

SOVEREIGN ASSURANCE COMPANY LIMITED AND SUBSIDIARIES

ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2014

Directors' Report

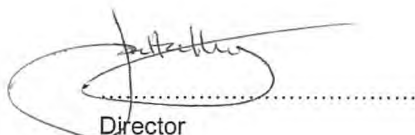
The Directors have pleasure in presenting the Annual Report of Sovereign Assurance Company Limited and its subsidiaries for the year ended 30 June 2014.

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



Director



Director

Dated 4 August 2014

CORPORATE GOVERNANCE

The Board places great importance on the governance of the Sovereign Assurance Company Limited (the "Parent") and its subsidiaries (the "Group"). Performance and compliance are both essential for good governance.

Reviews of the Board's performance and its policies and practices are carried out regularly. These reviews identify where improvements can be made and assess the quality and effectiveness of the industry and company information made available to directors.

The principal features of the Company's corporate governance are:

- the Board Audit and Risk Committee (the "BARC") consists only of non-executive directors. The chairperson of the BARC must be an independent director other than the chairperson of the Board;
- the Chief Executive Officer does not participate in deliberations of either the Board or the Appointments and Remuneration Committees, affecting his position, remuneration or performance; and
- there are established criteria for the appointment of new directors.

All insurance companies carrying on business in New Zealand must hold and comply with all the conditions of a licence issued by the Reserve Bank of New Zealand ("RBNZ"). Requirements for that licence are that:

- the Board will have a minimum of two directors;
- the chair will be an independent, non-executive director;
- at least two directors will be ordinarily resident in New Zealand; and
- at least half of the directors will be independent.

The Board satisfies these requirements.

New independent directors are invited to participate in an induction programme. All directors regularly consider issues, trends and challenges relevant to the Group, the financial services industry and the economy.

The Board has adopted a charter and code of ethics for directors. The philosophy underlying the Board's approach to corporate governance is consistent with the ethical standards required of all employees of the Group.

The Group has implemented and complies with a fit and proper policy and process in relation to determining the appropriateness of its directors and relevant officers.

Non-executive directors do not participate in any of the Group's incentive plans.

The current chairperson of the Board is Mr G.R. Walker.

Committees of the Board

The Board has delegated specific powers and responsibilities to committees of the Board and to management. The decisions made by the Board committees are reported to the full Board. Management always recommends key decisions to the Board for approval.

There are two permanent Board committees, being the BARC and the Appointments and Remuneration Committee. Both committees have their own charters. Other committees may be formed to carry out specific delegated tasks when required.

An independent director chairs each committee.

Board Audit and Risk Committee

The BARC assists the Board in carrying out its responsibilities concerning financial reporting and control, conformance with legal requirements, the identification and prudent management of risk and the good governance of the Group in relation to those matters.

All non-executive directors are members of the BARC. The current chairperson of the BARC is Mr J.P. Hartley.

CORPORATE GOVERNANCE (continued)

The role of the BARC is to:

1. Assist the Board in discharging its responsibility to exercise due care, diligence and skill in relation to financial reporting and control, conformance with legal requirements affecting the Group, the identification and prudent management of the risks to which the Group is or may become subject, and the good governance of the Group in relation to those matters, including the oversight of:
 - the integrity of external financial reporting;
 - financial management;
 - internal control systems;
 - accounting policy and practice;
 - the risk management framework and monitoring compliance with that framework;
 - related party transactions;
 - compliance with applicable laws and standards; and
 - without limiting the generality of the foregoing, compliance with RBNZ standards relating to external financial reporting.
2. Ensure the quality, credibility and objectivity of the accounting process, financial reporting and regulatory disclosure.
3. Oversee and monitor the performance of the internal and external auditors. The Board has approved the application of the Commonwealth Bank of Australia ("CBA") External Auditor Services Policy. That policy relates to the engagement of the external audit firm for non-audit work. The objective of the policy is to avoid prejudice to the independence of the auditor and prevent undue reliance by the auditor on revenue from the Group. The policy ensures the auditor does not:
 - assume the role of management;
 - become an advocate for their own client; or
 - audit work that comprises a direct output of their own professional expertise.

Under the policy the auditor will not provide the following services;

- bookkeeping or services relating to accounting records;
 - financial information systems design and implementation;
 - appraisal or valuation and fairness opinions;
 - actuarial advisory services;
 - internal audit outsourcing services;
 - advice on deal structuring and related documentation;
 - tax planning and strategic services;
 - acting as a broker-dealer, promoter or underwriter; or
 - legal services.
4. Provide a structured reporting line for internal audit and ensure the objectivity and independence of internal audit. The Chief Internal Auditor reports to the BARC through its chairperson.
 5. Consider any CBA group policy relevant to the role of the BARC and, if deemed appropriate, adopt or recommend that the Board adopt (as applicable) the policy as a policy of the Group.
 6. Act as formal forum for free and open communication between the Board, the internal and external auditors, and management.
 7. Deal with any other matter which the Board may from time to time delegate to the BARC.

CORPORATE GOVERNANCE (continued)

Appointments and Remuneration Committee

The role of the Appointment and Remuneration Committee is to assist the Board in discharging its responsibilities in relation to:

- the selection, remuneration, education and evaluation of directors;
- the selection, remuneration and evaluation of management; and
- policies relating to diversity for the Board and management.

The current members of the Appointment and Remuneration Committee are Mr G.R. Walker (chairperson), Mr D.J. May and Mr S.R.S. Blair.

Remuneration for executives is determined after taking external expert advice and considering market data to ensure competitive remuneration packages are in place to attract and retain competent and high-calibre people.

Incentive payments for executives are directly related to performance and depend on the extent to which strategic and operating targets set at the beginning of the financial year are achieved.

Directors and Officers' Liability Insurance

The Group has effected liability insurance for its directors and officers.

