investments managed by Brewin Dolphin, Jersey		
- Amounts on Call	8,320	7,904
Investments managed by UBS Bank, Switzerland		
- Amounts at Call	0	0
Westpac NZ Euro Amounts on Call	181,010	173,119
	\$NZ <u>189,330</u>	\$NZ <u>181,023</u>

PACIFIC LIFE LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
FOR THE YEAR ENDED 31 DECEMBER 2013**15. FINANCIAL INSTRUMENTS - Continued**

	<u>2013</u>	<u>2012</u>
<u>US Dollars</u>		
Investments managed by Brewin Dolphin, Jersey		
- Amounts on Call	8,772	5,516
- Equities	235,027	179,936
Investments managed by UBS Bank, Switzerland		
- Equities	0	0
Westpac NZ USD Amounts on Call	13,175	13,214
	<u>\$NZ 256,974</u>	<u>198,666</u>

Assumptions Used to Estimate the Fair Value of Each Class of Financial Instrument

The following methods and assumptions were used to estimate the fair value of each class of financial instrument as summarised in Note 9.

Bank Term Deposits

The fair value is the carrying value.

Debt Securities**Government Securities, Company Debentures and Convertible Notes, Company****Shares**

The fair value of these investments is their net market value as at year end based on market prices of the individual assets.

Advances on Policies

The fair value of advances is considered to be their carrying value at year end.

Investment Property

The fair value of investment property is its net market value at year end as independently determined by Carter Jonas London Residential Limited – United Kingdom (valuation as at 31 December 2013). The valuation undertaken was based upon fair value. The fair value represents the amount at which the asset could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in a arms length transaction at the date of the valuation.

PACIFIC LIFE LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
FOR THE YEAR ENDED 31 DECEMBER 201315. **FINANCIAL INSTRUMENTS - Continued****Interest Rate Risk**

Fixed interest financial assets are accounted for at market values. These values reflect the term to maturity and the differential between the instrument's coupon rate and that of the market. As these securities are carried at market value, the effect of interest rates within each maturity band approximates the market yields at balance date.

<u>Financial Assets</u>	<u>Interest Rate Range</u>	<u>2013 Financial Instrument Maturity</u>			<u>Over 5 Yrs</u>
		<u>Current</u>	<u>1-2 Yrs</u>	<u>2-5 Yrs</u>	
Cash in Bank -					
NZD	0.30%-2.55%	84,376	0	0	0
NZ - EURO	0.00%	181,010	0	0	0
NZ - GBP	0.00%	691,908	0	0	0
NZ - USD	0.00%	13,175	0	0	0
UK	0.00%	118,737	0	0	0
Call - Brewin Dolphin	0.00%-0.1%	25,131	0	0	0
Term Deposits					
NZ Dollar	3.00%-4.10%	323,872	0	0	0
Australian Dollar	0.00%	0	0	0	0
<u>Debt Securities</u>					
Loans on Policies	10.00%	24,370	0	0	0
NZ Government Securities	6.00%	0	517,500	0	0
Investments Managed by Brewin Dolphin	0.00%	0	0	0	0
Mortgage over NZ Property Dale Rd	5.60%	0	485,000	0	0
Revolving Credit Facility over NZ Property Dale Rd	5.60%	0	167,358	0	0
<u>Equities</u>					
New Zealand Investments Managed by - Brewin Dolphin	0.00%-14.31%	542,733	0	0	0
	1.60%-3.30%	362,744	0	0	0
<u>Financial Liabilities</u>					
Payables	n/a	86,009	0	0	0
Policy Liabilities	n/a	223,329	0	0	0

PACIFIC LIFE LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
FOR THE YEAR ENDED 31 DECEMBER 2013**15. FINANCIAL INSTRUMENTS - Continued**

