SOVEREIGN ASSURANCE COMPANY LIMITED AND SUBSIDIARY

ANNUAL REPORT

For the year ended 30 June 2011

Directors' Report

The Directors have pleasure in presenting the Annual Report of Sovereign Assurance Company Limited and its subsidiary for the year ended 30 June 2011.

The shareholder of the Company has agreed to take advantage of the reporting concessions available to it under section 211(3) of the Companies Act 1993. Accordingly, there is no further information to be provided in this Annual Report other than the financial statements and auditor's report.

For and on behalf of the Board

Charles Anderson
Director

17 October 2011

Director

17 October 2011

SOVEREIGN ASSURANCE COMPANY LIMITED AND SUBSIDIARY

Financial Statements

For the year ended 30 June 2011

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INCOME STATEMENT

\$ millions *For the year ended 30 June*	Note	Sovereign Assurance Company Limited Consolidated **2011**	 2010	 Parent **2011**	 2010
Premium income	5	**548**	518	**548**	518
Reinsurance income	6	**60**	52	**60**	52
Investment income	7	**170**	177	**170**	182
Management fees and other income		**3**	-	**-**	-
Total Operating income		**781**	747	**778**	752
Reinsurance expenses	6	**65**	61	**65**	61
Claims, surrenders and maturities	8	**307**	362	**307**	362
Net change in Life insurance contract liabilities	18,19	**(59)**	(104)	**(59)**	(104)
Net change in Life investment contracts	18	**62**	29	**62**	29
Commission and management expenses	9	**250**	259	**249**	259
Total Operating expenses		**625**	607	**624**	607
Net profit before taxation		**156**	140	**154**	145
Taxation	10	**53**	22	**52**	22
Net profit after taxation attributable to shareholder	4	**103**	118	**102**	123

These statements are to be read in conjunction with the notes on pages 6 to 45 and the Auditor's Report on pages 46 and 47.

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STATEMENT OF COMPREHENSIVE INCOME

$ millions For the year ended 30 June	Note	Sovereign Assurance Company Limited Consolidated 2011	 2010	 Parent 2011	 2010
Net profit after taxation	4	**103**	118	**102**	123
Other Comprehensive income, net of taxation					
Loss on amalgamation*	2	**(6)**	-	**(6)**	-
Total Other comprehensive income, net of taxation		**(6)**	-	**(6)**	-
Total Comprehensive income		**97**	118	**96**	123

* A final transfer value for the amalgamation was calculated 11 August 2011, and an additional loss on amalgamation of $2m will be recorded in the 2012 financial year.

STATEMENT OF CHANGES IN EQUITY

Contributed Capital				
Balance at beginning of year	**452**	444	**452**	444
Proceeds from shares issued	**30**	8	**30**	8
	482	452	**482**	452
Retained Earnings				
Retained earnings at beginning of year	**165**	144	**164**	138
Total Comprehensive income	**97**	118	**96**	123
Ordinary dividends paid	**(74)**	(97)	**(74)**	(97)
Retained earnings at end of year	**188**	165	**186**	164
Dividends per ordinary share (cents)	**57**	97	**57**	97

BALANCE SHEET

$ millions *As at 30 June*	Note	Sovereign Assurance Company Limited Consolidated 2011	Consolidated 2010	Parent 2011	Parent 2010
ASSETS					
Financial Assets					
- Cash and cash equivalents	13	**571**	532	**564**	527
- Securities	12	**1,667**	1,509	**1,667**	1,509
- Derivative financial instruments	14	**7**	16	**7**	16
- Trade and other receivables	16	**53**	43	**53**	43
Reinsured Life insurance contracts	19	**69**	67	**69**	67
Current taxation asset		**58**	57	**58**	56
Investment in subsidiaries	15	**-**	-	**7**	7
Other assets	17	**17**	19	**16**	18
Total Assets		**2,442**	2,243	**2,441**	2,243
Financed by:					
LIABILITIES					
Life insurance contract liabilities	18	**361**	270	**361**	270
Financial Liabilities					
- Life investment contracts	18	**933**	884	**933**	884
- Derivative financial instruments	14	**-**	6	**-**	6
- Deposited reserves	19	**39**	39	**39**	39
- Amounts due to subsidiaries	24	**-**	-	**1**	1
- Trade and other payables	21	**87**	126	**87**	126
Deferred taxation liability	20	**352**	301	**352**	301
Total Liabilities		**1,772**	1,626	**1,773**	1,627
SHAREHOLDER'S EQUITY					
Contributed capital	22	**482**	452	**482**	452
Retained earnings		**188**	165	**186**	164
Total Shareholder's equity		**670**	617	**668**	616
Total Liabilities and Shareholder's equity		**2,442**	2,243	**2,441**	2,243

For and on behalf of the Board

Charles Anderson
Director

[signature]
Director

17 October 2011

17 October 2011

These statements are to be read in conjunction with the notes on pages 6 to 45 and the Auditor's Report on pages 46 and 47.

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CASH FLOW STATEMENT

$ millions *For the year ended 30 June*	Note	Sovereign Assurance Company Limited Consolidated 2011	 2010	 Parent 2011	 2010
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash was provided from:					
Premium receipts		**592**	578	**592**	578
Dividend receipts		**16**	11	**16**	16
Interest receipts		**56**	49	**56**	49
Management and other fees		**2**	1	**-**	-
Net receipts from related parties for tax related items	24	**3**	23	**3**	23
		669	662	**667**	666
Cash was applied to:					
Claims, surrenders and maturities payments		**477**	437	**477**	437
Net reinsurance payments		**8**	6	**8**	6
Commission payments		**122**	139	**122**	139
Payments to suppliers and employees		**125**	117	**125**	117
Net tax payments		**12**	4	**12**	4
		744	703	**744**	703
Net Cash flows from operating activities		**(75)**	(41)	**(77)**	(37)
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash was provided from:					
Proceeds from sale of Securities		**1,313**	1,143	**1,313**	1,143
Net forward foreign exchange contract gains		**62**	121	**62**	121
Amalgamation of CMLA, net of cash acquired	2	**11**	-	**11**	-
		1,386	1,264	**1,386**	1,264
Cash was applied to:					
Purchase of Securities		**1,226**	1,133	**1,226**	1,133
Net movement in related party balances		**2**	2	**2**	1
		1,228	1,135	**1,228**	1,134
Net Cash flows from investing activities		**158**	129	**158**	130
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash was provided from:					
Share capital issue	22	**30**	8	**30**	8
		30	8	**30**	8
Cash was applied to:					
Dividends		**74**	97	**74**	97
Net Cash flows from financing activities		**(44)**	(89)	**(44)**	(89)

CASH FLOW STATEMENT *(continued)*

$ millions *For the year ended 30 June*	Note	Sovereign Assurance Company Limited Consolidated 2011	2010	Parent 2011	2010
SUMMARY OF MOVEMENTS IN CASH FLOWS					
Net increase / (decrease) in Cash and cash equivalents		**39**	(1)	**37**	4
Add: Cash and cash equivalents at beginning of year		**532**	533	**527**	523
Cash and cash equivalents at end of year		**571**	532	**564**	527
Represented by:					
Cash at bank and on deposit	13	**565**	528	**558**	523
Foreign currency deposits	13	**6**	4	**6**	4
		571	532	**564**	527
RECONCILIATION OF NET PROFIT AFTER TAXATION TO NET CASH FLOWS FROM OPERATING ACTIVITIES					
Net profit after taxation	4	**103**	118	**102**	123
Add: Non-cash items and items classified as investing and financing activities					
Net realised and unrealised gains		**(88)**	(112)	**(88)**	(112)
Non-cash dividends received		**(14)**	(7)	**(14)**	(7)
Deferred acquisition cost amortisation	17	**2**	2	**2**	2
Change in Life insurance contract liabilities recognised in Income Statement - decrease	18	**(59)**	(104)	**(59)**	(104)
Change in Life investment contracts recognised in Income Statement - increase	18	**62**	29	**62**	29
		(97)	(192)	**(97)**	(192)
Add: Movements in Balance Sheet items					
Trade and other receivables - decrease		**-**	3	**-**	2
Trade and other payables - (decrease) / increase		**(52)**	50	**(52)**	50
Net Income tax liability - increase		**44**	42	**43**	42
Life insurance contract liabilities - savings premium, claims, maturities and surrenders (net)	18	**-**	-	**-**	-
Life investment contracts - savings premium, claims, maturities and surrenders (net)	18	**(73)**	(62)	**(73)**	(62)
		(81)	33	**(82)**	32
Net Cash flow from operating activities		**(75)**	(41)	**(77)**	(37)

1. Statement of Accounting Policies

General Accounting Policies

Sovereign Assurance Company Limited (the "Company") is a company registered under the Companies Act 1993, domiciled and incorporated in New Zealand. The Company is an issuer under the Financial Reporting Act 1993. The financial statements presented are those for Sovereign Assurance Company Limited and its subsidiary (the "Group"). The Company is 100% owned by Sovereign Limited. The ultimate parent is the Commonwealth Bank of Australia. The Company's registered address is Level 28, ASB Bank Centre, 135 Albert Street, Auckland. The principal areas of business of the Company and Group are life insurance and investment management.

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

The financial statements comply with the Financial Reporting Act 1993 and the Companies Act 1993. They were approved for issue by the Directors on 18 October 2011.

The following new standards and amendments to standards relevant to the Group have been adopted from 1 July 2010 in accordance with the transitional provisions and have been applied in the preparation of these financial statements. Adoption of the standards has not resulted in any changes to the Group's reported profit or financial position.

> Certain amendments to NZ IFRS effective for periods beginning on or after 1 January 2010 that have been made as part of the International Accounting Standards Board's annual improvements process (*Improvements to NZ IFRS 2009*).
>
> *Improvements to NZ IFRS 2010* includes various amendments effective for periods beginning on or after 1 July 2010.

The following new standards and amendments to standards relevant to the Group have been issued and are available for early adoption. The Group does not intend to apply these standards until their effective dates.

> NZ IFRS 9 *Financial Instruments* replaces part of NZ IAS 39 *Financial Instruments: Recognition and Measurement* and will be mandatory for the Group's financial statements for the year beginning 1 July 2013. It establishes two primary measurement categories for financial assets: amortised cost and fair value, with classification depending on an entity's business model and the contractual cash flow characteristics of the financial asset. Additionally, requirements for financial liabilities, including measurement guidance were added to the standard in October 2010. The Group is in the process of evaluating the potential effect of this standard.
>
> NZ IAS 24 *Related Party Disclosures* (Revised) will be effective for the year beginning 1 July 2011. It changes the definition of a related party to remove inconsistency and asymmetry of relationships. The impact on the financial statements of the Group is not expected to be material.

Basis of Preparation

The measurement base adopted is historical cost, modified by the fair value measurement of financial instruments held at fair value through profit or loss and all derivative contracts.

Critical Accounting Judgements and Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The valuation of financial instruments (refer Note 28), Life insurance contract liabilities including claims reserves, (refer Note 18), Life investment contracts (refer Note 18), Derivative financial instruments (refer Note 14), Taxation (refer Note 20) and Provisions for impairment loss (refer Note 30) all require estimates to be made. Actual results could differ from these estimates, although other than for the computation of tax provisions, it is not anticipated that such differences would be material. Uncertainties exist with respect to the interpretation of complex tax regulations for life insurance activities. Given the complexity of life insurance tax legislation and the assumptions involved, material adjustments to income tax expense in future years may be required.

Management has applied its judgement in selecting the accounting policy to designate financial assets at fair value through profit or loss at inception. This policy has a significant impact on the amounts disclosed in the financial statements. It is possible to determine the fair values of all financial assets as either quoted market prices are readily available or observable market inputs are readily available for those financial assets where fair value is estimated using valuation techniques.

Presentation Currency and Rounding

The functional and presentation currency of the Group is New Zealand dollars. The amounts contained in the financial statements and notes are presented in millions of New Zealand dollars, unless otherwise stated.

Particular Accounting Policies

All policies have been applied on a basis consistent with that used in the year ended 30 June 2010.

1. Statement of Accounting Policies *(continued)*

A Glossary of Terms included within the Statement of Accounting Policies is set out on pages 13 and 14.

(a) Basis of Consolidation

Subsidiaries

Subsidiaries are those entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of entities so as to obtain benefits from their activities. The financial statements of subsidiaries are included in the Group's financial statements using the purchase method of consolidation. All intra-group balances and transactions have been eliminated in preparing the consolidated financial statements.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

Acquisition During the Year

Where an entity is acquired by the Group during the year, the results of that entity are included in the Income Statement of the Group from the date that control or significant influence commenced. The purchase method of accounting is used to account for the acquisition of subsidiaries from unrelated parties. The cost of an acquisition is measured as the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration agreement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognised any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

In the case of acquisitions of entities under common control, the assets and liabilities of the acquired entities are initially included in the consolidated financial statements at their book values at the date of acquisition. The difference between the cost of acquisition and the share of the book value of net assets of the entity acquired is recorded directly in equity.

Group Company Acting as Superannuation Scheme Manager

The assets and liabilities of superannuation schemes managed by Sovereign Superannuation Funds Limited are not included in the Group financial instruments.

(b) Foreign Currency Translation

All foreign currency monetary assets and liabilities are translated to New Zealand currency at the exchange rate ruling as at balance date. Foreign currency forward and swap positions are valued at fair value as at balance date. Unrealised gains and losses arising from these revaluations are recognised immediately in the Income Statement.

Non-monetary assets and liabilities denominated in foreign currencies, measured at fair value, are translated to New Zealand currency at the exchange rate ruling at the dates that the values were determined. Foreign currency exchange differences relating to Securities and Derivative financial instruments are included in Investment income.

Foreign currency transactions are translated to New Zealand currency at the exchange rate ruling at the date of the transaction.

(c) Revenue Recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group, and that the revenue and stage of completion of the transaction can be reliably measured. The principal sources of revenue are Premium income and Investment income.

Premium Income

(i) Life Insurance Contracts

Premiums received for providing services and bearing risks are recognised as revenue on an accrual basis.

(ii) Life Investment Contracts

Premiums received have the fee portion of the premium recognised as revenue on an accrual basis and the deposit portion recognised as an increase in Life investment contracts.

Initial entry fee income on investment contracts is recognised as revenue at the outset of the contract only if a specific initial service (for which the fee relates) is provided by the Group at that time. Otherwise initial entry fee income is deferred as a component of Life investment contracts and amortised as related services are provided under the contract.