INCOME STATEMENTS

\$ millions		Group		Parent	
For the year ended 30 June	Note	2014	2013	2014	2013
Premium income	5	642	616	643	616
Less: Reinsurance expense	5	(42)	(42)	(42)	(42)
Net premium income		600	574	601	574
Investment income	6	184	187	184	187
Other income		8	7	1	-
Total income		792	768	786	761
Claims expense	7	358	349	358	349
Less: Reinsurance recoveries	7	(33)	(30)	(33)	(30)
Net claims expense		325	319	325	319
Other operating expenses	8	291	276	283	275
Increase/(decrease) in life insurance contract liabilities	19	(22)	(28)	(22)	(28)
Increase/(decrease) in life investment contract liabilities	19	71	101	71	101
Total expenses		665	668	657	667
Net profit before tax		127	100	129	94
Tax expense	10	25	45	25	43
Net profit after tax attributed to shareholders	4	102	55	104	51

The above statements should be read in conjunction with the accompanying notes.

STATEMENTS OF COMPREHENSIVE INCOME

\$ millions		Group		Parent	
For the year ended 30 June	Note	2014	2013	2014	2013
Net profit after tax attributed to shareholders	4	102	55	104	51
Items that will not be reclassified to the Income Statement:					
Actuarial gain/(loss) on defined benefit plan		-	1	-	-
Other comprehensive income, net of tax		-	1	-	-
Total comprehensive income attributed to shareholders		102	56	104	51

STATEMENTS OF CHANGES IN EQUITY

CONTRIBUTED CAPITAL

Ordinary share capital

Balance at the beginning of the year		540	540	540	540
Total ordinary share capital	20	540	540	540	540
Total contributed capital at the end of the year		540	540	540	540

RETAINED EARNINGS

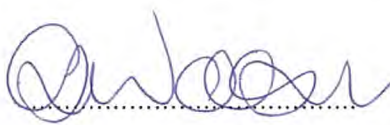
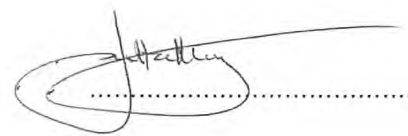
Retained earnings at the beginning of the year		204	211	197	209
Total comprehensive income attributed to shareholders		102	56	104	51
Ordinary dividends paid to parent		(170)	(63)	(170)	(63)
Retained earnings at the end of the year		136	204	131	197
Dividends per ordinary share (cents)		91	34	91	34

The above statements should be read in conjunction with the accompanying notes.

BALANCE SHEETS

\$ millions		Group		Parent	
As at 30 June	Note	2014	2013	2014	2013
ASSETS					
Cash and cash equivalents	12	476	534	451	507
Trade and other receivables	14	56	77	55	76
Investments	13	1,701	1,693	1,701	1,693
Derivative assets	27	9	10	9	10
Liabilities ceded under reinsurance	19	11	9	11	9
Investment in subsidiaries	11	-	-	42	42
Property, plant and equipment	17	20	22	-	-
Intangible assets	18	27	26	18	14
Current tax asset		-	6	-	8
Total assets		2,300	2,377	2,287	2,359
LIABILITIES					
Trade and other payables	15	111	109	91	89
Amounts due to subsidiaries		-	-	12	7
Derivative liabilities	27	1	27	1	27
Life investment contract liabilities	19	867	861	867	861
Life insurance contract liabilities	19	201	221	201	221
Current tax liability		17	-	16	-
Deferred tax liability	10	427	415	428	417
Total liabilities		1,624	1,633	1,616	1,622
Net assets		676	744	671	737
EQUITY					
Contributed capital	20	540	540	540	540
Shareholder retained earnings		136	204	131	197
Total equity		676	744	671	737

Signed for and on behalf of the Board of Directors on



Dated 4 August 2014

The above statements should be read in conjunction with the accompanying notes.

STATEMENTS OF CASH FLOWS

\$ millions		Group		Parent	
For the year ended 30 June	Note	2014	2013	2014	2013
Premiums received		678	651	679	651
Interest received		53	53	53	53
Dividends received		20	20	20	20
Fees, commissions and other revenue received		7	7	-	-
Claims paid		(453)	(471)	(453)	(471)
Commissions paid		(143)	(140)	(140)	(137)
Payments to suppliers and employees		(133)	(125)	(137)	(132)
Net reinsurance received/(paid)		(15)	(2)	(15)	(2)
Net income tax received/(paid)		10	(18)	10	(15)
Net cash inflow/(outflow) from operating activities	12	24	(25)	17	(33)
Net proceeds from sales/(purchases) of investments and derivatives		101	95	101	95
Net movement in related party balances		-	(2)	4	(7)
Purchase of property, plant and equipment	17	(1)	-	-	-
Purchase of intangible assets	18	(12)	(5)	(8)	-
Net cash inflow/(outflow) from investing activities		88	88	97	88
Dividends paid		(170)	(63)	(170)	(63)
Net cash inflow/(outflow) from financing activities		(170)	(63)	(170)	(63)
Net increase/(decrease) in cash and cash equivalents		(58)	-	(56)	(8)
Cash and cash equivalents at the beginning of the year		534	534	507	515
Cash and cash equivalents at the end of the year	12	476	534	451	507

The above statements should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

The Parent is registered under the Companies Act 1993, domiciled and incorporated in New Zealand. The Parent is an issuer under the Financial Reporting Act 1993. The financial statements presented are those for the Group. The Parent is 100% owned by Sovereign Limited. The ultimate parent is CBA. The Parent's registered address is Level 2, ASB North Wharf, 12 Jellicoe Street, Auckland Central, Auckland 1010. The Parent's and Group's principal areas of business are life insurance and investment management.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below.

2a 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.

The amounts contained in the financial statements and notes are presented in millions of dollars, unless otherwise stated.

Where it is not specified, disclosures relate to both the Parent and Group.

Accounting policies have been consistently applied to all the periods presented, unless otherwise stated.

Certain comparative figures have been reclassified to conform with the current year's presentation, but the impact of any reclassification is immaterial, except for the reclassification of life investment deferred acquisition costs from other assets to intangible assets (refer to note 18). This reclassification had no impact on net profit after tax, total comprehensive income, or net assets.

2b Statement of compliance

The 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 financial statements comply with the Financial Reporting Act 1993 and the Companies Act 1993. They were approved for issue by the directors on 4 August 2014. The directors do not have the power to amend the financial statements once issued.