<u>Financial Assets</u>	<u>Interest Rate Range</u>	<u>2012 Financial Instrument Maturity</u>			<u>Over 5 Yrs</u>
		<u>Current</u>	<u>1-2 Yrs</u>	<u>2-5 Yrs</u>	
Cash in Bank -					
NZD	0.30%-3.100%	85,115	0	0	0
NZ - EURO	0.00%	173,119	0	0	0
NZ - GBP	0%-0.05%	715,364	0	0	0
NZ - USD	0.00%	13,214	0	0	0
UK	0.00%	115,090	0	0	0
Call - Brewin Dolphin	0.20%-0.40%	19,752	0	0	0
Term Deposits					
NZ Dollar	4.00%-4.25%	850,525	0	0	0
Australian Dollar	0.00%	0	0	0	0
<u>Debt Securities</u>					
Loans on Policies	10.00%	21,261	0	0	0
NZ Government Securities	6.00%	0	0	538,300	0
Investments Managed by					
Brewin Dolphin	0.00%	0	0	0	0
UBS Switzerland	0.00%	0	0	0	0
Mortgage over NZ					
Property Dale Rd	5.60%-6.00%	0	0	485,000	0
Revolving Credit Facility					
over NZ Property Dale Rd	5.60%-7.50%	0	0	158,245	0
<u>Equities</u>					
New Zealand	0.00%	240	0	0	0
Investments Managed by -					
Brewin Dolphin	2.10%-2.40%	290,030	0	0	0
UBS Switzerland	0.00%	0	0	0	0
<u>Financial Liabilities</u>					
Payables	n/a	79,889	0	0	0
Policy Liabilities	n/a	357,505	0	0	0

PACIFIC LIFE LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2013

16. TRANSACTIONS WITH RELATED PARTIES

Mr D McNicoll is a Director of Pacific Life Limited and one of the beneficiaries under the Trust which owns all of the shares in the Company. All transactions are on an arm's length basis.

Related Party Transactions are:

- a. The Group has advanced a loan for \$485,000 to the related party with interest at 5.6% pa (2012: 5.6%-6%). The Loan is secured by a First Mortgage over the property.
- b. At 31 December 2013 there was an amount due to Mr McNicoll by the Group of \$2,704 (2012 \$427 due by D McNicoll to the Group).
Interest is chargeable on any amounts due by him to the Group, at the prescribed rate for low interest loans for Fringe Benefit Tax purposes (5.90% at 31 Dec 2013 - 5.90% 2012). No interest is payable by the Group on any amounts due to him.
Any loan is repayable on demand.
- c. A Revolving credit facility agreement for \$200,000 was set up on 12 September 2007 with a related party of Mr McNicoll with interest at 5.6%pa (2012 5.60%-7.25%) secured by existing registered mortgage referred to in clause a. above. As at 31 December 2013 \$167,358 (2012 \$158,245) has been drawn down.

17. ACTUARIAL POLICIES AND METHODOLOGY

The Actuarial Report on policy liabilities and solvency reserves was prepared by P Davies B.Bus.Sc, FIA as at 31 December 2013. The amount of policy liabilities has been determined in accordance with Professional Standard No 3 of the New Zealand Society of Actuaries.

The actuary is satisfied as to accuracy of the data from which the amount of policy liabilities has been determined.

- a. The discount rate used, net of tax on investment income was 3.39% per annum (2012: 2.54% per annum). The supportable bonus rate on with-profit business was retained at 1.6% of sums insured and existing reversionary bonuses. The policy liabilities reduced by \$10,058 as a result of this change in assumptions.
- b. The profit carrier used for non-profit endowments and with-profit endowments and whole of life policies was the expected cost of claims.

PACIFIC LIFE LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
FOR THE YEAR ENDED 31 DECEMBER 2013**17. ACTUARIAL POLICIES AND METHODOLOGY (Continued)**

- c. The future maintenance and investment expenses used were based on recent investigations of the Group's experience. The long term expenses inflation rate used was 2.0% p.a. (2012: 2.0%).
- d. The assumed rate of company tax was 28% (2012: 28%).
- e. Mortality was assumed to be in accordance with the table of assured lives mortality, prepared by the New Zealand Society of Actuaries, known as NZ97.
- f. The assumed future rate of discontinuance was 5% p.a. (2012: 5%).
- g. The current surrender value formulae were assumed to be used in the future.
- h. For with profits policies the future supportable bonus rate assumed to be 1.6% p.a. (2012: 1.6%).
- i. The future supportable bonus rate assumed in (h) above matched the rate declared by the Group in recent years.
- j. There were no unit-linked benefits.
- k. Policy liabilities include an estimate of the accrued profit share under a significant group scheme.