1. Statement of Accounting Policies *(continued)*

(c) Revenue Recognition *(continued)*

Investment Income

Interest income is recognised in the Income Statement as it accrues. Dividend income and unit trust distributions are recognised in the Income Statement when the Group's right of receipt is established. Realised and unrealised gains and losses from fair value remeasurement of financial instruments are included in Investment income.

Management fees and Other Income

Other income is recognised on an accrual basis.

(d) Expense Recognition

All expenses are recognised in the Income Statement on an accrual basis.

Claims, Surrenders and Maturities

Life insurance contract claims are recognised as an expense when a liability has been established. Claims under Life investment contracts represent withdrawals of investment deposits and are recognised as a reduction in Life investment contracts.

Other Expenses

Other expenses incorporate all other expenditure involved in running the Group including costs of new business, employee benefits, depreciation, interest and other management costs. Employee benefits include salaries and wages, annual and long service leave, annual bonuses, Kiwisaver contributions, and premiums on employee life, disability income and medical schemes. Expenses in this category are recognised in the Income Statement as follows:

Commission and Management Expenses

Commission and management expenses are categorised into acquisition, investment management or maintenance costs on the basis of a detailed functional analysis of activities carried out by the Group. Expenses are further categorised into life insurance and life investment expenses based on new business volumes (acquisition costs) and in force volumes (maintenance and investment management costs).

Acquisition Costs

Acquisition costs are the fixed and variable costs of acquiring new business including commissions and similar distribution costs, and the costs of accepting, issuing and initially recording policies. They do not include general growth and development costs incurred by the Group as these do not directly relate to specific life insurance policies.

Acquisition Costs - Life Insurance Contracts

Where overall product profitability of new business written during the year is expected to support the recovery of acquisition costs incurred in that year, these costs are effectively deferred as an element of Life insurance contract liabilities and amortised over the life of the policies written. Unamortised acquisition costs are a component of Life insurance contract liabilities. Amortisation of acquisition costs is recognised in the Income Statement as a component of Net change in Life insurance contract liabilities at the same time as policy margins are released.

Acquisition Costs - Life Investment Contracts

Commission that varies with and is directly related to securing new contracts is capitalised as a deferred acquisition cost asset. All other acquisition costs are recognised as expenses in the Income Statement when incurred. The deferred acquisition cost asset is subsequently amortised over the life of the contracts and is recognised in the Income Statement. Unamortised acquisition costs are recorded in Other assets.

Maintenance and Investment Management Expenses

Maintenance costs are the fixed and variable costs of administering policies subsequent to sale. These include general growth and development costs. Maintenance costs include all operating costs other than acquisition and investment management costs.

Investment management costs are the fixed and variable costs of managing investment funds. Maintenance and investment management costs are recognised in the Income Statement on an accrual basis.

Other

Other expenses for the Group are recognised in the Income Statement on an accrual basis.

1. Statement of Accounting Policies *(continued)*

(e) Dividend Recognition

Ordinary dividends are recognised as a movement in equity in the year within which they have been paid.

(f) Financial Instruments

Basis of Recognition and Measurement

The Group classifies financial instruments into one of the following categories at initial recognition: financial assets at fair value through profit or loss, available for sale financial assets, loans and receivables, held to maturity, financial liabilities at fair value through profit or loss, and other financial liabilities. Regular purchases and sales of financial assets are recognised and derecognised, as applicable, using trade date accounting.

Some of these categories require measurement at fair value. Where available, quoted market prices are used as a measure of fair value. Where quoted market prices do not exist, fair values are estimated using present values or other market accepted valuation techniques, using methods and assumptions that are based on market conditions and risks existing as at the balance date.

Financial assets that are stated at cost or amortised cost are reviewed at each balance date to determine whether there is objective evidence of impairment. If any such evidence exists, the asset's recoverable amount is calculated using the present value of future estimated cash flows discounted at the original effective interest rate. An impairment loss is recognised in the Income Statement for the difference between the carrying amount and the recoverable amount. An impairment loss is reversed if the subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. The impairment loss is reversed only to the extent that the financial asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

Financial Assets at Fair Value Through Profit or Loss

Assets in this category are measured at fair value at inception and on an ongoing basis and include:

Securities

Investments held by life insurance companies are stated at fair value. The financial assets in this category have been designated at inception as fair value through profit or loss because they back Life insurance contract liabilities or Life investment contracts. Purchases and sales of these Securities are recorded on a trade date basis. Gains and losses arising from the fair value remeasurement of Securities are included as part of Investment income in the Income Statement.

Assets included within Securities are as follows:

(i) Shares in Listed Companies, Unit Trusts and Managed Funds

Shares and units are recognised at fair value based on the bid market price quoted by the stock exchange or fund manager.

(ii) Fixed Interest Securities

Fixed interest securities are recognised at fair value based on a quoted bid market price.

(iii) Mortgages and Loans on Policies

Mortgages and loans on policies are recognised at fair value based on a market accepted valuation technique, using methods and assumptions that are based on market conditions and risks existing at the balance date.

Derivative Assets
Derivative assets that do not meet the criteria for hedge accounting are recorded at fair value through profit or loss. Refer to (g) for more details on derivatives.

Reinsured Life Investment Contracts
Refer to (l) for details on reinsured Life investment contracts.

Available for Sale Financial Assets
Available for sale financial assets are measured at fair value, with changes in fair value recognised directly in Shareholder's equity. The Group has not classified any financial assets in this category.

Loans and Receivables
Assets in this category are recognised initially at fair value plus transaction costs and are subsequently measured at amortised cost less any allowance for uncollectible amounts and include:

Cash and Cash Equivalents
Cash and cash equivalents include bank current accounts and cash on deposit, readily convertible to known amounts of cash, that are subject to an insignificant risk of changes in value. They are brought to account at face value and interest is taken to the Income Statement when earned.

1. Statement of Accounting Policies *(continued)*

(f) Financial Instruments *(continued)*

Trade and Other Receivables

Trade and other receivables include securities sold but not delivered, income receivable, amounts due from reinsurers, amounts due from related parties, amounts due from agents and other trade debtors.

Held to Maturity

Assets in this category are measured at amortised cost. The Group has not classified any financial assets as held to maturity.

Derecognition of Financial Assets

A financial asset is derecognised when the rights to receive cash flows from the asset have expired, or the Group has transferred its rights to receive cash flows from the asset.

Financial Liabilities at Fair Value Through Profit or Loss

Liabilities in this category are measured at fair value. Gains and losses arising from the fair value re-measurement of financial liabilities at fair value through profit or loss are included in the Income Statement. Financial liabilities included within financial liabilities at fair value through the profit or loss include:

Life Investment Contracts

Refer to (l) for details on Life investment contracts.

Derivative Liabilities

Derivative liabilities that do not meet the criteria for hedge accounting are recorded at fair value through profit or loss. Refer to (g) for more details on derivatives.

Deposited Reserves

Refer to (l) for details on Deposited reserves.

Other Financial Liabilities

This category includes all financial liabilities other than those designated by the Group as fair value through profit or loss. Liabilities in this category are measured at amortised cost and include:

Trade and Other Payables

Trade and other payables includes trade creditors and accruals, amounts due to reinsurers, and amounts due to related parties. These items are recognised when due and are measured on initial recognition at the fair value of consideration received less transaction costs. After initial recognition they are measured at amortised cost.

Derecognition of Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

(g) Derivative Financial Instruments

Forward exchange contracts are used to reduce the Group's exposure to foreign exchange movements affecting the market value of the Group's investments denominated in foreign currencies.

The Group recognises derivatives in the Balance Sheet at their fair value. Derivative assets are the fair value of derivatives which have a positive fair value. Derivative liabilities are the fair value of derivatives which have a negative fair value. Derivatives are recorded at fair value based on market accepted valuation techniques using observable market inputs.

Derivative Financial Instruments at Fair Value Through Profit or Loss

The Group has not used hedge accounting to account for any transaction in the financial statements. All derivatives that do not meet the criteria for hedge accounting under NZ IAS 39 *Financial Instruments: Recognition and Measurement* are classified as held for trading. This includes derivatives transacted to mitigate foreign currency risk. Changes in fair value are reflected in the Income Statement immediately when they occur.

(h) Investments in Subsidiaries

Investments in subsidiaries are recognised in the Balance Sheet at the lower of cost or recoverable amount. Investments in subsidiaries are assessed for impairment annually or more regularly where an indication of impairment exists. If any such indication exists, the asset's recoverable amount is estimated, and an impairment loss is recognised in the Income Statement for the difference between the carrying amount and the recoverable amount.

(i) Offsetting Financial Instruments

The Group offsets financial assets and financial liabilities and reports the net balance in the Balance Sheet where there is a legally enforceable right of set-off and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

1. Statement of Accounting Policies *(continued)*

(j) Taxation

Income tax on profit for the year comprises current and deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly within Shareholder's equity, in which case it is recognised directly in Shareholder's equity, or Other comprehensive income, in which case it is recognised directly within the Statement of Comprehensive Income.

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the amount of assets and liabilities, using tax rates enacted or substantively enacted as at balance date.

In accordance with NZ IAS 12 *Income Taxes*, a deferred taxation asset is recognised only to the extent that it is probable (i.e. more likely than not) that a future taxable profit will be available against which the asset can be utilised. Deferred taxation assets are reduced to the extent that it is no longer probable that the related tax asset will be realised. Any reduction is recognised in the Income Statement.

Tax losses are transferred among group companies through intercompany accounts at the current tax rate.

Life Insurance Tax

From 1 July 2010, life insurers have been subject to a new tax regime. Two tax bases are maintained; the shareholder base which is subject to tax on life risk products (premiums less claims) and net investment income from shareholder funds, and the policyholder base which is subject to tax on net investment income from policyholder funds. The life insurer pays tax on both bases at the prevailing corporate tax rate of 30% (30 June 2010 30%). As the life insurer is taxed as proxy for the policyholder, returns to policyholders are tax exempt.

Transitional provisions are included in the new regime which effectively maintain the historical tax treatment for most policies in force on 30 June 2010 for a period of time (five years in most cases). Under the previous tax regime, the life office base was subject to tax on investment income less expenses plus underwriting income, and tax was calculated on the policyholder base as benefits accrued to policyholders under the policies. The life insurer paid tax on the higher of the two bases at the company tax rate of 30% (30 June 2010 30%).

(k) Provisions

A provision is recognised in the Balance Sheet when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

(l) Life Insurance Business

Life Insurance Contract Liabilities and Life Investment Contracts – Classification

The Group's life insurance business is split between Life insurance contracts and Life investment contracts. Life insurance contracts are accounted for in accordance with the requirements of NZ IFRS 4 *Insurance Contracts*. Life investment contracts are accounted for in accordance with NZ IAS 18 *Revenue* and NZ IAS 39.

Life insurance contracts are those contracts that transfer significant insurance risk. Life investment contracts are those contracts with no significant insurance risk, but which give rise to a financial asset and / or liability under NZ IAS 39.

Contracts that contain a discretionary participation feature are also classified as Life insurance contracts.

Life Insurance Contract Liabilities and Margin on Services Profit

Life insurance contract liabilities are calculated in accordance with the Margin on Services ("MoS") methodology as set out in New Zealand Society of Actuaries Professional Standard 3: *Determination of Life Insurance Liabilities* and the requirements of NZ IFRS 4.

Life insurance contract liabilities are calculated in a way that allows for the systematic release of planned profit margins as services are provided to policy owners and the revenues relating to those services are received. Services used to determine profit recognition include the cost of expected insurance claims and annuity payments. Life insurance contract liabilities are generally determined as the present value of all future expected payments, expenses, taxes and profit margins reduced by the present value of all future expected premiums.

Profit is 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 (including tax) 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 and losses are realised where actual experience differs from best estimate assumptions. Instances giving rise to experience profits and losses include variations in claims, expenses, mortality, discontinuance and investment returns (to the extent the shareholder assumes investment risk).

1. Statement of Accounting Policies *(continued)*

(l) Life Insurance Business *(continued)*

(iii) *Changes to Underlying Assumptions*

Assumptions used for measuring Life insurance contract liabilities are reviewed each year. Where the review leads to a change in assumptions, the change is deemed to have occurred from the end of the year.

The financial effect of a change in discount rates resulting from changes in market conditions is recognised in the year that the rates are changed. The financial effect of all other changes to assumptions is recognised in the Income Statement over the future years during which services are provided to policyholders.

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

(iv) *Investment Earnings on Assets in Excess of Policy Liabilities*

Profits are generated from investment assets 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.

Life Investment Contracts

Life investment contracts are valued in accordance with NZ IAS 39.

All contracts issued by the Group that are classified as Life investment contracts are unit linked. The fair value of a unit linked contract is determined using the current unit values that reflect the fair value of the financial assets backing the contract, multiplied by the number of units attributed to the contract holder.

Identification of Assets Backing Life Investment Contracts

All contracts issued by the Group that are classified as Life insurance contract are non linked. The assets backing unit linked contracts are in separate investment funds from those backing non linked contracts.

Reinsurance

Contracts entered into by the Group with reinsurers that meet the definition of a Life insurance contract have been classified as an asset, Reinsured Life insurance contracts, in the Balance Sheet. Reinsurance contracts that do not meet this definition have been classified as a financial asset, Reinsured Life investment contracts.

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

Reinsurance recoveries for claims are recognised as Reinsurance income. Reinsurance premiums are recognised as Reinsurance expenses.

Reinsured Life insurance contracts are the present value of future reinsurance claims receivable and premiums payable by the Group.

Reinsured Life investment contracts are measured at fair value. The fair value is determined using the current unit values that reflect the fair value of the financial assets backing the contract, multiplied by the number of units attributed to the contract holder.

Deposited reserves are funds the Group holds for reinsurers. Deposited reserves are backed by Reinsured Life insurance contracts and Reinsured Life investment contracts. They are recognised as financial liabilities. Under NZ IAS 32 *Financial Instruments: Presentation*, Deposited reserves are offset against Reinsured Life investment contracts for presentation in the Balance Sheet to the extent that the Group has a legal right and intent to realise the Deposited reserves to simultaneously settle any reinsurance claims on those contracts.

(m) Retirement Benefits Obligations

The Group currently sponsors a defined benefit superannuation plan for its ex-employees. The assets and liabilities of these plans are held independently of the Group's assets in separate trustee administered funds.

Defined Benefit Plans

Defined benefit plans are formal or informal arrangements under which an entity provides post-employment benefits.