New and amended standards adopted

The following relevant standards, amendments and interpretations to existing standards have been adopted from 1 July 2013, but do not materially impact the financial results:

- NZ IFRS 4 *Statutory Funds (Amendments to Appendix C of NZ IFRS 4)* has been adopted to reflect the new legislative and regulatory environment for life insurers. The revised standard requires a life insurer to disclose solvency margin for each life fund, determined in accordance with the solvency standards made under the Insurance (Prudential Supervision) Act 2010. It also requires disclosure of disaggregated information for each life fund.

- *Amendments to NZ IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* requires the disclosure of new information in respect of the Group's use of enforceable netting arrangements and similar agreements. These amendments require entities to disclose both gross and net amounts of recognised financial assets and financial liabilities associated with master netting agreements and similar arrangements, including the effects of financial collateral, whether or not they are presented net on the face of the balance sheet. These disclosures enable users of financial statements to better evaluate the effect or potential effect of netting arrangements on the entity's financial position. The new information is disclosed in note 27 Risk Management Policies.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- NZ IFRS 10 *Consolidated Financial Statements* establishes a new control model which broadens the situations when an entity is considered to control another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than majority voting rights may give control. Its adoption did not have a material impact on the financial statements.

- NZ IFRS 13 *Fair Value Measurement* establishes a single source of guidance under NZ IFRS for determining the fair value of assets and liabilities. NZ IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under NZ IFRS when fair value is required or permitted by NZ IFRS. It also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. This standard was applied prospectively as provided in its transition rules. Other than the preparation of the new required disclosures, its adoption did not result in material adjustments to the financial statements.

- NZ IAS 19 *Employee Benefits (amended 2011)* enhances disclosures of defined benefit plans and modifies accounting for termination benefits. Its adoption did not have a material impact on the financial statements.

New standards, amendments and interpretations issued that are not yet effective

The following relevant standards, amendments and interpretations to existing standards have been issued, and are not expected to be adopted until their effective dates:

- NZ IFRS 9 *Financial Instruments* addresses the classification, measurement and recognition of financial assets and financial liabilities. NZ IFRS 9 was issued in November 2009, December 2010, and December 2013. This standard is effective for periods beginning on or after 1 January 2017. It replaces the parts of NZ IAS 39 *Financial Instruments: Recognition and Measurement* that relate to the classification and measurement of financial instruments and hedge accounting.

NZ IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the NZ IAS 39 requirements. The new hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by entities when hedging their financial and non-financial risks.

- NZ IFRS 15 *Revenue from Contracts with Customers*, addresses recognition of revenue from contracts with customers. It replaces the current revenue recognition guidance in NZ IAS 18 *Revenue* and NZ IAS 11 *Construction Contracts* and is applicable to all entities with revenue. It sets out a 5 step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration, to which the entity expects to be entitled in exchange for those goods or services. This standard is effective for periods beginning on or after 1 January 2017.

The Group is in the process of evaluating the potential impact of these standards, but does not expect the impact on the financial statements to be material.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2c Critical accounting judgements and estimates

Preparation of the financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates, although other than for the computation of tax provisions, life insurance contract liabilities and life investment contract liabilities, it is not anticipated that such differences would be material.

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 material 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.

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, adjustments to tax expense in future years may be required.

The critical judgements used by management in applying the accounting policies that have the most significant effect on the amounts recognised in the financial statements are the valuation of:

- Financial instruments, refer to notes 2i and 13.
- Life insurance contract liabilities, including claims reserves, refer to notes 2p and 19.
- Life investment contract liabilities, refer to notes 2p and 19.
- Derivative financial instruments, refer to notes 2i and 27.
- Tax, refer to notes 2j and 10.
- Intangible assets, refer to notes 2r and 18.

2d Principles of consolidation

Where it is determined that there is a capacity to control, the group financial statements consolidate the financial statements of a parent and all its subsidiaries using the acquisition method of consolidation. 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. 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. The assets and liabilities of superannuation schemes managed by the Group are not included in group financial statements as there is no capacity to control.

All intragroup balances and transactions have been eliminated in preparing the consolidated financial statements.

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 excess of purchase consideration over the fair value of identifiable net assets acquired is recorded as goodwill, except in the case of acquisitions of entities under common control, where the difference is recorded directly in equity.

Following initial recognition, goodwill on acquisition of a business combination is not amortised but is tested annually for impairment, 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 immediately in the Income Statement. Impairment losses on goodwill are not reversed. For the purposes of impairment testing, goodwill is allocated to cash generating units or groups of units, based on how goodwill is monitored by management. A cash generating unit is the smallest identifiable group of assets that generate independent cash flows. Gains and losses on the disposal of an entity include the carrying value of goodwill relating to the entity sold.

Investments in subsidiaries are recognised 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 immediately in the Income Statement.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2e Foreign currency translation

Foreign currency denominated assets and liabilities are translated to New Zealand currency at the exchange rate ruling as at balance date. Foreign currency transactions are translated to New Zealand currency at the exchange rate ruling at the date of the transaction. Gains and losses arising from these revaluations are recognised immediately in the Income Statement.

2f 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.

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 contract liabilities.

Initial entry fee income on life 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 at that time. Otherwise initial entry fee income is deferred as a component of life investment contract liabilities and is amortised as related services are provided under the contract.

Investment income

Interest income is recognised in the Income Statement using the effective interest method. Dividend income is recognised in the Income Statement when the right of receipt is established. Realised and unrealised gains and losses from fair value re-measurement of financial instruments are included in investment income.

Other income

All other income is recognised on an accrual basis, unless otherwise stated.

2g Expense recognition

Claims

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 contract liabilities.

Other operating expenses

All other operating expenses are recognised in the Income Statement on an accrual basis, unless otherwise stated.

Other operating expenses incorporate all other expenditure involved in running the Group including costs of new business (both commission and management expenses), employee benefits, depreciation, amortisation 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.

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 inforce volumes (maintenance and investment management costs).

(i) Acquisition costs

Acquisition costs are the fixed and variable costs of accepting, issuing and initially recording policies, including initial commission and similar distribution costs. Acquisition costs do not include general growth and development costs that are not specifically related to acquisition activity.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2g Expense recognition (continued)

(ii) 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 are 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 the increase/(decrease) in life insurance contract liabilities at the same time as policy margins are released.