18. RECONCILIATION OF CASH FLOWS TO OPERATING SURPLUS

	<u>2013</u>	<u>2012</u>
Operating Surplus/(Loss) for the Year after Taxation	1,124,703	700,926
<u>Non-Cash Items</u>		
Depreciation of Operating Assets	635	552
Depreciation of Investment Chattels	855	917
Unrealised (Gain) on Value of Investments	(583,574)	(347,755)
Exchange (Gains)/Losses in Value of Overseas Investments	(449)	6,511
(Decrease)/Increase in Deferred Tax	(361,000)	(268,000)
(Decrease)/Increase in Policy Liabilities	(134,176)	197
Exchange (Gains)/Losses re Bank Accounts	(26,318)	11,694
	<u>(1,104,027)</u>	<u>(595,884)</u>
<u>Impact of Changes in Net Current Assets, etc</u>		
(Increase)/Decrease in Outstanding Premiums	1,217	1,628
(Increase)/Decrease in other Current Assets	(8,350)	(2,042)
(Increase)/Decrease Income Tax Receivable	(26,445)	(12,701)
Increase/(Decrease) in Sundry Creditors	30,932	40,058
Increase/(Decrease) in UK Rent in Advance	(27,514)	0
	<u>(30,160)</u>	<u>26,943</u>
<u>Items Classified as Investing Activities</u>		
Realised Investment (Gains) Losses	0	0
	<u>0</u>	<u>0</u>
<u>NET CASH INFLOW FROM OPERATING ACTIVITIES</u>	<u>\$ (9,488)</u>	<u>\$ 131,985</u>

PACIFIC LIFE LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
FOR THE YEAR ENDED 31 DECEMBER 2013

19.	<u>CONTINGENT LIABILITIES</u>	<u>2013</u>	<u>2012</u>
	Revolving credit facility (Note 16(c))	33,000	42,000

20. **EVENTS AFTER BALANCE DATE**

There were no events subsequent to balance date that affect these financial statements. (2012: \$Nil).

21. **INTERNATIONAL FINANCIAL REPORTING STANDARDS**

In December 2002 the New Zealand Accounting Standards Review Board announced that New Zealand International Financial Reporting Standards ("NZ IFRS") will apply to all New Zealand reporting entities for the periods commencing after 1 January 2007. The Company has delayed adopting these reporting standards due to meeting the size criteria for exemption. The Group therefore will continue to use the NZ Generally Accepted Accounting Practice (NZ GAAP).

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF PACIFIC LIFE LIMITED

Report on the Financial Statements

We have audited the financial statements of Pacific Life Limited ('the Company') and its Subsidiary (together 'the Group') on pages 3 to 27, which comprise the Consolidated Statement of Financial Position of the Company and Group as at 31 December 2013, Consolidated Statement of Financial Performance, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows of the Company and Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Opinion

In our opinion, the consolidated financial statements on pages 3 to 27:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the financial position of Pacific Life Limited and the Group as at 31 December 2013 and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

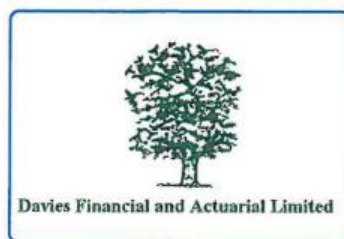
We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 December 2013:

- i. we have obtained all the information and explanations that we have required; and
- ii. in our opinion, proper accounting records have been kept by the Company as far as appears from our examination of those records.



**STAPLES RODWAY AUCKLAND
CHARTERED ACCOUNTANTS
AUCKLAND**

12 May 2014



2nd April 2014

To: The Directors
Pacific Life Limited

From: Peter Davies
Appointed Actuary

**Re: Pacific Life Limited: Report as at 31st December 2013
under Sections 77 and 78 of the Insurance (Prudential
Supervision) Act 2010**

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

1. I have reviewed the actuarial information included in the audited accounts for Pacific Life Limited as at 31st December 2013. "Actuarial information" includes the following:
 - policy liabilities;
 - solvency calculations in terms of the RBNZ Solvency Standard;
 - balance sheet and other information allowed for in the calculation of the company's solvency position; and
 - disclosures regarding the methodology and assumptions used for calculating policy liabilities, and other disclosures.
2. No limitations have been placed on my work.

3. I am independent with respect to Pacific Life Limited as defined under professional standard ISA (NZ) 620 of the External Reporting Board.
4. I have been provided with all information that I have requested in order to carry out this review.
5. In my view the actuarial information contained in the financial statements has been appropriately included, and the actuarial information used in the preparation of the financial statements has been appropriately used.
6. Pacific Life's solvency margin as at 31st December 2013 exceeded the solvency margin requirement of the RBNZ solvency standard for Life Insurers by a significant margin. The company is also projected to exceed the minimum requirement at all times over the next three years.

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

Yours sincerely



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