The liability or asset recognised in the Balance Sheet in respect of defined benefit superannuation plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in current and prior years; that benefit is discounted to determine the present value, and the fair value of the plans assets are deducted. The discount rate is the yield at balance date on government securities which have terms to maturity approximately the same as the related liability. The defined benefit calculation is performed using the projected unit credit method.

Where the calculation results in a benefit to the Group, the recognised asset is limited to the present value of any future employer contributions to the plan that can be funded from the plan surplus.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited directly to the Statement of Comprehensive Income. Current service costs are recognised immediately in income.

1. Statement of Accounting Policies *(continued)*

(n) Contingent Liabilities

The Group discloses a contingent liability when it has a possible obligation arising from past events, that will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Group's control. A contingent liability is disclosed when a present obligation is not recognised because it is not probable that an outflow of resources will be required to settle an obligation, or the amount of the obligation cannot be measured with sufficient reliability.

(o) Cash Flow Statement

This has been prepared using the direct approach, modified by the netting of cash flows associated with reinsurance due to the rights of set off, settlement of external tax balances and intercompany transactions including the group settlement of tax balances. Cash and cash equivalents are considered to be cash on hand, bank current accounts, cash on deposit and bank overdrafts. Cash flows are shown exclusive of Goods and Services Tax ("GST").

(p) Segment Reporting

The Group is not required to disclose geographic or operating segment information under NZ IFRS 8.2 *Operating Segments (amended)*. On this basis there are no disclosures relating to the Group's geographic or operating segments.

(q) Fair Value Estimates

Financial instruments classified as at fair value through profit or loss are presented in the Group's Balance Sheet at their fair value. For other financial assets and financial liabilities, fair value is estimated as follows:

Cash and Cash Equivalents
These assets are short term in nature and the carrying value is approximately equal to their fair value.

Trade and Other Receivables
The carrying amount in the Balance Sheet is considered a reasonable estimate of their fair value after making allowances for the fair value of non-accrual and potential problem loans and receivables.

Trade and Other Payables
These liabilities are short term in nature and the carrying value is approximately equal to their fair value.

(r) Comparative Data
Certain comparative figures have been reclassified to conform with the current year's presentation, but the impact of any reclassification is immaterial.

GLOSSARY OF TERMS

Available for Sale Financial Assets
Non-derivative financial assets intended to be held for an indefinite period of time, and which may be sold in response to needs for liquidity or changes in interest rates or exchange rates. They are recognised on acquisition at fair value plus transaction costs, and thereafter at fair value. Changes in the value of available for sale financial assets are reported in an available for sale reserve within Shareholder's equity, until the assets are sold or otherwise disposed of, or until they are impaired. On disposal, the accumulated change in fair value is transferred to the Income Statement and reported under Other income. Interest, premiums and discounts are amortised through the Income Statement using the effective yield method.

Discretionary Participation Feature
A contractual right to receive, as a supplement to guaranteed benefits, significant additional benefits, where the amount and timing of those additional benefits is at the discretion of the Group.

Amortised Cost of Financial Asset or Financial Liability
The amount at which a financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective yield method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Effective Yield Method
A method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective yield is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective yield, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective yield, transaction costs and all other premiums or discounts. The interest income or expense is allocated through the life of the instrument and is measured for inclusion in the Income Statement by applying the effective yield to its amortised cost.

Fair Value
The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

1. Statement of Accounting Policies *(continued)*

GLOSSARY OF TERMS *(continued)*

Fair Value Hedge
A hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

Financial Instruments at Fair Value through Profit or Loss
All financial assets and financial liabilities held for trading and any financial asset or financial liability that on initial recognition is designated by the Group as fair value through profit or loss. Assets and liabilities in this category are measured at fair value.

Hedge Effectiveness

The degree to which changes in the fair value or cash flows of the hedged items that are attributable to the hedged risk are offset by changes in the fair value or cash flows of the hedging instrument.

Hedge Ineffectiveness

The amount by which changes in the cash flow of the hedging derivative differ from changes (or expected changes) in the cash flow of the hedged item, or the amount by which the changes in the fair value of the hedging derivative differ from changes in the fair value of the hedged item. Such gains and losses are recorded in the Income Statement.

Hedged Item
An asset, liability, firm commitment or highly probable forecast transaction that exposes the Group to risk of changes in fair value or cash flows, and that is designated as being hedged.

Hedging Instrument

A designated derivative, the changes in fair value or cash flows of which are expected to offset changes in the fair value or cash flows of a designated hedged item.

Held to Maturity Investments
Non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Group has a positive intention and ability to hold to maturity. They are measured at amortised cost using the effective yield method.

Impairment Loss
The amount by which the carrying amount of an asset exceeds its recoverable amount.

Loans and Receivables

Non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Group has a positive intention and ability to hold to maturity. They are measured at amortised cost using the effective yield method.

Monetary Assets and Liabilities
Monetary items are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.

2. The Colonial Mutual Life Assurance Society Limited - New Zealand Branch Domestication

On 30 June 2011, the net assets of The Colonial Mutual Life Assurance Society Limited - New Zealand Branch ("CMLA") were acquired by the Company. The net profit of CMLA for the year ended 30 June 2011 was $2m (30 June 2010 $4m). Total consideration for the transfer was $30m ($28m cash and $2m payable) for net assets acquired of $24m. A loss on acquisition of $6m was recorded in Other comprehensive income and is a movement in Retained earnings in accordance with the accounting policy for common control transactions in Note 1(a). CMLA was registered under the Life Insurance Act 1908, and was a branch owned 100% by The Colonial Mutual Life Assurance Society Limited. The ultimate parent was the Commonwealth Bank of Australia. The principal areas of business are life insurance and investment management.

The amalgamation means that the New Zealand business can be administered solely in accordance with New Zealand law. This is expected to remove the duplication of activity from operating under two legal, accounting and actuarial regimes, namely Australia and New Zealand. As a consequence, regulatory, compliance and financial reporting costs are expected to be reduced.

The Notes to the Financial Statements include the closing balances of CMLA post amalgamation. The assets and liabilities of the Company at 30 June 2011 can be analysed as follows:

		Sovereign Assurance Company Limited			
		Parent			
$ millions	Note	Pre-Amalgamation	CMLA	Effect of Amalgamation	Post-Amalgamation
ASSETS					
Financial Assets					
- Cash and cash equivalents	13	553	39	(28)	564
- Securities	12	1,470	197	-	1,667
- Derivative financial instruments	14	7	-	-	7
- Trade and other receivables	16	47	7	(1)	53
Reinsured Life insurance contracts	19	69	-	-	69
Current taxation asset		64	-	(6)	58
Investment in subsidiaries	15	7	-	-	7
Other assets	17	16	-	-	16
Total Assets		2,233	243	(35)	2,441
Financed by:					
LIABILITIES					
Life insurance contract liabilities	18	213	148	-	361
Financial Liabilities					
- Life investment contracts	18	873	60	-	933
- Deposited reserves	19	39	-	-	39
- Amounts due to subsidiaries	24	1	-	-	1
- Trade and other payables	21	81	5	1	87
Current taxation liability		-	6	(6)	-
Deferred taxation liability	20	352	-	-	352
Total Liabilities		1,559	219	(5)	1,773
SHAREHOLDER'S EQUITY					
Contributed capital	22	482	-	-	482
Retained earnings		192	24	(30)	186
Total Shareholder's equity		674	24	(30)	668
Total Liabilities and Shareholder's equity		2,233	243	(35)	2,441

3. Actuarial Policies and Methods

Policy liabilities and solvency reserves as at 30 June 2011 were prepared by Doune Connett FNZSA.

Life insurance contract liabilities have been determined in accordance with Professional Standard 3 of the New Zealand Society of Actuaries and the requirements of NZ IFRS 4. The actuary is satisfied as to the accuracy of the data from which the amount of Life insurance contract liabilities has been determined.

Key assumptions used in determining Life insurance contract liabilities are as follows:

(a) Discount Rates

Business where Benefits are Contractually Linked to the Performance of Assets Held

The discount rates used to determine Life insurance contract liabilities reflect the expected future gross returns on the Group's current asset mix. Fixed interest investments were assumed to earn 5.1% pa (30 June 2010 5.3% pa) and equity investments 9.1% pa (30 June 2010 9.3% pa). The discount rates used for individual classes of business varied between 5.1% and 6.9% (30 June 2010 5.3% and 7.1%).

Other Business

The discount rate used to determine Life insurance contract liabilities is a risk free discount rate. For annuities and traditional non-participating business a rate of 5.1% pa was used (30 June 2010 5.3% pa). For other risk business a rate of 4.3% pa was used (30 June 2010 4.7% pa). These rates were based on the 10 year government bond rate and the 5 year government bond rate respectively.

(b) Profit Carriers

Policies are divided into related product groups with profit carriers and profit margins as follows:

Policy Type	**Carrier**
Risk	Insurance claims
Savings business	Funds Under Management/Investment management charges
Traditional participating business	Bonuses

(c) Investment and Maintenance Expenses

Future maintenance and investment expenses have been assumed at current levels in line with contractual fees set out in agreement with Sovereign Services Limited ("SSL") and ASB Group Investments Limited ("ASBGI"). Future inflation has been assumed to be 2.5% pa (30 June 2010 2.0% pa) for determining future expenses and inflation linked increases in benefits and premiums.

(d) Taxation

The rates of taxation enacted or substantially enacted at the date of the valuation are assumed to continue into the future. The corporate tax rate used is 28% (30 June 2010 30%). Allowance has been made for the "fair dividend rate" rules that apply to global equities, where tax is paid on 5% of the market value of investments, regardless of the actual rate of investment income. Policy liabilities are calculated net of tax.

(e) Rates of Growth of Unit Prices

Unit price growth is assumed to be equal to the assumed investment earning rates less tax and asset based charges for each product.

(f) Mortality and Morbidity

Projected future rates of mortality for insured lives are based on a proportion of the NZ97 tables. These are then adjusted by comparing the standard tables with the Group's own experience using geometric smoothing techniques or moving averages. Annuitant mortality is assumed to be a proportion of the PMA92 and PMF92 tables, adjusted for mortality improvements prior to and after the valuation date.

Assumptions are reviewed based on annual experience studies. There have been no significant changes in assumed mortality since 30 June 2010.

The proportions of NZ97 adopted range from 53% to 98% (30 June 2010 53% to 120%).

Future morbidity experience has been based on a combination of reinsurers' tables, industry tables, industry experience and internal investigations. For significant classes of business, internal experience is compared with reinsurers' tables using geometric smoothing techniques or moving averages.

There have been no significant changes to morbidity assumptions since 30 June 2010.

(g) Rates of Discontinuance

Assumptions for the incidence of withdrawal, partial termination and transfer of policies to paid-up are primarily based on investigations of the Group's own experience.

Discontinuance rates were reviewed at 30 June 2011.

Notes to the Financial Statements

For the year ended 30 June 2011

3. Actuarial Policies and Methods (continued)

Future rates of discontinuances are:

		Sovereign Assurance Company Limited									
		Consolidated									
Policy Duration		1	2	3	4	5	6	7	8	9	10+
As at 30 June 2011	**Age**										
Life Rate for Age	< 30	**13%**	**16%**	**17%**	**14%**	**14%**	**14%**	**13%**	**13%**	**13%**	**13%**
	30 - 39	**8%**	**11%**	**13%**	**13%**	**12%**	**10%**	**10%**	**10%**	**9%**	**9%**
	40 - 49	**9%**	**11%**	**12%**	**11%**	**11%**	**10%**	**9%**	**9%**	**9%**	**9%**
	50 - 64	**10%**	**13%**	**14%**	**14%**	**13%**	**12%**	**10%**	**10%**	**10%**	**11%**
	65+	**17%**	**20%**	**21%**	**21%**	**20%**	**19%**	**18%**	**18%**	**18%**	**18%**
Life Level to Age 80	< 30	**9%**	**13%**	**12%**	**8%**	**7%**	**7%**	**6%**	**5%**	**5%**	**5%**
	30 - 39	**8%**	**9%**	**8%**	**5%**	**5%**	**5%**	**4%**	**3%**	**3%**	**3%**
	40 - 49	**8%**	**9%**	**7%**	**5%**	**5%**	**4%**	**4%**	**3%**	**3%**	**3%**
	50 - 64	**6%**	**8%**	**6%**	**6%**	**5%**	**4%**	**4%**	**3%**	**3%**	**3%**
	65+	**6%**	**7%**	**6%**	**6%**	**5%**	**4%**	**4%**	**3%**	**3%**	**3%**
As at 30 June 2010											
Life Rate for Age	< 30	12%	15%	15%	15%	14%	14%	13%	13%	13%	13%
	30 - 39	8%	11%	12%	12%	11%	10%	10%	10%	10%	10%
	40 - 49	9%	11%	11%	10%	10%	9%	9%	9%	9%	9%
	50 - 64	9%	12%	14%	12%	12%	11%	10%	10%	10%	11%
	65+	16%	19%	20%	19%	18%	18%	17%	17%	17%	18%
Life Level to Age 80	< 30	9%	14%	11%	11%	10%	9%	7%	7%	7%	7%
	30 - 39	5%	8%	6%	6%	6%	5%	4%	4%	4%	4%
	40 - 49	7%	9%	6%	6%	5%	5%	3%	3%	3%	3%
	50 - 64	5%	8%	6%	5%	4%	4%	3%	3%	3%	3%
	65+	5%	7%	6%	5%	4%	4%	3%	3%	3%	3%

		Sovereign Assurance Company Limited			
		Consolidated			
As at 30 June		2011		2010	
		Life	Non- Life	Life	Non- Life
	Age				
Other Risk	< 30	**20%**	**17%**	20%	17%
	30 - 39	**13%**	**13%**	14%	13%
	40 - 49	**12%**	**13%**	13%	12%
	50 - 64	**8%**	**13%**	9%	13%
	65+	**7%**	**19%**	6%	19%

	Sovereign Assurance Company Limited	
	Consolidated	
As at 30 June	2011	2010
Participating	**4%**	4%
Savings	**11%**	10%

For the year ended 30 June	Sovereign Assurance Company Limited Consolidated 2011	2010

3. Actuarial Policies and Methods (continued)

(h) Basis of Calculation of Surrender Values

Surrender values are set using an asset share approach and taking into consideration equity between continuing and terminating policyholders. Surrender values were reviewed during the 2011 financial year which resulted in an increase for most policyholders.

(i) Participating Business

For most participating business, bonus rates are set such that, over long periods, the returns to policyholders are commensurate with the investment returns achieved on the relevant assets, together with other sources of profit arising from this business. Distributions are split between policyholders and shareholders with the valuation allowing for shareholders to share in distributions at a maximum allowable rate of 20% (30 June 2010 20%).