(iii) 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 and is included in intangible assets. The deferred acquisition cost asset is subsequently amortised over the life of the contracts and is recognised in other operating expenses in the Income Statement.

(iv) 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.

2h Dividend recognition

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

Where a dividend is declared post reporting date, but prior to the date of issue of the financial statements, disclosure of the declaration is made in the notes to the financial statements but no liability is recognised in the Balance Sheet.

2i Financial instruments

Basis of measurement and recognition

The Group classifies financial instruments into one of the following categories at initial recognition: financial assets at fair value through profit or loss, held for trading, loans and receivables, financial liabilities at fair value through profit or loss, and financial liabilities at amortised cost. Regular purchases and sales of financial instruments 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.

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

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2i Financial instruments (continued)

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. The Group has adopted the revised NZ IFRS 7 disclosure requirements in respect of the Group's use of enforceable netting arrangements. The amendments require entities to disclose both gross and net amounts of recognised financial assets and financial liabilities associated with master netting arrangements, whether or not they are presented net on the face of the Balance Sheet.

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:

(i) Cash and cash equivalents

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

(ii) 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.

(iii) Trade and other payables

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

Financial assets at fair value through profit or loss

Investments held by life insurance companies are recognised at fair value at inception through profit or loss because they back life insurance contract liabilities and life investment contract liabilities. Subsequent gains and losses from fair value remeasurement of investments are recognised in investment income in the Income Statement. Investments recognised at fair value include:

- (i) Equity and property securities, based on the bid market price quoted by the stock exchange or fund manager.
- (ii) Fixed interest securities, based on a quoted bid market price.
- (iii) Commercial and residential mortgages and loans on policies, based on a market accepted valuation technique, using methods and assumptions that are based on market conditions and risks existing at the balance date. Mortgages are carried at estimated fair value, derived using a valuation technique that uses experienced judgement to estimate the credit risk and 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.

Held for trading

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

Derivative financial instruments are recorded at fair value through profit or loss, based on market accepted valuation techniques using observable market inputs. Subsequent gains and losses arising from the fair value remeasurement of derivative financial instruments are recognised immediately in investment income in the Income Statement. All derivatives used by the Group are classified as held for trading as they do not meet the criteria for hedge accounting under NZ IAS 39.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2i Financial instruments (continued)

Loans and receivables

Assets in this category are recognised initially at fair value plus transaction costs and are subsequently measured at amortised cost using the effective interest method less any allowance for uncollectible amounts. Loan and receivables include:

- (i) Cash and cash equivalents, including 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. Assets in this category are brought to account at face value and interest is taken to the Income Statement when earned. Bank overdrafts are shown within cash and cash equivalents if the net position is an asset due to the Group's right to offset overdrafts within its banking facility.
- (ii) Trade and other receivables include investment receivables, outstanding premiums, amounts due from reinsurers, amounts due from agents and other current assets.

Financial liabilities at fair value through profit or loss

Life investment contract liabilities are measured at fair value, with subsequent gains and losses arising from fair value remeasurement recognised in the Income Statement. Refer to note 2p for more details of life investment contract liabilities.

Financial liabilities at amortised cost

This category includes all financial liabilities other than those designated at fair value through profit or loss. Trade and other payables is the only liability in this category, and includes trade payables and accruals, outstanding claims, investment payables, employee benefits, amounts due to reinsurers, amounts due to agents, dividends payable, amounts due to related parties and other current liabilities. Liabilities in this category are recognised when due and are initially measured at the fair value of consideration paid plus transaction costs. They are subsequently measured at amortised cost using the effective interest method.

2j Tax

Tax expense for the period comprises current and deferred tax. Tax is recognised in the Income Statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case, the tax is recognised in other comprehensive income or directly in equity, respectively.

Current tax is calculated on the basis of the tax rates and tax laws enacted or substantially enacted at balance date, by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period and any adjustment to tax payable in respect of previous years. Current tax is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and tax laws enacted or substantially enacted at balance date, based on the expected realisation or settlement of assets and liabilities.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Tax liabilities and assets are transferred among group companies through intercompany accounts at the current tax rate if, and only if, the entities concerned have a legally enforceable right to make or receive a single net payment and the entities intend to make or receive such a net payment or to recover the asset and settle the liability simultaneously.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2j Tax (continued)

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 28% (30 June 2013 28%). 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 pays tax on the higher of the two bases at the company tax rate.

Goods and Services Tax

Where a transaction is subject to Goods and Services Tax ("GST"), the financial statements have been prepared so that all components are stated exclusive of GST, with the exception of trade receivables and trade payables, which include GST invoiced.

2k Provisions

Provisions are only recognised when the Group has a present legal or constructive obligation as a result of a past event, 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.

2l Cash flow statement

This has been prepared using the direct approach, modified by the netting of cash flows associated with reinsurance, foreign currency forward contracts, investment sales and purchases, the settlement of tax balances and intercompany transactions. For these items, the Group considers that knowledge of gross receipts and payments is not essential to understanding the activities of the Group and it is considered acceptable to report only the net cash flows. This is based on the fact that the turnover of these items is quick, the amounts are large, and the maturities are short.

2m Segment reporting

The Group is not required to disclose geographic or operating segment information under NZ IFRS 8 *Operating Segments*. On this basis there are no disclosures relating to the Group's geographic or operating segments.

2n Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the Income Statement on a straight line basis over the period of the lease.

2o 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.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2p Life insurance business

Statutory obligations

The New Zealand insurance industry is regulated by the RBNZ, under the Insurance (Prudential Supervision) Act 2010 ("IPSA"). IPSA requires all entities carrying on insurance business in New Zealand (as defined by the Act) to hold a licence. The Parent holds a full licence under IPSA. Key elements of the insurance prudential supervision regime include minimum solvency requirements and regular reporting to the RBNZ, the need for directors and other relevant officers to meet fit and proper standards, and governance and risk management requirements.