In applying the policyholders' share of profits to provide bonuses, consideration is given to equity between generations of policyholders and equity between the various classes and sizes of policies in force. Assumed future bonus rates included in Life insurance contract liabilities were set such that the present value of Life insurance contract liabilities equates to the present value of assets supporting the business together with assumed future investment returns, allowing for the shareholder's right to participate in distributions.

Assumed future bonus rates per annum for the major classes of individual participating business were:

		2011	2010
Ex-Prudential policies	Bonus rate on sum assured	**1.25%**	1.25%
	Bonus rate on existing bonus	**1.25%**	1.25%
Ex-NZI policies	Bonus rate on sum assured	**0.50%**	0.50%
	Bonus rate on existing bonus	**1.00%**	1.00%
Ex-Colonial policies	Bonus rate on sum assured	**0.40%**	-
	Bonus rate on existing bonus	**0.40%**	-

Ex-Metropolitan Life participating products are treated in the same manner as investment account contracts. The supportable bonus concept does not apply. Bonus rates were assumed to be 0% for 30 June 2011 (30 June 2010 0%).

(j) Impact of Changes in Assumptions

Refer to Note 1(l) for an explanation of the treatment of changes in actuarial assumptions on Life insurance contract liabilities. The impact of changes in actuarial assumptions made at 30 June 2011 are as follows:

	Sovereign Assurance Company Limited Consolidated			
$ millions	Effect on Future Profit Margins		Effect on Life Insurance Contract Liabilities	
As at 30 June	**2011**	2010	**2011**	2010
Assumption Change				
Market related changes to discount rates	**53**	4	**(2)**	2
Non-market related changes to discount rates	**-**	7	**-**	-
Mortality and morbidity	**9**	(52)	**4**	2
Discontinuance rates	**13**	(100)	**(2)**	-
Maintenance expenses	**(14)**	(14)	**-**	-
Net impact of taxation changes	**(9)**	(42)	**-**	(23)
Other assumptions	**(23)**	78	**-**	(3)

Assumption changes that have an effect on Life insurance contract liabilities have an equal and opposite effect on profit.

$ millions *For the year ended 30 June*	Note	Sovereign Assurance Company Limited Consolidated **2011**	 2010	 Parent **2011**	 2010
4. Net Profit After Taxation					
Net profit after taxation arose from:					
Life Insurance					
Planned margins of revenues over expenses		**57**	59	**57**	59
Difference between actual and assumed experience		**14**	9	**14**	9
Losses on groups of related products		**-**	7	**-**	7
Effects of changes in underlying assumptions		**3**	16	**3**	16
		74	91	**74**	91
Life Investment					
Planned margins of revenues over expenses		**9**	8	**9**	7
Difference between actual and assumed experience		**1**	(1)	**-**	-
		10	7	**9**	7
Investment earnings on assets in excess of Life insurance contract liabilities and Life investment contracts		**19**	20	**19**	20
Total Life activities		**103**	118	**102**	118
Net profit after taxation		**103**	118	**102**	118
Non-life Activities					
Dividend from subsidiary		**-**	-	**-**	5
Net profit after taxation		**103**	118	**102**	123

The disclosure of the components of operating profit after income tax expense are required to be separated between policyholders' and shareholder's interests. Only one column is presented, as any policyholder profits are an expense of the Group and not attributable to the shareholder.

5. Premium Income	Note	**2011**	2010	**2011**	2010
Life insurance contract premiums - disclosed in the Income Statement		**543**	518	**543**	518
Life investment contract fee portion of premiums - disclosed in the Income Statement		**5**	-	**5**	-
Life investment contract deposit premiums - disclosed in Life investment contract liabilities	18	**49**	63	**49**	63
		597	581	**597**	581

pwc

$ millions	Sovereign Assurance Company Limited			
	Consolidated		Parent	
For the year ended 30 June	**2011**	2010	**2011**	2010
6. Reinsurance				
Reinsurance recoveries - Life insurance contracts	**32**	30	**32**	30
Portfolio reinsurance recoveries	**10**	9	**10**	9
Reinsurance recoveries - Life investment contracts	**18**	13	**18**	13
Total Reinsurance income	**60**	52	**60**	52
Reinsurance risk premiums - Life insurance contracts	**36**	38	**36**	38
Portfolio reinsurance expenses	**10**	9	**10**	9
Reinsurance expenses - Life investment contracts	**19**	14	**19**	14
Total Reinsurance expenses	**65**	61	**65**	61

The Group has reinsurance agreements with three reinsurance companies in respect of all regular premium policies issued by Sovereign Assurance prior to January 2001 and all policies issued by Metropolitan Life. The reinsurance of policies is principally structured on a modified risk premium co-insurance basis. In addition, risk premiums are paid in relation to benefits reassured. Profits arising to the reinsurers on this business are shared with the Group.

The Group has reinsured 93.1% of all Metropolitan Life business (30 June 2010 93.1%). Policy reserves are deposited back by the reinsurers.

The amounts repayable to the reinsurers under these agreements are subordinated to the claims of policyholders.

The Group has also entered into a number of surplus reinsurance arrangements covering mortality and morbidity risks.

7. Investment Income

	2011	2010	2011	2010
Life Insurance Contracts				
Income from:				
Equity securities	**32**	16	**32**	16
Fixed interest securities	**40**	83	**40**	83
Loans on policies	**1**	2	**1**	2
Property investments	**2**	5	**2**	5
	75	106	**75**	106
Life Investment Contracts				
Income from:				
Equity securities	**79**	49	**79**	49
Fixed interest securities	**14**	21	**14**	21
Property investments	**2**	1	**2**	1
	95	71	**95**	71
Other Investment Income				
Dividend from subsidiary	**-**	-	**-**	5
	-	-	**-**	5
Total Investment Income				
Income from:				
Equity securities	**111**	65	**111**	65
Fixed interest securities	**54**	104	**54**	104
Loans on policies	**1**	2	**1**	2
Property investments	**4**	6	**4**	6
Other investment income	**-**	-	**-**	5
Total Investment income	**170**	177	**170**	182

Included within Equity securities is dividend income of $30m (30 June 2010 $18m) for consolidated and $30m (30 June 2010 $23m) for parent. Included within Total Investment income is net interest income of $52m (30 June 2010 $47m) for both consolidated and parent, and net realised and unrealised gains of $88m (30 June 2010 $112m) for both consolidated and parent, including realised and unrealised gains on Derivative financial instruments of $59m (30 June 2010 $94m).

Income from Equity securities includes distributions from unit trusts.

$ millions		Sovereign Assurance Company Limited			
		Consolidated		Parent	
For the year ended 30 June	Note	2011	2010	2011	2010
8. Claims, Surrenders and Maturities					
Life Insurance Contracts					
Death, disability and medical claims		**264**	265	**264**	265
Maturities		**17**	18	**17**	18
Surrenders		**22**	74	**22**	74
Annuities		**4**	5	**4**	5
		307	362	**307**	362
Risk claims - disclosed in the Income Statement		**307**	362	**307**	362
		307	362	**307**	362
Life Investment Contracts					
Deaths		**2**	4	**2**	4
Surrenders		**120**	121	**120**	121
		122	125	**122**	125
Deposit claims - disclosed in Life investment contracts	18	**122**	125	**122**	125
		429	487	**429**	487
Death, disability and medical claims		**266**	269	**266**	269
Maturities		**17**	18	**17**	18
Surrenders		**142**	195	**142**	195
Annuities		**4**	5	**4**	5
Total Claims, surrenders and maturities		**429**	487	**429**	487
Risk claims - disclosed in the Income Statement		**307**	362	**307**	362
Deposit claims - disclosed in Life investment contracts		**122**	125	**122**	125
Total Claims, surrenders and maturities		**429**	487	**429**	487
9. Commission and Management Expenses					
Life Insurance Contract Expenses					
Acquisition costs:					
Commission		**58**	85	**58**	85
Management expenses		**59**	54	**59**	54
		117	139	**117**	139
Maintenance costs:					
Commission		**59**	50	**59**	50
Management expenses		**55**	48	**55**	48
		114	98	**114**	98
Investment management costs		**3**	5	**3**	5
Total Life insurance contract expenses		**234**	242	**234**	242
Life Investment Contract Expenses					
Acquisition costs:					
Commission		**-**	1	**-**	1
Management expenses		**-**	1	**-**	1
Deferred acquisition cost amortisation		**2**	2	**2**	2
		2	4	**2**	4
Maintenance costs:					
Commission		**4**	4	**4**	4
Management expenses		**6**	7	**6**	7
		10	11	**10**	11
Investment management costs		**3**	2	**3**	2
Total Life investment contract expenses		**15**	17	**15**	17
Total Life expenses		**249**	259	**249**	259

$ millions *For the year ended 30 June*	Note	Consolidated 2011	Consolidated 2010	Parent 2011	Parent 2010
		Sovereign Assurance Company Limited			
9. Commission and Management Expenses *(continued)*					
Life Expenses					
Acquisition costs:					
Commission		**58**	86	**58**	86
Management expenses		**59**	55	**59**	55
Deferred acquisition cost amortisation		**2**	2	**2**	2
		119	143	**119**	143
Maintenance costs:					
Commission		**63**	54	**63**	54
Management expenses		**61**	55	**61**	55
		124	109	**124**	109
Investment management costs		**6**	7	**6**	7
Total Life expenses		**249**	259	**249**	259
Non-life Expenses					
Management expenses: superannuation		**1**	-		-
Total Non-life expenses		**1**	-	-	-
Total Commission and management expenses		**250**	259	**249**	259

Additional Disclosures

The audit fee for the Group's statutory audit performed by PricewaterhouseCoopers is met by SSL, a fellow Commonwealth Bank of Australia subsidiary.

Employee benefits expense: Staff for the Group are employed by SSL. SSL recovers acquisition and maintenance fees from the Group, therefore there is no employee benefits expense included above.

Fiduciary expenses of $6m (30 June 2010 $7m) were paid to ASBGI, a fellow Commonwealth Bank of Australia subsidiary, for the provision of asset management services.

10. Taxation

Taxation expense comprises:	Note	Consolidated 2011	Consolidated 2010	Parent 2011	Parent 2010
Value of current year tax profits / (losses)		**6**	(1)	**5**	-
Adjustment to prior year		**(4)**	(4)	**(4)**	(4)
Deferred taxation - current year	20	**51**	28	**51**	27
Deferred taxation - prior year	20	**-**	(1)	**-**	(1)
Total Taxation expense		**53**	22	**52**	22

The effective tax rate on the Group's profit before tax differs from the theoretical amount that would arise using the domestic rate as follows:

	Consolidated 2011	Consolidated 2010	Parent 2011	Parent 2010
Net profit before taxation	**156**	140	**154**	145
Tax at the domestic rate	**47**	42	**46**	44
Tax impact of income not subject to taxation	**(85)**	(130)	**(85)**	(132)
Tax impact of expenses not deductible for tax purposes	**95**	133	**95**	133
Prior year tax deductions not previously recognised	**(4)**	(4)	**(4)**	(4)
Effect of change in tax rate	**-**	(19)	**-**	(19)
Total Taxation expense	**53**	22	**52**	22
The weighted average effective tax rate was:	**34%**	16%	**34%**	15%

The change in the effective tax rate for the year ended 30 June 2011 is due to the change in the movement in policyholder reserves, the impact of the tax treatment of Investment income and the new life income tax rules.

A net taxable profit of $20m (30 June 2010 loss of $3m) has been generated by the Group for the year. Provisional tax payments of $11m (30 June 2010 $4m) have been made.

The Company, together with a number of its subsidiary companies form a consolidated group for income tax purposes (the "Consolidated Tax Group"). The members of the Consolidated Tax Group are Sovereign Assurance Company Limited, ASB Group (Life) Limited, Westside Properties Limited and Jacques Martin New Zealand Limited. The availability of income tax losses carried forward and recognised is subject to statutory requirements being met.

11. Imputation Credit Account

Dividends paid by companies may attach imputation credits representing the New Zealand tax already paid by the company or tax group on profits. New Zealand resident shareholders may claim a tax credit to the value of the imputation credit attached to dividends.

The Company has formed an imputation group with other members of the Commonwealth Bank of Australia Group ("the ICA Group"). The closing imputation credit account balances presented below represent the imputation credits available to all members of the ICA Group.

$ millions		ICA Group	
For the year ended 30 June	Note	**2011**	2010
Imputation Credit Account			
Balance at beginning of year		**291**	56
Net income tax paid		**204**	307
Imputation credits attached to dividends received		**1**	4
Less: Imputation credits attached to dividends paid		**(139)**	(76)
Acquired on amalgamation		**13**	-
Less: Imputation credits forfeited upon amalgamation	2	**(13)**	-
Balance at end of year		**357**	291

		Sovereign Assurance Company Limited			
		Consolidated		Parent	
As at 30 June		**2011**	2010	**2011**	2010
12. Securities					
Equity Securities					
Shares in listed companies		**394**	240	**394**	240
Unit trusts and managed funds		**497**	455	**497**	455
		891	695	**891**	695
Fixed Interest Securities	13a	**729**	756	**729**	756
Mortgage Investments					
Mortgages	13a	**7**	7	**7**	7
Loans on policies		**28**	23	**28**	23
		35	30	**35**	30
Property Investments					
Unit trusts and managed funds		**12**	28	**12**	28
		12	28	**12**	28
Total Securities		**1,667**	1,509	**1,667**	1,509

As at 30 June 2011 no Securities were pledged under repurchase agreements or other arrangements (30 June 2010 Nil). A current / non current split has not been presented because Securities are liquid assets and the timing of realisation is not known.