IPSA requires that a life insurer must at all times have at least one statutory fund in respect of its life insurance business. On 1 July 2013, the Parent established a statutory fund, the Sovereign Statutory Fund No. 1, that relates solely to the Parent's life insurance business as defined by IPSA. The Parent's standalone health insurance business (which is not classified as life insurance business under IPSA) and business that does not relate to contracts of insurance are included in the Parent's Other Fund. The activities of the statutory fund are reported in aggregate with the Other Fund in the financial statements. Further information on the statutory fund is provided in notes 22 and 23.

The Parent has an insurer financial strength rating of "A+" (Superior) issued by international rating agency A.M. Best Company Inc. with an effective date of 19 December 2013.

Life insurance contract liabilities and life investment contract liabilities - 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 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 ("MoS") profit

The financial reporting methodology used to determine the value of life insurance contract liabilities is referred to as Margin on Services ("MoS"), as set out in New Zealand Society of Actuaries Professional Standard 3: *Determination of Life Insurance Liabilities*. MoS is designed to recognise profits on life insurance policies as services are provided to policyholders and income is received. Under MoS, the planned profit margins of premium received less expenses is deferred and amortised over the life of the contract, whereas losses are recognised immediately.

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).

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2p 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 contract liabilities

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 contract liabilities

All contracts issued by the Group that are classified as life insurance contracts 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 all meet the definition of a life insurance contract and have been classified as an asset, liabilities ceded under reinsurance.

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.

Liabilities ceded under reinsurance are the present value of future reinsurance claims receivable and premiums payable by the Group.

2q Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

The cost of property, plant and equipment less the estimated residual value is depreciated over their useful lives on a straight line basis. Depreciation of work in progress will not begin until the asset is available for use, i.e. when it is in the location and condition necessary for it to be operating in the manner intended by management. The estimated useful lives of the major assets are between 10 and 18 years for leasehold improvements, and between 3 and 10 years for office equipment, furniture and fittings and computer equipment.

Assets are reviewed for impairment indicators annually to identify events or changes in circumstances that indicate that the carrying amount may not be recoverable. If an asset's carrying amount is greater than its estimated recoverable amount, the carrying amount is written down to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and the asset's value in use. Any impairment loss is recognised immediately in the Income Statement.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2r Intangible assets

Refer to principles of consolidation (refer to note 2d) for details of goodwill.

(i) Internally developed software, acquired software licences and application software

The Group generally expenses computer software costs in the period incurred. However, some costs associated with developing identifiable and unique software products controlled by the Group, including employee costs and an appropriate portion of relevant overheads, are capitalised and treated as Intangible assets when the products will generate probable future economic benefits. Acquired computer software licences are capitalised on the basis that they are costs incurred to acquire and to use specific software. These assets are amortised using the straight-line method over their useful lives (not exceeding three years).

(ii) Other intangible assets and deferred acquisition costs

Costs for the right to service policies have been capitalised and treated as intangible assets. These assets are amortised using the straight-line method over their useful lives which are estimated as between 18 and 54 months respectively. Other operating costs (refer to note 2g(iii)) that vary with, and are directly related to securing new life investment policies are capitalised as a deferred acquisition cost intangible asset, and are subsequently amortised over the life of the contracts.

Intangible assets are reviewed for impairment annually to identify events or changes in circumstances that indicate that the carrying amount may not be recoverable. If an asset's carrying amount is greater than its estimated recoverable amount, the carrying amount is written down to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and the asset's value in use. Any impairment loss is recognised immediately in the Income Statement.

2s Retirement benefit obligations

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

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

Defined benefit plans

Defined benefit plans are formal 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 plan's 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 the Income Statement.

Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior years.

Contributions to defined contribution plans are recognised as an expense in the Income Statement as incurred.

NOTES TO THE FINANCIAL STATEMENTS

3 Actuarial assumptions and methods

The effective date of the policy liabilities and solvency margin calculation for the Group is 30 June 2014. Doune Connett FNZSA, as the Appointed Actuary of the Parent, is satisfied as to the accuracy of the data from which the amount of life insurance contract liabilities has been determined.

The projection method is used to determine life insurance contract liabilities. The projection method uses expected cash flows (premiums, investment income, surrenders or benefit payments, expenses) plus profit margins to be released in future periods, to calculate the present value of life insurance contract liabilities.

Life insurance contract liabilities have been determined in accordance with Professional Standard No.3 issued by the New Zealand Society of Actuaries and the requirements of NZ IFRS 4. Key assumptions used in determining life insurance contract liabilities are as follows:

3a Discount rates

(i) 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 4.4% pa (30 June 2013 4.1%) and equity investments 8.4% pa (30 June 2013 8.1%). The discount rates used for individual classes of business varied between 4.4% pa and 6.3% pa (30 June 2013 3.9% and 6.0%).

(ii) Other business

The discount rate used to determine Life insurance contract liabilities is a risk free discount rate. The methodology for determining the discount rate has changed for the year ended 30 June 2014. Single point discount rates have been determined so that the term structure of the products is taken into account in setting the discount rate. For annuities and risk business rates between 4.3% pa and 5.1% pa were used (30 June 2013 3.5% to 4.1%).

3b Profit carriers

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

Product type	Carrier
Risk	Expected claims payments
Savings business	Funds under management/investment management expenses
Traditional participating business	Bonuses

3c 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"), a wholly owned subsidiary of SACL, and external fund managers. Future inflation has been assumed to be 2.5% pa (30 June 2013 2.5%) for determining future expenses and inflation linked increases in benefits and premiums.

3d Tax

The rates of tax 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 2013 28%). 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.

3e 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.

3f 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 2013.

NOTES TO THE FINANCIAL STATEMENTS

3 Actuarial assumptions and methods (continued)

The proportions of NZ97 adopted for the major products range from 53% to 96% (30 June 2013 53% to 96%).

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.

The claim assumptions for living assurance benefits are unchanged. Claim termination rates for disability income benefits have worsened slightly since 30 June 2013.

3g 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 2014.