Included within Securities are the following investments backing Life Insurance Contract Liabilities :

	2011	2010	**2011**	2010
Equity securities	**288**	160	**288**	160
Fixed interest securities	**601**	590	**601**	590
Property investments	**7**	10	**7**	10
	896	760	**896**	760

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$ millions *As at 30 June*	Sovereign Assurance Company Limited			
	Consolidated		**Parent**	
	2011	2010	**2011**	2010
12. Securities *(continued)*				
12a Fixed Interest Securities				
New Zealand government stock	**482**	200	**482**	200
Corporate bonds	**35**	49	**35**	49
Medium term notes	**-**	30	**-**	30
Foreign government stock	**212**	477	**212**	477
	729	756	**729**	756
Maturity analysis:				
Under one year	**14**	34	**14**	34
Between one and two years	**13**	21	**13**	21
Between two and three years	**9**	16	**9**	16
Between three and four years	**84**	81	**84**	81
Between four and five years	**65**	71	**65**	71
Greater than five years	**544**	533	**544**	533
	729	756	**729**	756

12b Mortgage Valuations

Securities include mortgages carried at an estimated fair value of $7m (30 June 2010 $7m). This fair value was derived using a valuation technique that uses experienced judgement to estimate the credit risk component of the valuation. This experienced judgement is not supported by observable market prices; it is based on assessments concerning economic conditions, loss experience, and the risk characteristics associated with particular mortgages. These assessments are subjective in nature and the range of possible alternative assumptions is considered immaterial. The impact of credit risk on the fair value of mortgages as at 30 June 2011 is $1m (30 June 2010 $1m). The change in fair value due to changes in credit risk for the year ended 30 June 2011 is Nil (30 June 2010 Nil).

Maturity analysis:				
Less than 12 months	1	1	1	1
Greater than 12 months	6	6	6	6
	7	7	7	7

12c Loans on Policies

There is no maturity analysis presented because there are no fixed maturity dates or obligations on the policyholder to repay the loans. The loans are fully secured against customer life investment and life insurance policies.

13. Cash and Cash Equivalents

Cash at bank and on deposit	**565**	528	**558**	523
Foreign currency deposits	**6**	4	**6**	4
Total Cash and cash equivalents	571	532	564	527

14. Derivative Financial Instruments

Non-hedge Derivatives at Fair Value Through Profit or Loss

The Group enters into derivative transactions which provide economic hedges for risk exposures but do not meet the accounting requirements for hedge accounting treatment. As stated in Note 1, Statement of Accounting Policies, part (g) Derivative Financial Instruments, the Group purchases forward currency contracts as economic hedges to manage foreign exchange risk. Gains or losses on the forward contracts have been recorded in Investment Income with the gains or losses on the Securities they have hedged.

The forward currency contracts taken out do not exceed three months. At balance date these contracts have varying maturity dates.

Notional and Fair Values

The notional amount is the contractual amount of the derivatives and provides a basis for comparison with instruments recognised on the Balance Sheet. This amount is not necessarily exchanged and does not indicate the Group's exposure to credit risk. The amount predominantly acts as a reference value upon which net settlements can be calculated and on which revaluation is based. The "Face Value" of Derivative financial instruments on hand, the favourable or unfavourable market values of these instruments, and the consequent aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of Derivative financial instruments held are set out in the following table:

	Sovereign Assurance Company Limited					
	Consolidated			Parent		
$ millions	Notional	Fair Value		Notional	Fair Value	
As at 30 June 2011	Amount	Assets	Liabilities	Amount	Assets	Liabilities
Held for Trading Derivatives						
Exchange Rate Contracts						
Forward contracts - buy	5	-	-	5	-	-
Forward contracts - sell	782	7	-	782	7	-
Total Exchange rate contracts	787	7	-	787	7	-
Total Derivative financial instruments		7	-		7	-
As at 30 June 2010	Notional Amount	Fair Value Assets	Fair Value Liabilities	Notional Amount	Fair Value Assets	Fair Value Liabilities
Held for Trading Derivatives						
Exchange Rate Contracts						
Forward contracts - buy	38	1	-	38	1	-
Forward contracts - sell	872	15	6	872	15	6
Total Exchange rate contracts	910	16	6	910	16	6
Total Derivative financial instruments		16	6		16	6

15. Investment in Subsidiaries

The Company has an interest in the following entity:

Entity Name	Nature of Business	%	Balance Date
Sovereign Superannuation Funds Limited	Superannuation scheme manager	100	30 June

Sovereign Superannuation Funds Limited was incorporated in New Zealand.

$ millions *As at 30 June*	Note	Sovereign Assurance Company Limited Consolidated 2011	Consolidated 2010	Parent 2011	Parent 2010
16. Trade and Other Receivables					
Investment receivables		**19**	18	**19**	18
Agent balances receivable		**2**	1	**2**	1
Outstanding premiums		**16**	12	**16**	12
Amounts due from reinsurers		**9**	8	**9**	8
Amounts due from related parties	25	**4**	4	**4**	4
Other current assets		**3**	-	**3**	-
Total Trade and other receivables (all current)		**53**	43	**53**	43
17. Other Assets					
Deferred acquisition cost - Life investment contracts		**16**	18	**16**	18
Deferred acquisition cost - other		**1**	1	**-**	-
		17	19	**16**	18
Deferred acquisition cost					
Expected to be realised within 12 months		**2**	2	**2**	2
Expected to be realised in more than 12 months		**15**	17	**14**	16
		17	19	**16**	18

17a Retirement Benefit Obligations

Defined Benefit Plans

Recognition of Actuarial Gains and Losses

Actuarial gains and losses are recognised in full each year.

Description of Plan

The Company is the administrator of the Prudential Assurance Company New Zealand Limited Pension Scheme (PACNZ). PACNZ is a defined benefit plan with only pensioners in payment now remaining in the scheme. The date of the last full triennial actuarial review was 31 March 2010.

The next triennial actuarial review is scheduled for 31 March 2013.

Full disclosures of the defined benefit plan as required by NZ IAS 19 *Employee Benefits* have not been disclosed on the basis that these assets and liabilities are not a material component of the Group's Balance Sheet.

For the year ended 30 June	PACNZ Pension Scheme 2011	2010
Reconciliation of Amounts Recognised in the Balance Sheet		
Present value of funded obligations	**(4)**	(4)
Fair value of fund assets	**4**	4
Surplus	**-**	-
Adjustment for the limit on the use of net assets	**-**	-
Net Asset at end of year*	**-**	-
Expense recognised in the Income Statement	**-**	-

* Inclusive of specified superannuation contribution withholding tax

Notes to the Financial Statements
For the year ended 30 June 2011

		Sovereign Assurance Company Limited			
$ millions		Consolidated		Parent	
For the year ended 30 June	Note	2011	2010	2011	2010

18. Life Insurance Contract Liabilities and Life Investment Contracts

	Note	2011	2010	2011	2010
Life Insurance Contract Liabilities					
Opening Life insurance contract liabilities		**270**	371	**270**	371
Recognised in Income Statement*		**(57)**	(101)	**(57)**	(101)
Liabilities acquired on amalgamation	2	**148**	-	**148**	-
Closing Life insurance contract liabilities		**361**	270	**361**	270
Life Insurance Contract Liabilities					
Expected to be realised within 12 months		**(30)**	(35)	**(30)**	(35)
Expected to be realised in more than 12 months		**391**	305	**391**	305
		361	270	**361**	270

* The item 'Recognised in Income Statement' is stated gross of reinsurance. The reinsurance figures recognised in the Income Statement are included in Note 6.

	Note	2011	2010	2011	2010
Life insurance contract liabilities - recognised in Income Statement		**(57)**	(101)	**(57)**	(101)
Increase in Reinsurance assets - recognised in Income Statement	19	**(2)**	(3)	**(2)**	(3)
Net change in Life insurance contract liabilities		**(59)**	(104)	**(59)**	(104)
Life insurance contracts with a discretionary participation feature - the amount of the liabilities that relates to guarantees		**633**	519	**633**	519
Investment linked contracts - the amount of the liabilities subject to investment performance guarantees		**10**	-	**10**	-
Life insurance contract liabilities contain the following components:					
Future policy benefits		**5,753**	5,262	**5,753**	5,262
Future bonuses		**128**	116	**128**	116
Future expenses		**2,183**	1,914	**2,183**	1,914
Future planned margins of revenues over expenses		**952**	877	**952**	877
Future premiums		**(8,387)**	(7,680)	**(8,387)**	(7,680)
Unvested policyholder benefits		**55**	48	**55**	48
Less Deferred taxation liability		**(323)**	(267)	**(323)**	(267)
		361	270	**361**	270
Life Insurance Contract Liabilities Future Net Cash Inflows					
Up to one year		**199**	189	**199**	189
One to five years		**667**	614	**667**	614
Later than five years		**1,646**	1,479	**1,646**	1,479
Total Life insurance contract liabilities future net cash inflows		**2,512**	2,282	**2,512**	2,282

The table above shows the estimated timing of discounted future net cash flows resulting from Life insurance contract liabilities. This includes estimated future surrenders, claims and maturity benefits, and bonuses, offset by expected future premiums and reinsurance recoveries. All values are discounted to the reporting date using the assumed future investment earning rate for each product.

	Note	2011	2010	2011	2010
Life Investment Contracts					
Opening Life investment contracts		**828**	851	**828**	851
Deposit premium	5	**49**	63	**49**	63
Maturities and surrenders	8	**(122)**	(125)	**(122)**	(125)
Recognised in Income Statement		**69**	39	**69**	39
Liabilities acquired on amalgamation	2	**59**	-	**59**	-
Closing Life investment contracts		**883**	828	**883**	828
Opening Deferred income reserve		**56**	66	**56**	66
Recognised in Income Statement		**(7)**	(10)	**(7)**	(10)
Liabilities acquired on amalgamation	2	**1**	-	**1**	-
Closing Deferred income reserve		**50**	56	**50**	56
		933	884	**933**	884

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\$ millions *For the year ended 30 June*	Note	Sovereign Assurance Company Limited Consolidated 2011	Consolidated 2010	Parent 2011	Parent 2010

18. Life Insurance Contract Liabilities and Life Investment Contracts *(Continued)*

Movements in Life investment contract valuations reflect maturities, surrenders, claims experience and investment performance. The impact on the fair value of Life investment contracts due to changes in credit risk is Nil (30 June 2010 Nil), except to the extent that the market value of investments backing Life investment contracts is affected by changes in credit risk. Any such credit risk impact is reflected in the movement of Securities balances during the year.

	Note	Consolidated 2011	Consolidated 2010	Parent 2011	Parent 2010
Life Investment Contracts					
Expected to be realised within 12 months		**55**	50	**55**	50
Expected to be realised in more than 12 months		**878**	834	**878**	834
		933	884	**933**	884

The maturity value of these financial liabilities is determined by the fair value of the linked assets at maturity date.

19. Reinsurance Assets and Liabilities

	Note	Consolidated 2011	Consolidated 2010	Parent 2011	Parent 2010
Liabilities Ceded Under Reinsurance					
Balance at beginning of year		**67**	64	**67**	64
Increase in Reinsurance assets recognised in Net change in Life insurance contract liabilities reported in the Income Statement	18	**2**	3	**2**	3
Balance at end of year		**69**	67	**69**	67
Liabilities Ceded Under Reinsurance					
Expected to be realised within 12 months		**10**	9	**10**	9
Expected to be realised in more than 12 months		**59**	58	**59**	58
		69	67	**69**	67
Deposited Reserves (Life Insurance Component)					
Balance at beginning of year		**39**	39	**39**	39
Balance at end of year		**39**	39	**39**	39
Deposited Reserves (Life Insurance Component)					
Expected to be realised within 12 months		**2**	1	**2**	1
Expected to be realised in more than 12 months		**37**	38	**37**	38
		39	39	**39**	39

20. Deferred Taxation Liability

	Note	Consolidated 2011	Consolidated 2010	Parent 2011	Parent 2010
Balance at beginning of year		**301**	263	**301**	264
Adjustment to prior years		**-**	11	**-**	11
Taxation expense recognised in the Income Statement	10	**51**	27	**51**	26
Balance at end of year		**352**	301	**352**	301
Deferred taxation relates to:					
Prepaid premiums		**2**	2	**2**	2
Outstanding claims reserve discount		**4**	11	**4**	11
Deferred acquisition costs		**4**	5	**4**	5
Life insurance contract liabilities and Life investment contracts		**309**	251	**309**	251
Accrued expenses and provisions		**33**	32	**33**	32
Total Deferred taxation liability		**352**	301	**352**	301

The amount of deferred taxation liability, that is expected to be recovered / settled after more than 12 months is \$331m (30 June 2010 \$314m).

	Note	Consolidated 2011	Consolidated 2010	Parent 2011	Parent 2010
Deferred taxation recognised in the Income Statement:					
Outstanding claims reserve discount		**(7)**	-	**(7)**	-
Deferred acquisition costs		**(1)**	(1)	**(1)**	(1)
Life insurance contract liabilities and Life investment contracts		**58**	38	**58**	38
Decrease in unrealised losses on investments		**-**	9	**-**	9
Impairment expense		**-**	1	**-**	-
Accrued expenses and provisions		**1**	(1)	**1**	(1)
Impact of future reduction in taxation rate		**-**	(19)	**-**	(19)
Total Deferred taxation recognised in the Income Statement		**51**	27	**51**	26

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$ millions *As at 30 June*	Note	Sovereign Assurance Company Limited Consolidated 2011	Consolidated 2010	Parent 2011	Parent 2010
21. Trade and Other Payables					
Agent balances		**4**	4	**4**	4
Prepaid premiums		**7**	11	**7**	11
Outstanding claims		**48**	92	**48**	92
Amounts due to reinsurers		**1**	3	**1**	3
Expense creditors		**2**	2	**2**	2
Investment creditors		**13**	3	**13**	3
Amounts due to related parties	24	**12**	11	**12**	11
Total Trade and other payables (all current)		**87**	126	**87**	126
22. Contributed Capital					
Ordinary Shares					
Balance at beginning of year		**452**	444	**452**	444
Proceeds from shares issued		**30**	8	**30**	8
Balance at end of year		**482**	452	**482**	452

Share Capital includes 4,805,849 ordinary shares paid to $74.22 and 125,000,000 ordinary shares paid to $1.00 (30 June 2010 4,805,849 ordinary shares paid to $74.22 and 95,000,000 ordinary shares paid to $1.00).
The Company issued 30,000,000 ordinary shares to Sovereign Limited paid to a value of $30,000,000 on 24 June 2011 (30 June 2010, 8,000,000 ordinary shares paid to the value of $8,000,000).
All ordinary shares have equal voting rights and share equally in dividends and surplus on winding up.

23. Capital Management

The objectives of the Group in regards to management of capital adequacy are:

(i) to comply at all times with the solvency requirements set out in the "New Zealand Society of Actuaries Professional Standard No. 5 *Solvency Reserving for Life Insurance Business*" ("PS5.01");
(ii) to maintain a strong capital base to cover the inherent risks of the business; and
(iii) to support the future development and growth of the business to maximise shareholder value.

The Board of Directors has ultimate responsibility for capital management, and approves capital policy and minimum capital levels and limits. Minimum capital levels are set based on maintaining a target surplus in excess of that required by PS5.01. The level of target surplus takes account of management assessments of actual risk and forecasts/stress testing of future capital requirements. Capital is defined as the Shareholder's Equity in the Company.