Future rates of discontinuance are:

Future rates of discontinuance are:											
		Policy duration (years)									
	Age	1	2	3	4	5	6	7	8	9	10+
As at 30 June 2014											
Life Rate for Age	< 30	12%	16%	17%	15%	15%	15%	13%	12%	11%	11%
	30 - 39	8%	11%	14%	12%	12%	12%	11%	11%	11%	10%
	40 - 49	7%	11%	14%	13%	12%	11%	11%	10%	10%	9%
	50 - 64	8%	11%	16%	14%	13%	13%	12%	12%	12%	11%
	65+	17%	20%	25%	23%	23%	22%	22%	21%	21%	20%
Life Level to Age 80	< 30	17%	17%	17%	14%	10%	9%	9%	8%	8%	8%
	30 - 39	11%	10%	9%	7%	5%	5%	4%	4%	4%	4%
	40 - 49	8%	7%	8%	6%	5%	4%	4%	3%	3%	3%
	50 - 64	7%	5%	10%	5%	5%	4%	4%	3%	3%	3%
	65+	6%	5%	9%	5%	5%	4%	4%	3%	3%	3%
As at 30 June 2013											
Life Rate for Age	< 30	13%	16%	17%	15%	14%	14%	13%	12%	12%	12%
	30 - 39	8%	11%	14%	13%	12%	12%	11%	10%	10%	10%
	40 - 49	7%	11%	14%	13%	12%	11%	11%	10%	10%	10%
	50 - 64	8%	12%	16%	14%	13%	12%	12%	11%	11%	11%
	65+	18%	21%	25%	23%	22%	22%	21%	20%	20%	20%
Life Level to Age 80	< 30	17%	16%	15%	13%	12%	10%	10%	9%	9%	9%
	30 - 39	9%	8%	8%	6%	6%	5%	5%	5%	5%	5%
	40 - 49	7%	7%	8%	6%	5%	4%	4%	4%	3%	3%
	50 - 64	7%	6%	8%	5%	5%	5%	4%	3%	2%	2%
	65+	6%	6%	8%	5%	5%	5%	4%	3%	2%	2%
As at 30 June											
	Age	2014			2013						
		Life	Non Life	Total	Life	Non Life	Total				
Other risk	< 30	20%	15%		19%	16%					
	30 - 39	14%	13%		13%	13%					
	40 - 49	12%	12%		11%	13%					
	50 - 64	10%	14%		9%	14%					
	65+	8%	18%		7%	19%					
Participating				4%				4%			
Savings				12%				11%			

NOTES TO THE FINANCIAL STATEMENTS

\$ millions

For the year ended 30 June	Note	2014	2013	2014	2013
----------------------------	------	------	------	------	------

3 Actuarial assumptions and methods (continued)

3h 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.

3i 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 2013 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:

Ex-Prudential policies				
Bonus rate on sum assured			1.25%	0.63%
Bonus rate on existing bonus			1.25%	0.63%
Ex-NZI policies				
Bonus rate on sum assured			0.13%	0.00%
Bonus rate on existing bonus			0.25%	0.00%
Ex-Colonial policies				
Bonus rate on sum assured			0.40%	0.20%
Bonus rate on existing bonus			0.40%	0.20%
Ex-Metropolitan Life policies				
Bonus rate on sum assured			0.00%	0.00%
Bonus rate on existing bonus			0.00%	0.00%
Investment account policies				
Crediting rate			3.08%	3.36%

3j Impact of changes in assumptions

Refer to note 2p for an explanation of the treatment of changes in actuarial assumptions on life insurance contract liabilities. The impact of changes in actuarial assumptions made during the reporting period are:

	Effect on future profit margins		Effect on life insurance contract liabilities	
Market related changes to discount rates	(44)	(47)	(7)	(12)
Non-market related changes to discount rates	(40)	-	(2)	1
Mortality and morbidity	(13)	22	2	(1)
Discontinuance rates	13	(56)	-	1
Maintenance expenses	(2)	4	-	-
Net impact of taxation changes	-	(57)	-	-
Other assumptions	17	-	(1)	(1)

NOTES TO THE FINANCIAL STATEMENTS

\$ millions		Group		Parent	
For the year ended 30 June	Note	2014	2013	2014	2013
4 Sources of profit					
Life insurance					
Planned margins of revenues over expenses		62	62	62	62
Difference between actual and assumed experience		7	(43)	10	(46)
Effects of changes in underlying assumptions		6	11	6	11
Net profit after tax attributable to shareholders arising from life insurance contracts		75	30	78	27
Life investment					
Planned margins of revenues over expenses		8	8	8	8
Difference between actual and assumed experience		(1)	(1)	(1)	(1)
Net profit after tax attributable to shareholders arising from life investment contracts		7	7	7	7
Investment earnings on shareholders assets		19	17	19	17
Total life activities		101	54	104	51
Non-life activities					
Other		1	1	-	-
Total non-life activities		1	1	-	-
Net profit after tax attributed to shareholders		102	55	104	51
5 Premium income					
Life insurance contract premiums		640	612	641	612
Life investment contract premiums		36	44	36	44
Total premiums		676	656	677	656
Less: Deposit premiums recognised as an increase in life investment contract liabilities	19	(34)	(40)	(34)	(40)
Total premium income		642	616	643	616
Less: Reinsurance expense		(42)	(42)	(42)	(42)
Total net premium income		600	574	601	574

NOTES TO THE FINANCIAL STATEMENTS

\$ millions		Group		Parent	
For the year ended 30 June	Note	2014	2013	2014	2013
6 Investment income					
Dividends		26	29	26	29
Realised and unrealised gains/(losses)		101	131	101	131
Total equity securities		127	160	127	160
Interest		52	50	52	50
Realised and unrealised gains/(losses)		(2)	(35)	(2)	(35)
Total fixed interest securities		50	15	50	15
Dividends		4	3	4	3
Realised and unrealised gains/(losses)		1	7	1	7
Total property securities		5	10	5	10
Other investment income		2	2	2	2
Total investment income		184	187	184	187
7 Claims expense					
Death, disability and medical claims		313	297	313	297
Maturities		20	26	20	26
Surrenders		119	136	119	136
Annuities		5	5	5	5
Total claims		457	464	457	464
Less: Claims recognised as a decrease in life investment contract liabilities	19	(99)	(115)	(99)	(115)
Total claims expense		358	349	358	349
Less: Reinsurance recoveries		(33)	(30)	(33)	(30)
Total net claims expense		325	319	325	319