The target surplus as at 30 June 2011 was $95m (30 June 2010 $90m).

The Group actively monitors its capital adequacy and reports this on a regular basis to senior management and the Board. This includes forecasting capital requirements so that they can be executed in a timely manner.
The solvency position of the Company is as follows:

	2011	2010
Equity of shareholder	**668**	616
Less: Equity retained for solvency purposes	**(549)**	(512)
Equity available for distribution	**119**	104

The equity available for distribution was determined as follows:

(a) For each related product group a prudential reserving liability was calculated. The prudential reserving liability was determined in the same manner as the best estimate policy liability but with prudential reserving assumptions. The prudential reserving assumptions are derived by modifying the best estimate assumptions by applying margins for adverse deviations from expected experience.

23. Capital Management *(continued)*

The margins applied include:

Sovereign Assurance Company Limited

Insured life mortality: +10%

Trauma claims: +30%

Disability income active life claims: +50%

Termination rates for disability income claims in payment: -25%

Investment earnings: the valuation discount rates as set out in Note 3(a) were used, but with a maximum of the mid swap rate.

Servicing costs: 2.5% margin

Voluntary discontinuances: 25% margin

The margins are unchanged since 30 June 2010.

Business amalgamated from The Colonial Mutual Life Assurance Society Limited - New Zealand Branch

Insured life mortality: +20%

Disability income active life claims: +50%

Disability income claims in payment: +30%

Investment earnings: the valuation discount rates as set out in Note 3(a) were used, but with a maximum of the Australian mid swap rate.

Servicing costs: 5% margin

Voluntary discontinuances: 25% to 75% margin

The margins are unchanged since 30 June 2010.

(b) For each related product group the greater of the amount in (a) and the total of the current termination value of all policies in the related product group was taken.

(c) The amount in (b) was increased by an expense reserve based on the non-commission acquisition costs incurred in the previous year.

(d) The amount in (c) was increased by the liability to other creditors of the life insurance funds, excluding debt subordinated to the interests of policyholders.

(e) The amount in (d) was increased by a resilience reserve calculated to allow for adverse changes in investment returns and exchange rates.

(f) The amount in (e) was increased by a reserve for inadmissible assets, subject to look through provisions.

(g) The amount in (f) was compared with the assets of the fund to determine the equity available for distribution.

24. Related Party Transactions and Balances

The ultimate parent of the Group is the Commonwealth Bank of Australia ("CBA"). ASB Bank Limited is a fellow CBA subsidiary of the Group. Other fellow CBA Subsidiaries refers to other companies owned by CBA.

Transactions with Fellow CBA Subsidiaries

ASB Bank Limited and Subsidiaries (the "Bank")

Cash and Deposits

The Group has cash balances and deposits of $531m (30 June 2010 $525m) with the Bank. The Group received interest income on deposits from the Bank of $15m (30 June 2010 $15m). These deposits are held on normal commercial terms and conditions.

Securities

The Group holds Securities issued by the Bank of $2m (30 June 2010 $35m) and received interest income on Securities issued by the Bank of $1m (30 June 2010 $1m). The Group holds Securities issued by trusts managed by the Bank of $25m (30 June 2010 $43m) and received interest and dividends on Securities issued by these trusts of Nil (30 June 2010 Nil).

Derivative Transactions

The Group has foreign exchange forward contracts with the Bank with a face value of $787m (30 June 2010 $910m). There are net unrealised gains on these contracts of $7m (30 June 2010 $10m).

Insurance Commissions

The Group has paid insurance commissions of $29m to the Bank (30 June 2010 $31m).

Funds Management and Administration

The Group received $2m (30 June 2010 Nil) for the administration of trusts managed by the Bank.

Investment Management

The Group paid $6m (30 June 2010 $7m) to the Bank for the provision of investment management services in relation to holdings of equity securities, fixed interest securities and property investments (refer to Notes 7 and 12).

$ millions		Sovereign Assurance Company Limited			
		Consolidated		Parent	
As at 30 June	Note	2011	2010	2011	2010

24. Related Party Transactions and Balances *(continued)*

Taxation

Net receipts of $18m (30 June 2010 $23m) were received from the Bank, relating to the utilisation of tax related items.

Other Fellow CBA Subsidiaries

Securities

The Group holds Securities issued by other fellow CBA subsidiaries of $356m (30 June 2010 $344m) and received interest and dividends on Securities issued by other fellow CBA subsidiaries of $7m (30 June 2010 $4m).

Taxation

Net payments of $15m (30 June 2010 Nil) were made to other fellow CBA subsidiaries relating to the utilisation of tax related items.

Expenses and Services

The Group has been recharged $118m (30 June 2010 $111m) for administration and management services by SSL.

Transactions with Parent Company

The Group holds CBA equity securities of $14m (30 June 2010 $8m) and earned dividends on CBA equity securities of $1m (30 June 2010 Nil).

Transactions with Subsidiaries

Refer to Note 15 for details of the Company's interests in subsidiaries. As the Company's bank accounts are used for subsidiary tax transactions and the receipt of administration fees on behalf of its subsidiary, there may be balances due to or from subsidiaries at balance date.

Balances with Related Parties

In addition to those disclosed elsewhere in these financial statements, the Group has generated debtor and creditor balances with related parties in the ordinary course of operations during the year. The balances are settled on a regular basis. The amounts due to/(from) the Group by/(to) its related parties are as follows:

	Note	Consolidated 2011	Consolidated 2010	Parent 2011	Parent 2010
Balances with Fellow CBA Subsidiaries					
ASB Bank Limited and Subsidiaries		(2)	-	(2)	-
ASB Group (Life) Limited		4	4	4	4
The Colonial Mutual Life Assurance Society Limited - New Zealand Branch	2	-	(1)	-	(1)
Sovereign Services Limited		(9)	(9)	(9)	(9)
Westside Properties Limited		(1)	(1)	(1)	(1)
Sovereign Financial Services Limited		-	-	(1)	(1)
		(8)	(7)	(9)	(8)
Disclosed as follows:					
Amounts due to related parties	21	(12)	(11)	(12)	(11)
Amounts due from related parties	16	4	4	4	4
Amount due to subsidiary		-	-	(1)	(1)
		(8)	(7)	(9)	(8)

25. Contingent Liabilities and Capital Commitments

Contingent Liabilities

The Company has received assessments from the Inland Revenue Department ("IRD") in relation to the tax treatment of reinsurance arrangements in the 2000 to 2006 tax years. The Company has lodged proceedings in the High Court to challenge the reassessments. The IRD is expected to dispute the tax treatment of reinsurance arrangements in later years and to issue reassessments in respect of them in due course.

Based on independent tax and legal advice, the Company is confident the tax treatment it has adopted for the transactions is correct.

Should the IRD issue reassessments for all relevant tax years, the estimated maximum potential tax liability (including use of money interest and excluding penalties) as at 30 June 2011 would be $71m (30 June 2010 $67m). The increase in the estimated liability since 30 June 2010 results from increased use of money interest.

There are no other material contingent liabilities as at 30 June 2011 (30 June 2010 Nil).

Capital Commitments

There are no capital commitments as at 30 June 2011 (30 June 2010 Nil).

$ millions		Sovereign Assurance Company Limited			
		Consolidated		Parent	
As at 30 June	Note	2011	2010	2011	2010

26. Directors and Key Management Personnel

Short term employee benefits are paid to key management personnel for the Group by SSL. Key management personnel are defined as permanent members of the Executive Leadership Team. SSL recovers the cost of these benefits through acquisition and maintenance fees charged to the Group.

The Group has no other transactions or balances with key management personnel.

27. Interest Rate Summary

The weighted average yields at balance date on significant interest bearing financial assets and liabilities not disclosed elsewhere in these financial statements are:

Assets:				
Foreign government stock	**2.8%**	3.2%	**2.8%**	3.2%
New Zealand government stock	**5.0%**	5.1%	**5.0%**	5.1%
Corporate bonds	**5.1%**	5.7%	**5.1%**	5.7%
Medium term notes	**-**	3.8%	**-**	3.8%
Mortgages	**3.5%**	3.5%	**3.5%**	3.5%
Loans on policies	**8.0%**	8.0%	**8.0%**	8.0%

Information about the maturity of financial assets and liabilities is disclosed elsewhere in these financial statements (refer to Notes 12 and 37).

28. Fair Value of Financial Instruments

The fair value of financial assets and liabilities that are not carried at fair value on the Balance Sheet are:

		Consolidated		Parent	
As at 30 June 2011		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	13	**571**	**571**	**564**	**564**
Trade and other receivables	16	**53**	**53**	**53**	**53**
Deposited reserves	19	**39**	**39**	**39**	**39**
Amounts due to subsidiaries	24	**-**	**-**	**1**	**1**
Trade and other payables	21	**87**	**87**	**87**	**87**
As at 30 June 2010					
Cash and cash equivalents	13	532	532	527	527
Trade and other receivables	16	43	43	43	43
Deposited reserves	19	39	39	39	39
Amounts due to subsidiaries	24	-	-	1	1
Trade and other payables	21	126	126	126	126

Investment contracts which contain a discretionary participation feature have been valued as insurance contracts under NZ IFRS 4. These contracts are investment account contracts where policyholder monies are accumulated in an account which earns interest at a crediting rate, the amount and timing of which is at the Group's discretion. The carrying amount of these contracts at 30 June 2011 is $54m (30 June 2010 $59m). Due to the unknown nature of such a discretion, the fair value of the discretionary participation feature cannot be reliably measured.

The following table presents a multiple level fair value hierarchy of the Group's financial assets and liabilities which are measured at fair value. The levels in the hierarchy are based on the valuation methods and assumptions used in determining the fair values of financial assets and financial liabilities. The levels are as follows:

Level 1: Fair values are determined using quoted market prices where an active market exists.

Level 2: Where quoted market prices are not available, fair values have been estimated using present value or other valuation techniques based on market conditions existing at balance date. These valuation techniques rely on market observable inputs. Refer to Note 1(l) for a description of how Life investment contracts are calculated.

Level 3: Fair values are estimated using inputs that are not based on observable market data. The Group has mortgages, loans on policies and Deposited reserves for which fair value is estimated using valuation techniques that are not based on observable market data. A sensitivity analysis and reconciliation of movements in mortgages and loans on policies has not been provided on the basis that these assets are not a material component of the Group's total financial assets. A sensitivity analysis has not been provided for Deposited reserves on the basis that changing one or more of the inputs to reasonably possible alternative assumptions would not change fair value significantly (refer to Note 19 for a reconciliation of movements in Deposited reserves).

28. Fair Value of Financial Instruments *(continued)*

	Note	Sovereign Assurance Company Limited			
		Consolidated			
$ millions		Level 1	Level 2	Level 3	Total
As at 30 June 2011					
Financial Assets at Fair Value					
Securities					
Equity shares in listed companies		394	-	-	394
Equity unit trusts and managed funds		-	497	-	497
Fixed interest securities and annuity		729	-	-	729
Mortgages		-	-	7	7
Loans on policies		-	-	28	28
Property unit trusts and managed funds		12	-	-	12
Derivative financial instruments	14	-	7	-	7
Total Financial assets at fair value		1,135	504	35	1,674
Financial Liabilities at Fair Value					
Life investment contracts	18	-	933	-	933
Deposited reserves	19	-	-	39	39
Total Financial liabilities at fair value		-	933	39	972
As at 30 June 2010					
Financial Assets at Fair Value					
Securities					
Equity shares in listed companies		240	-	-	240
Equity unit trusts and managed funds		-	455	-	455
Fixed interest securities		726	30	-	756
Mortgages		-	-	7	7
Loans on policies		-	-	23	23
Property unit trusts and managed funds		12	16	-	28
Derivative financial instruments	14	-	16	-	16
Total Financial assets at fair value		978	517	30	1,525
Financial Liabilities at Fair Value					
Life investment contracts	18	-	884	-	884
Deposited reserves	19	-	-	39	39
Derivative financial instruments	14	-	6	-	6
Total Financial liabilities at fair value		-	890	39	929

28. Fair Value of Financial Instruments *(continued)*

The following table summarises the carrying amounts and fair values of categories of financial assets and financial liabilities. Refer to Note 1(q) for a description of how fair values are estimated.

		Sovereign Assurance Company Limited					
		Consolidated					
		At Fair Value through Profit or Loss		At Amortised Cost			
$ millions	Note	Held for Trading	Designated on Initial Recognition	Loans and Receivables	Other Financial Liabilities	Total	Fair Value
As at 30 June 2011							
Financial Assets							
Cash and cash equivalents	13	-	-	571	-	571	571
Securities	12	-	1,667	-	-	1,667	1,667
Derivative financial instruments	14	7	-	-	-	7	7
Trade and other receivables	16	-	-	53	-	53	53
Total Financial assets		7	1,667	624	-	2,298	2,298
Financial Liabilities							
Life investment contracts	18	-	933	-	-	933	933
Deposited reserves	19	-	39	-	-	39	39
Trade and other payables	21	-	-	-	87	87	87
Total Financial liabilities		-	972	-	87	1,059	1,059
As at 30 June 2010							
Financial Assets							
Cash and cash equivalents	13	-	-	532	-	532	532
Securities	12	-	1,509	-	-	1,509	1,509
Derivative financial instruments	14	16	-	-	-	16	16
Trade and other receivables	16	-	-	43	-	43	43
Total Financial assets		16	1,509	575	-	2,100	2,100
Financial Liabilities							
Life investment contracts	18	-	884	-	-	884	884
Deposited reserves	19	-	39	-	-	39	39
Derivative financial instruments	14	6	-	-	-	6	6
Trade and other payables	21	-	-	-	126	126	126
Total Financial liabilities		6	923	-	126	1,055	1,055

$ millions	Sovereign Assurance Company Limited			
	Consolidated		Parent	
For the year ended 30 June	**2011**	2010	**2011**	2010

29. Asset Quality

Impaired Assets

Balance at beginning of year	**2**	5	**2**	1
Additions	**1**	1	**1**	1
Written back to Income Statement	**(1)**	(2)	**(1)**	-
Amounts written off	**-**	(2)	**-**	-
Balance at end of year	**2**	2	**2**	2

The Impaired assets reported above include agent loans that are under management and overpaid commissions that are subject to external recovery or legal action. No interest income was accrued on Impaired assets during the year (30 June 2010 Nil).