NOTES TO THE FINANCIAL STATEMENTS

\$ millions	Life insurance contracts		Life investment contracts		Total	
	2014	2013	2014	2013	2014	2013

8 Other operating expenses

Group						
Initial commission	60	62	-	-	60	62
Other acquisition expenses	68	66	2	2	70	68
Policy acquisition expenses	128	128	2	2	130	130
Renewal commission	81	73	3	3	84	76
Other maintenance expenses	63	53	5	6	68	59
Policy maintenance expenses	144	126	8	9	152	135
Investment management expenses	3	4	2	3	5	7
Total life expenses	275	258	12	14	287	272
Superannuation management	-	-	-	-	-	1
Asset management	-	-	-	-	4	3
Total other operating expenses	275	258	12	14	291	276
Parent						
Initial commission	60	62	-	-	60	62
Other acquisition expenses	68	66	2	2	70	68
Policy acquisition expenses	128	128	2	2	130	130
Renewal commission	81	73	3	3	84	76
Other maintenance expenses	59	56	5	6	64	62
Policy maintenance expenses	140	129	8	9	148	138
Investment management expenses	3	4	2	3	5	7
Total other operating expenses	271	261	12	14	283	275
For the year ended 30 June						
	Group		Parent			
	2014	2013	2014	2013		

Included within other operating expenses are the following:

Employee benefits expense						
Wages and salaries	78	72	-	-		
Defined contribution plan expense	2	1	-	-		
Operating lease expenses	5	5	-	-		
Fiduciary expenses (asset management)	3	4	5	7		

9 Auditor's remuneration

PricewaterhouseCoopers NZ is the appointed auditor of the Group for the current and prior year. Fees paid to PricewaterhouseCoopers NZ are as follows (\$'000):

Fees for the audit and review of financial statements	888	899
Fees for the review of superannuation schemes	20	20
Audit of solvency return	41	81
Review of regulatory compliance	28	22
Review of actuarial model	-	144
Tax related services	23	-
Other assurance related services	26	-

NOTES TO THE FINANCIAL STATEMENTS

\$ millions		Group		Parent	
For the year ended 30 June	Note	2014	2013	2014	2013

10 Tax

Analysis of tax expense

Current tax expense	13	41	14	37
Deferred tax expense	12	4	11	6
Total tax expense	25	45	25	43

The tax expense recognised can be reconciled to the accounting profit as follows:

Net profit before tax	127	100	129	94
Income tax at the current tax rate	36	28	36	26
Tax effect of:				
Non-deductible expenditure	31	35	31	35
Non-assessable income	(23)	(25)	(23)	(25)
Prior period adjustments	(4)	43	(4)	43
Imputation credit adjustments	(2)	(2)	(2)	(2)
Movement in policy liabilities and tax reserving amounts	(1)	-	(1)	-
Investment income adjustments	(12)	(34)	(12)	(34)
Total tax expense	25	45	25	43
The weighted average effective tax rate was:	20%	45%	19%	46%

The Parent has received assessments from the Inland Revenue Department in relation to the tax treatment of reinsurance arrangements in the 2000 to 2006 tax years. The Parent lodged proceedings in the High Court to challenge the reassessments, with the High Court finding in favour of the Commissioner. The Court of Appeal dismissed the Parent's appeal from the High Court judgment. In June 2014, the Parent was refused leave to appeal to the Supreme Court. This resolves the matter in favour of the Commissioner. The Parent has adopted an accounting policy of recognising and accounting for interest associated with the above matter as a tax expense. The liability arising from the matter is \$47m plus tax-effected interest of approximately \$35m. The Parent has fully provided for the liability in the prior year.

NOTES TO THE FINANCIAL STATEMENTS

\$ millions		Group		Parent	
For the year ended 30 June	Note	2014	2013	2014	2013

10 Tax (continued)**Imputation credit account**

Companies may attach imputation credits to dividends paid which represent 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 Parent has formed an imputation group with other members of the CBA Group (the "ICA Group"). The amount of imputation credits available to all members of the ICA Group as at 30 June 2014 is \$628m (30 June 2013 \$513m). This figure includes the imputation credits that will arise from the payment of the amount of the provision for income tax, imputation credits that will arise from the receipt of dividends recognised as receivables at the reporting date, and imputation debits that will arise from the payment of dividends recognised as payables at the reporting date.

Deferred tax liability

Balance at the beginning of the year	415	411	417	411
Charged/(credited) to the Income Statement	12	4	11	6
Balance at the end of the year	427	415	428	417

Deferred tax comprises:

Life insurance and life investment contract liabilities	420	410	420	410
Other	7	5	8	7
Total deferred tax liability	427	415	428	417

Maturity analysis

Expected to crystallise within 12 months	24	21	25	23
Expected to crystallise in more than 12 months	403	394	403	394
Net deferred tax liability	427	415	428	417

Deferred tax recognised in the Income Statement

Life insurance and life investment contract liabilities	10	5	10	5
Other	2	(1)	1	1
Total deferred tax recognised in the Income Statement	12	4	11	6

NOTES TO THE FINANCIAL STATEMENTS

11 Investment in subsidiaries

The Parent has a 100% interest in the following entities:

Entity Name	Nature of Business
Sovereign Services Limited	Administration services
Westside Properties Limited	Asset leasing
Sovereign Superannuation Funds Limited	Superannuation scheme manager

All entities were incorporated in New Zealand, and have a balance date of 30 June.