Past Due Assets Not Impaired

Balance at beginning of year	**-**	-	**-**	-
Additions	**1**	-	**1**	-
Balance at end of year	**1**	-	**1**	-

The past due assets reported above include residential mortgages (reported in Securities) and agent receivables (reported in Trade and other receivables) where payments are one day or more overdue.

Credit Quality of Financial Assets that are not Past Due or Impaired

Cash and Cash Equivalents

The Group's cash holdings are with ASB Bank Limited, which has a Standard and Poor ("S&P") credit rating of AA (30 June 2010 AA), and Citigroup Inc. which has an S&P rating of A (30 June 2010 A).

Securities

The Group holds Securities issued by counterparties with the following S&P credit ratings:

	Consolidated			
	Linked		Non-Linked	
As at 30 June	**2011**	2010	**2011**	2010
Rating				
AAA	**40**	51	**628**	555
AA+	**3**	4	**-**	-
AA	**15**	49	**26**	-
AA-	**2**	14	**-**	14
A+	**4**	4	**2**	61
A	**8**	4	**-**	-
A-	**1**	-	**-**	-
Equity securities	**246**	180	**148**	60
Managed funds	**401**	394	**108**	89
Other securities	**-**	-	**35**	30
	720	700	**947**	809

Included in 'Other securities' are Mortgages, which are fully secured against property, and Loans on policies, which are fully secured against customer life insurance and life investment policies. Credit ratings are not provided for Equity securities and Managed funds because ratings are either not available or are considered not an appropriate measure of asset quality.

Derivative Financial Instruments

The counterparty for the Group's Derivative financial instruments is ASB Bank Limited.

Amounts Due from Reinsurers

The S&P credit ratings for the Group's major reinsurers are:

	Consolidated	
As at 30 June	**2011**	2010
General Reinsurance Life Australia Limited	**AA+**	AA+
Assicurazioni Generali S.P.A.	**AA-**	AA-
RGA Reinsurance Company	**AA-**	AA-
Swiss Re Life and Health (Australia) Limited	**A+**	A+
Munich Reinsurance Company of Australasia Limited	**AA-**	AA-

$ millions *For the year ended 30 June*	Sovereign Assurance Company Limited			
	Consolidated		Parent	
	2011	2010	2011	2010
30. Provisions for Impairment Loss				
Individually Assessed Provisions				
Balance at beginning of year	**2**	4	**2**	1
Additions	**1**	2	**1**	1
Impaired assets written off or disposed	**-**	(2)	**-**	-
Written back to Income Statement	**(1)**	(2)	**(1)**	-
Balance at end of year	**2**	2	**2**	2
Total Impairment expense recognised in the Income Statement	**-**	-	**-**	1

The individually assessed provision reported above is held against agent loans that are under management and overpaid commissions that are subject to external recovery or legal action.

31. Disaggregated Information

NZ IFRS 4 requires disclosure of information between amounts relating to investment linked business and non-investment linked business for the categories shown below. As there are no legal requirements to maintain separate life insurance funds, the Group does not maintain records that provide all the information required by NZ IFRS 4. Accordingly determination of the disaggregated information presented below requires the use of significant estimates but the basis of estimation has been consistent between years.

	Consolidated		
	Investment Linked Policies	Non-Investment Linked Policies	Total
For the year ended 30 June 2011			
Investments	**907**	**1,338**	**2,245**
Reinsured Life insurance contracts	**-**	**69**	**69**
Other assets	**52**	**76**	**128**
Liabilities other than policy liabilities	**26**	**452**	**478**
Policy liabilities	**933**	**361**	**1,294**
Shareholder's retained earnings	**-**	**188**	**188**
Premium income	**5**	**543**	**548**
Investment income	**95**	**75**	**170**
Claims expense	**-**	**307**	**307**
Commission and management expenses	**15**	**235**	**250**
Investment income allocated to policyholders	**95**	**58**	**153**
Net profit before taxation	**22**	**134**	**156**
Net profit after taxation	**10**	**93**	**103**
For the year ended 30 June 2010			
Investments	877	1,180	2,057
Reinsured Life insurance contracts	-	67	67
Other assets	42	77	119
Liabilities other than policy liabilities	35	437	472
Policy liabilities	884	270	1,154
Shareholders retained earnings	-	165	165
Premium income	-	518	518
Investment income	71	106	177
Claims expense	-	362	362
Commission and management expenses	17	242	259
Investment income allocated to policyholders	71	84	155
Net profit before taxation	25	115	140
Net profit after taxation	8	110	118

32. Risk Management Policies

Introduction

The Group is exposed to risk through its financial assets, financial liabilities (investment contracts and borrowings), reinsurance assets and insurance liabilities. Risk management policies focus on ensuring cash flows from assets are sufficient to fund obligations arising from insurance and investment contracts. The primary risks are those of insurance, credit, liquidity, market, operational and strategic business risk.

The Group's risk and control functions are the responsibility of the Chief Risk Officer, who reports to the Chief Executive Officer. The Group's risk management strategy is set by the Board through the Board Audit and Risk Committee. This committee comprises members of the Board and is chaired by an independent member of the Board. The Chief Risk Officer is responsible for implementation of risk management strategy and all executives have responsibility for the day to day management of risk across the Group.

The Group has management structures and information systems to manage individual risks, has separated risk initiation and monitoring tasks where feasible, and subjects all material systems to regular internal audit. Periodic reviews of all risk management systems are undertaken by internal audit.

The following sections describe the risk management framework components:

Insurance Risk

The Group's objectives in managing risks arising from the insurance business are:
(i) To ensure risk appetite decisions are made within the context of corporate goals and governance structures.
(ii) To ensure that an appropriate return on capital is made in return for accepting insurance risk.
(iii) To ensure that strong internal controls embed underwriting to risk within the business.
(iv) To ensure that internal and external solvency and capital requirements are met.
(v) To use reinsurance as a component of insurance risk management strategy.

Terms and Conditions of Insurance Contracts

The nature of terms of insurance contracts written is such that certain external variables can be identified on which related cash flows for claim payments depend. The tables below provide an overview of these:

Type of Contract	Detail of Contract Terms and Conditions	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, major medical)	Benefits paid on death, ill health or maturity that are fixed and guaranteed and not at the discretion of the issuer. Premiums may be guaranteed through the life of the contract, guaranteed for a specified term or variable at the insurer's discretion.	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.	- Mortality - Morbidity - Discontinuance rates - Expenses - Market rates on underlying assets
Life insurance contracts with discretionary participating benefits (endowment and whole of life)	These policies include a clearly defined initial guaranteed sum assured which is payable on death. The guaranteed amount is a multiple of the amount that is increased throughout the duration of the policy by the addition of regular bonuses annually which, once added, are not removed. Regular bonuses are also added retrospectively.	Benefits arising from the discretionary participation feature are based on the performance of a specified pool of contracts or a specified type of contract.	- Mortality - Market risk - Discontinuance - Expenses - Market rates on underlying assets
Life annuity contracts	These policies provide guaranteed regular payments to the life assured.	The amount of the payment is set at the inception of the policy.	- Longevity - Market rates on underlying assets - Expenses

32. Risk Management Policies *(continued)*

Insurance Risk *(continued)*

Variations in claim levels will affect reported profit and Shareholder's equity. The impact may be magnified if the variation leads to a change in actuarial assumptions which cannot be absorbed within the present value of planned margins for a group of related products.

Insurance risk may arise through the reassessment of the incidence of claims, the trend of future claims and the effect of unforeseen diseases or epidemics. In addition, in the case of morbidity, the time to recovery may be longer than assumed. Insurance risk is controlled by ensuring underwriting standards adequately identify potential risk, retaining the right to amend premiums on risk policies where appropriate and through the use of reinsurance. The experience of the Group's life insurance business is reviewed regularly.

Concentrations of insurance risk arise due to:
- Large sums assured on certain individuals. The largest exposures all relate to mortality.
- Geographic concentrations due to employee group schemes. The Group participates in the CBA catastrophe cover reinsurance programme which provides cover of AUD$90m for single event claims in excess of AUD$20m.

Insurance risk is measured by using sensitivity analysis to show the effects of the risks of mortality and morbidity on Life insurance contract liabilities and profit (refer to Note 34).

Credit Risk

Credit risk is the potential risk for loss arising from failure of a counterparty to meet their contractual obligations.

Credit risk principally arises within the Group from investments of shareholder funds or funds where the shareholder participates in investment returns in cash and fixed interest securities, and reinsurer payment obligations. Credit risk also arises from a mortgage portfolio, loans to agents, foreign exchange forward contracts, loans made using policies as security, and trade receivables (policyholder premium debtors, agent balances and sundry debtors).

The maximum credit risk associated with each class of recognised financial asset held by the Group is the carrying value.

The Group has a comprehensive, clearly defined credit policy that covers the approval and management of all credit risk.

Investment concentrations for shareholder funds are managed within established guidelines and limits set by the Asset and Liability Management Committee ("ALCO"), certain criteria are referred to the Board Audit and Risk Committee for approval. Guidelines and limits are set for security credit ratings and aggregate exposure to any single geographic region or counterparty (refer to Notes 36 and 38).

Reinsurance credit exposures are managed by reinsurance guidelines and limits set by the Board Audit and Risk Committee.

For investment linked contracts the investment's credit risk is appropriate for each particular product and the risk is borne by the policyholder. There is no significant credit risk assumed by the Group.

Liquidity Risk

Management of liquidity risk is designed to ensure that the Group has the ability to meet financial obligations as they fall due.

The Group monitors this risk primarily by forecasting future daily cash requirements. The Group manages this risk by holding a pool of readily tradable investment assets and deposits on call.

Market Risk

Market risk is the risk that movements in the level or volatility of market rates and prices results in a fluctuation in earnings or a fluctuation in value.

Market risk arises from the mismatch between assets and liabilities. The Group is exposed to diverse financial instruments including interest rates, foreign currencies, equities, and derivative instruments. For each distinct category of liabilities, a separate portfolio of assets is maintained and investment mandates are set that are appropriate for each.

A significant proportion of assets are held for investment linked policies where market risk is transferred to the policyholder. The Group earns fees on investment linked policies that are based on the amount of assets invested, it may receive lower fees should markets fall. Asset allocation for investment linked policies is decided by the policyholder.

Market risk arises on discretionary participation business as these contracts have investment guarantees. Risk is mitigated by using an appropriate bonus/credit rate policy and a suitable growth/income investment allocation.

32. Risk Management Policies *(continued)*

Market Risk *(continued)*

Market risk arises from returns obtained from investing the shareholder's funds held in the Group. Appropriate investment mandates are set by ALCO for the investment of shareholder's funds. As at 30 June 2011, shareholder's funds in the Group were invested 1% (30 June 2010 1%) in growth assets (shares and property) and 99% (30 June 2010 99%) in income assets (cash and fixed interest).

Market risk in the asset management business is the risk of an adverse movement in market prices that leads to a reduction in the amount of funds under management and a consequent reduction in fee income.

The Group balance sheet risk is measured using sensitivity analysis by modelling the change in assets, liabilities, and profit from changes in interest rates and equity values (refer to Note 34).

Market risk includes price, interest rate, foreign exchange and equity risks which are explained as follows:

Price Risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments of a specific type traded in the market.

This risk is controlled by ensuring a diverse range of investments, limits on counterparty exposure and restrictions on types of instruments.

Interest Rate Risk

Interest rate risk is the risk of loss to the Group arising from adverse changes in interest rates.

Fair value interest rate risk arises from the potential for a change in interest rates to cause a fluctuation in the fair value of financial instruments and the value of Life insurance contract liabilities. Interest rate risk arises from the structure and characteristics of the Group's assets, liabilities and equity, and in the mismatch in cash flows of its assets and liabilities. The objective is to manage the interest rate risk to achieve stable and sustainable net profit.

Fair value interest rate risk arises from shareholder funds invested in fixed interest investments. When fixed interest investments are held to match fixed interest style products selected by policyholders, the interest rate risk is borne by the policyholder.

Interest rate risk also arises on risk contracts where negative policy liabilities (arising from the implicit deferral of acquisition costs) are valued at current risk free interest rates.

Cash flow interest rate risk is the potential for a change in interest rates to change interest income in the current reporting period and in future years. Cash flow interest rate risk arises on the Group's mortgage portfolio which is priced on a variable interest rate regime. Management regularly reviews the mortgage portfolio interest rates to ensure they are in line with market trends.

The Group reduces interest rate risk by seeking to match the cash flows of assets and liabilities. This is achieved by changing the mix of assets and liabilities through buying and selling long term securities.

Overall strategic direction is provided by ALCO, which meets quarterly.

Interest rate risk is measured by using sensitivity analysis to show the effects of the risks on assets, liabilities, and profit (refer to Note 34).

Foreign Exchange Risk

Foreign exchange risk is the risk of loss to the Group's earnings and value arising from adverse changes in foreign exchange rates.

Foreign currency exposures and risks arise as the Group invests offshore. Foreign currency denominated investments amounted to 43% (30 June 10 55%) of total investments. The market value of these investments is therefore affected by movements in the New Zealand dollar relative to the currency in which the investment was denominated.

All equity fund investments denominated in foreign currency are 50% hedged (30 June 2010 50%), except for Australasian Equity Fund Investments denominated in foreign currency managed by New Zealand fund managers, which are 100% hedged (30 June 2010 50%). All fixed interest fund investments denominated in foreign currency are 100% hedged (30 June 2010 100%).

Details of material foreign currency balances are shown in Note 35.

32. Risk Management Policies *(continued)*

Equity Risk

Equity risk results from the repricing of equity investments held by the Group. For investment linked contracts this risk is borne by the policyholder. For assets that do not relate to investment linked contracts, the shareholder has exposure to equity risk either directly or due to performance guarantees.

This risk is controlled by ensuring a diverse range of equity investments.

Operational and Strategic Business risk

Operational Risk is defined as the risk of economic gain or loss resulting from inadequate or failed internal processes and methodologies, people, systems or external events.

Strategic Business Risk is defined as the risk of economic gain or loss resulting from changes in the business environment caused by economic, competitive, social trend or regulatory factors.

Each business manager is responsible for the identification and assessment of these risks and for maintaining appropriate internal controls, and is supported by the Group's governance structures, operational risk framework and operational risk policies.

The Group's operational risk measurement methodology combines expert assessment of individual risk exposures with internal loss data to determine potential losses and calculate operational risk economic capital.

Business Continuity Management

Business Continuity Management ("BCM") within the Group involves the development, maintenance and testing of action plans to respond to defined risk events. This ensures that business processes continue with minimal adverse impact on customers, staff, products, services and brands.

BCM constitutes an essential component of the Group's risk management process by providing a controlled response to potential operational risks that could have a significant impact on the Group's critical processes and revenue streams. It includes both cost effective responses to mitigate the impact of risk events or disasters and crisis management plans to respond to crisis events.

A comprehensive BCM programme including plan development, testing and education has been implemented across all business units and includes technology disaster recovery planning.

Internal Audit

The Group is serviced by an internal audit function which covers the ASB Bank Limited and the ASB Group (Life) Limited consolidated entities.

Internal Audit provides an independent assurance and consulting service designed to assist the Group in achieving its objectives by bringing a systematic and disciplined approach to improving the effectiveness of risk management systems, the framework of controls, and governance processes. Operational, compliance, financial and systems audits of all areas of the Group's operations are reviewed based on an assessment of risk. The independent Internal Audit function is ultimately accountable to the Board through the Board Audit and Risk Committee.

The Board Audit and Risk Committee meets on a regular basis to consider financial reporting, internal control and corporate governance issues. It reviews the interim and annual financial statements, the activities of the internal and external auditors and monitors the relationship between management and the external auditors.

33. Events After Balance Date

There have been no material events after balance date (30 June 2010 Nil).

34. Sensitivity Analysis

The Group conducts sensitivity analysis to quantify the exposure to risk of changes in the key underlying variables such as interest rate, exchange rate, mortality, morbidity and inflation. The valuations included in the reported results and the Group's best estimate of future performance are calculated using certain assumptions about these variables. The movement in any key variable will impact the performance and net assets of the Group and as such represents a risk.

Variable	Impact of Movement in Underlying Variable
Exchange rate risk	The Group does not fully hedge foreign currency denominated equity instruments. Adverse movements in foreign exchange rates relate to the New Zealand dollar will subsequently reduce the value of policyholder asset and liabilities.
Expense risk	An increase in the level or inflationary growth of expenses over assumed levels will decrease profit and shareholder's equity.
Interest rate risk	Depending on the profile of the investment portfolio, the investment income of the Group will decrease as interest rates decrease. This may be offset to an extent by changes in the market value of fixed interest investments. The impact on profit and shareholder's equity depends on the relative profiles of assets and liabilities, to the extent that these are not matched.
Mortality rates	For insurance contracts, providing death benefits increased, greater mortality rates would lead to higher levels of claims occurring sooner than anticipated, increasing associated claims cost and therefore reducing profit and shareholder's equity. This is offset by increased annuitant mortality which would reduce expected future annuity payments and therefore reduce life insurance contract liabilities.
Morbidity rates	The cost of health-related claims depends on both the incidence of policyholders becoming ill and the duration which they remain ill. Higher than expected incidence and duration would be likely to increase claim costs, reducing profit and shareholders' equity.
Discontinuance	The impact of the discontinuance rate assumption depends on a range of factors including the type of contract, the surrender value basis (where applicable) and the duration in force. For example, an increase in discontinuance rates at earlier durations of life insurance contracts usually has a negative effect on performance and net assets. However, due to the interplay between the factors, there is not always an adverse outcome from an increase in discontinuance rates.
Market risk	For investment contracts and life insurance contracts with discretionary participation features, liabilities depend on the value of underlying assets. Market risk may be entirely borne by policyholders. However, the Group derives fee income based on the value of the underlying funds; hence revenues are always sensitive to changes in market value. For assets which are not contractually linked to policy liabilities, the Group is exposed to market risk.

34. Sensitivity Analysis *(continued)*

The table below illustrates how changes in key assumptions would impact the reported profit, liabilities and equity of the Group. For Market risks, the effect of movements in interest rates or market values on the value of assets is also shown.

	Sovereign Assurance Company Limited Consolidated						
$ millions	Effect on Assets	Effect on Liabilities		Profit / (Loss)		Equity	
As at 30 June 2011		Gross of Reinsurance	Net of Reinsurance	Gross of Reinsurance	Net of Reinsurance	Gross of Reinsurance	Net of Reinsurance
Result of Change in Assumptions							
Market Risks							
Increase in interest rates of 1%	(43)	(35)	(35)	(8)	(8)	(8)	(8)
Decrease in interest rates of 1%	43	35	35	8	8	8	8
Equity values increase by 10%	74	73	73	1	1	1	1
Equity values decrease by 10%	(74)	(73)	(73)	(1)	(1)	(1)	(1)
Favourable movement in exchange rates of 10%	30	30	30	-	-	-	-
Adverse movement in exchange rates of 10%	(30)	(30)	(30)	-	-	-	-
Insurance Risks							
Increase in Expenses of 10%	-	1	1	(1)	(1)	(1)	(1)
Improvement in Mortality by 10%	-	-	-	-	-	-	-
Worsening of Mortality by 10%	-	-	-	-	-	-	-
Improvement in Morbidity by 10%	-	(7)	(7)	7	7	7	7
Worsening of Morbidity by 10%	-	7	7	(7)	(7)	(7)	(7)
Improvement in Discontinuance Rate by 20%	-	2	2	(2)	(2)	(2)	(2)
Worsening of Discontinuance Rate by 20%	-	(2)	(2)	2	2	2	2
As at 30 June 2010							
Result of Change in Assumptions							
Market Risks							
Increase in interest rates of 1%	(48)	(40)	(40)	(8)	(8)	(8)	(8)
Decrease in interest rates of 1%	48	40	40	8	8	8	8
Equity values increase by 10%	47	47	47	-	-	-	-
Equity values decrease by 10%	(47)	(47)	(47)	-	-	-	-
Favourable movement in exchange rates of 10%	27	27	27	-	-	-	-
Adverse movement in exchange rates of 10%	(27)	(27)	(27)	-	-	-	-
Insurance Risks							
Increase in expenses of 10%	-	1	1	(1)	(1)	(1)	(1)
Improvement in mortality of 10%	-	(1)	(1)	1	1	1	1
Worsening of mortality by 10%	-	1	1	(1)	(1)	(1)	(1)
Improvement in morbidity of 10%	-	(3)	(3)	3	3	3	3
Worsening of morbidity by 10%	-	3	3	(3)	(3)	(3)	(3)
Improvement in discontinuance rate of 20%	-	(3)	(3)	3	3	3	3
Worsening of discontinuance rate by 20%	-	3	3	(3)	(3)	(3)	(3)

The table above is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on assets, liabilities, net profit and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

35. Material Foreign Currency Balances

$ millions	Sovereign Assurance Company Limited					
	Consolidated and Parent					
As at 30 June 2011	**USD**	**AUD**	**GBP**	**YEN**	**EURO**	**Other**
Financial Assets						
Cash and cash equivalents	-	3	1	-	1	1
Securities	303	334	87	35	142	65
Derivative financial instruments	3	1	2	-	1	-
Net Foreign currency assets	**306**	**338**	**90**	**35**	**144**	**66**
Derivative financial instruments net notional principal	**208**	**352**	**49**	**19**	**122**	**26**
As at 30 June 2010						
Financial Assets						
Cash and cash equivalents	1	2	-	-	-	1
Securities	394	229	132	37	256	59
Derivative financial instruments	13	1	1	-	-	1
Financial Liabilities						
Derivative financial instruments	-	-	-	-	(6)	-
Net Foreign currency assets	408	232	133	37	250	61
Derivative financial instruments net notional principal	*305*	*148*	*93*	*21*	*227*	*40*

36. Concentrations of Credit Exposures by Geographic Region

	Consolidated							
As at 30 June 2011	**New Zealand**	**North America**	**Australia**	**Great Britain**	**Asia**	**Europe**	**Other**	**Total**
Financial Assets								
Cash and cash equivalents	**565**	**-**	**4**	**-**	**2**	**-**	**-**	**571**
Securities	**697**	**142**	**651**	**53**	**11**	**98**	**15**	**1,667**
Derivative financial instruments	**7**	**-**	**-**	**-**	**-**	**-**	**-**	**7**
Trade and other receivables	**44**	**-**	**7**	**-**	**-**	**2**	**-**	**53**
Total Credit exposures by geographic region	**1,313**	**142**	**662**	**53**	**13**	**100**	**15**	**2,298**
As at 30 June 2010								
Financial Assets								
Cash and cash equivalents	525	-	2	-	5	-	-	532
Securities	412	223	532	100	7	209	26	1,509
Derivative financial instruments	16	-	-	-	-	-	-	16
Trade and other receivables	35	-	8	-	-	-	-	43
Total Credit exposures by geographic region	988	223	542	100	12	209	26	2,100
As at 30 June 2011	Parent							
Financial Assets								
Cash and cash equivalents	**558**	**-**	**4**	**-**	**2**	**-**	**-**	**564**
Securities	**697**	**142**	**651**	**53**	**11**	**98**	**15**	**1,667**
Derivative financial instruments	**7**	**-**	**-**	**-**	**-**	**-**	**-**	**7**
Trade and other receivables	**44**	**-**	**7**	**-**	**-**	**2**	**-**	**53**
Total Credit exposures by geographic region	**1,306**	**142**	**662**	**53**	**13**	**100**	**15**	**2,291**
As at 30 June 2010								
Financial Assets								
Cash and cash equivalents	520	-	2	-	5	-	-	527
Securities	412	223	532	100	7	209	26	1,509
Derivative financial instruments	16	-	-	-	-	-	-	16
Trade and other receivables	35	-	8	-	-	-	-	43
Total Credit exposures by geographic region	983	223	542	100	12	209	26	2,095

Geographical segments are determined by identification of particular economic environments that are subject to risk and returns that are different from those of segments operating in other economic environments.

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Notes to the Financial Statements

For the year ended 30 June 2011

37. Maturity Analysis of Financial Liabilities

	Sovereign Assurance Company Limited						
	Consolidated						
$ millions	0 -1 Month	1 - 3 Months	3 - 12 Months	1 - 5 Years	Later than 5 Years	Total	Carrying Value
As at 30 June 2011							
Life investment contracts	**628**	**3**	**17**	**137**	**301**	**1,086**	**933**
Derivative financial instruments	**311**	**475**	**-**	**-**	**-**	**786**	**-**
Deposited reserves	**-**	**-**	**1**	**4**	**34**	**39**	**39**
Trade and other payables	**79**	**-**	**1**	**-**	**-**	**80**	**87**
Total Financial liabilities	**1,018**	**478**	**19**	**141**	**335**	**1,991**	**1,059**
Simultaneous inflows on derivative financial instruments	***306***	***473***	**-**	**-**	**-**	***779***	**-**
As at 30 June 2010							
Life investment contracts	589	4	17	131	303	1,044	884
Derivative financial instruments	534	376	-	-	-	910	6
Deposited reserves	-	-	1	4	33	38	39
Trade and other payables	112	2	-	1	-	115	126
Total Financial liabilities	1,235	382	18	136	336	2,107	1,055
Simultaneous inflows on derivative financial instruments	*519*	*381*	-	-	-	*900*	*6*

	Parent						
$ millions	0 -1 Month	1 - 3 Months	3 - 12 Months	1 - 5 Years	Later than 5 Years	Total	Carrying Value
As at 30 June 2011							
Life investment contracts	**628**	**3**	**17**	**137**	**301**	**1,086**	**933**
Derivative financial instruments	**311**	**475**	**-**	**-**	**-**	**786**	**-**
Deposited reserves	**-**	**-**	**1**	**4**	**34**	**39**	**39**
Amounts due to subsidiaries	**1**	**-**	**-**	**-**	**-**	**1**	**1**
Trade and other payables	**79**	**-**	**1**	**-**	**-**	**80**	**87**
Total Financial liabilities	**1,019**	**478**	**19**	**141**	**335**	**1,992**	**1,060**
Simultaneous inflows on derivative financial instruments	***306***	***473***	**-**	**-**	**-**	***779***	**-**
As at 30 June 2010							
Life investment contracts	589	4	17	131	303	1,044	884
Derivative financial instruments	534	376	-	-	-	910	6
Deposited reserves	-	-	1	4	33	38	39
Amounts due to subsidiaries	1	-	-	-	-	1	1
Trade and other payables	112	2	-	1	-	115	126
Total Financial liabilities	1,236	382	18	136	336	2,108	1,056
Simultaneous inflows on derivative financial instruments	*519*	*381*	-	-	-	*900*	*6*

The above analysis is based on contractual undiscounted cash flows. Where the counterparty has discretion in requesting payment, liabilities have been classified according to the earliest time period in which the Group may be required to pay. Cash flows on Derivative financial instruments are analysed on a gross basis unless they are settled net. Refer to Note 32 for details on how the Group manages liquidity risk.

38. Concentration of Credit Exposures by Individual Counterparty

Balance date credit exposures as at 30 June	Consolidated			
	Number of Banks		Number of Non-banks	
	2011	2010	2011	2010
Percentage of Shareholder's Equity				
5 - 9	-	-	1	1
80 - 84	1	-	-	-
90 - 94	-	1	-	-

$ millions

Balance date credit exposures as at 30 June	Total Exposure to Banks		Total Exposure to Non-banks	
	2011	2010	2011	2010
Percentage of Shareholder's Equity				
5 - 9	-	-	36	28
80 - 84	540	-	-	-
90 - 94	-	570	-	-

Only counterparties with balance date exposures exceeding 5% of Shareholder's equity are disclosed. Government exposures are excluded. Equity securities and managed funds investing in equity securities have been excluded as the Group is only exposed to price risk on these instruments, not credit risk. Refer to Note 32 for details on how the Group manages price risk.

Percentages are calculated using the Group's Shareholder's equity as at balance date.

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Independent Auditor's Report
to the shareholders of Sovereign Assurance Company Limited

Report on the Financial Statements
We have audited the financial statements of Sovereign Assurance Company Limited on pages 1 to 45, which comprise the balance sheets as at 30 June 2011, the income statements, statements of comprehensive income and statements of changes in equity and cash flow statements for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 30 June 2011 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements
The Directors are responsible for the preparation of these 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 are 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) and International Standards on Auditing. These standards require that we comply with relevant 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 consider the internal controls relevant to the Company and Group'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 Company and Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall 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, Sovereign Assurance Company Limited or any of its subsidiaries.

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Independent Auditor's Report
Sovereign Assurance Company Limited

Opinion
In our opinion, the financial statements on pages 1 to 45:

(i) comply with generally accepted accounting practice in New Zealand;

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the Company and the Group as at 30 June 2011, 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 30 June 2011:

(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 an examination of those records.

Restriction on Distribution or Use
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 work has been undertaken so that we might state to the Company's shareholder those matters which 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 shareholder, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants
17 October 2011

Auckland