\$ millions		Note	Group		Parent	
			2014	2013	2014	2013
For the year ended 30 June						
12	Cash and cash equivalents					
	Cash at bank and on deposit		473	523	449	502
	Foreign currency at bank		3	11	2	5
	Cash and cash equivalents		476	534	451	507

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

Net profit after tax	4	102	55	104	51
Net realised and unrealised (gains)/losses		(100)	(103)	(100)	(103)
Impairment of intangible assets		2	-	-	-
Loss on disposal of intangible assets		-	2	-	-
Amortisation and depreciation	17,18	12	8	4	2
Non-cash dividends received		(11)	(11)	(11)	(11)
Net increase/(decrease) in tax liability	10	35	27	35	30
Change in life insurance contract liabilities recognised in the Income Statement	19	(22)	(28)	(22)	(28)
Change in life investment contract liabilities recognised in the Income Statement	19	71	101	71	101
Change in life investment contract liabilities recognised in the Balance Sheet	19	(65)	(75)	(65)	(75)
Other items		-	(1)	1	-
Net cash inflow/(outflow) from operating activities		24	(25)	17	(33)

NOTES TO THE FINANCIAL STATEMENTS

\$ millions		Group		Parent	
For the year ended 30 June	Note	2014	2013	2014	2013
13 Investments					
Equity securities		784	798	784	798
Fixed Interest securities					
New Zealand government stock		619	598	619	598
Corporate bonds		29	28	29	28
Foreign government stock		140	159	140	159
Total fixed interest securities	13c	788	785	788	785
Property securities		100	81	100	81
Loans on policies	13a	22	22	22	22
Mortgages	13b	7	7	7	7
Total investments		1,701	1,693	1,701	1,693

As at 30 June 2014 no investments were pledged under repurchase agreements or other arrangements (30 June 2013 nil). A maturity analysis for equity securities and property securities has not been presented because these investments are liquid assets and the timing of realisation is not known.

13a 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.

13b Mortgages

The impact of credit risk on the fair value of mortgages as at 30 June 2014 is \$1m (30 June 2013 \$1m). The change in fair value due to changes in credit risk for the year ended 30 June 2014 is nil (30 June 2013 nil). Mortgages are fully secured against property.

Maturity analysis

Under one year	-	-	-	-
Greater than one year	7	7	7	7
	7	7	7	7

13c Fixed interest securities**Maturity analysis**

Under one year	11	4	11	4
Between one and two years	3	13	3	13
Between two and three years	4	3	4	3
Between three and four years	46	47	46	47
Between four and five years	45	53	45	53
Greater than five years	679	665	679	665
	788	785	788	785

NOTES TO THE FINANCIAL STATEMENTS

\$ millions			Group		Parent	
			2014	2013	2014	2013
For the year ended 30 June		Note				
14 Trade and other receivables						
	Investment receivables		19	47	19	47
	Outstanding premiums		19	18	19	18
	Amounts due from reinsurers		15	8	15	8
	Agent balances receivable		1	3	1	3
	Other receivables		2	1	1	-
	Total trade and other receivables		56	77	55	76

All trade and other receivables have an expected settlement date of less than 12 months.

15 Trade and other payables

Outstanding claims		58	53	58	53
Amounts due to reinsurers		3	2	3	2
Agent balances		7	7	7	7
Prepaid premiums		12	10	12	10
Expense creditors		13	13	2	2
Investment creditors		9	14	9	14
Employee benefits		9	9	-	-
Retirement benefit obligations	16	-	1	-	1
Total trade and other payables		111	109	91	89

An analysis of current and non-current liabilities is presented in a maturity analysis of financial liabilities, refer to note 29.

NOTES TO THE FINANCIAL STATEMENTS

16 Retirement benefit obligations

Actuarial gains and losses are recognised in full each year.

The Sovereign Staff Retirement Fund ("SSRF") is a superannuation scheme with a defined benefit section and a defined contribution section, with only pensioners in payment now remaining. The date of the last full triennial actuarial review was 31 March 2013.

The Prudential Assurance Co NZ Ltd Pension Scheme ("Prudasco") is a defined benefit plan with only pensioners in payment now remaining. The date of the last full triennial actuarial review was 31 March 2013.

The next triennial actuarial review of both schemes is scheduled for 31 March 2016.

\$ millions	Prudasco		SSRF	
For the year ended 30 June	2014	2013	2014	2013
Reconciliation of amounts recognised in the Balance Sheet				
Present value of funded obligations	(3)	(4)	(4)	(5)
Fair value of fund assets	3	3	8	8
(Deficit)/surplus	-	(1)	4	3
Adjustment for the limit on the use of net assets*	-	-	(4)	(3)
Total retirement benefit obligations (inclusive of specified superannuation contribution withholding tax)	-	(1)	-	-
Expense/(income) recognised in the Statement of Comprehensive Income	(1)	-	-	-
Investment income on fund assets	-	-	1	1

* SSRF's estimated net assets at 30 June 2014 were \$8m, but a large part of the value of the surplus assets cannot be brought into the employer's financial statements. This is because SSL is not expected to be able to make use of all the surplus assets for its future employer contributions due to the current size of SSRF's membership.

NOTES TO THE FINANCIAL STATEMENTS

\$ millions	Group		Total
	Leasehold improvements	Office equipment, furniture and fittings, and computer equipment	
17 Property, plant and equipment			
For the year ended 30 June 2014			
Cost	32	12	44
Accumulated depreciation	(12)	(10)	(22)
Opening net book value	20	2	22
Additions	-	1	1
Disposal - cost	(1)	-	(1)
Disposal - accumulated depreciation	1	-	1
Depreciation	(2)	(1)	(3)
Closing net book value	18	2	20
Cost	31	13	44
Accumulated depreciation	(13)	(11)	(24)
Closing net book value	18	2	20
For the year ended 30 June 2013			
Cost	32	12	44
Accumulated depreciation	(10)	(10)	(20)
Opening net book value	22	2	24
Depreciation	(2)	-	(2)
Closing net book value	20	2	22
Cost	32	12	44
Accumulated depreciation	(12)	(10)	(22)
Closing net book value	20	2	22

NOTES TO THE FINANCIAL STATEMENTS

\$ millions	Internally developed software	Life investment contract acquisition costs	Other intangible assets	Total
18 Intangible assets				
Group				
For the year ended 30 June 2014				
Cost	19		5	
Accumulated amortisation	(9)		(3)	
Opening net book value	10	14	2	26
Additions	4	-	8	12
Disposal - cost	-	-	(2)	(2)
Disposal - accumulated amortisation	-	-	2	2
Impairment	(2)	-	-	(2)
Amortisation	(4)	(2)	(3)	(9)
Closing net book value	8	12	7	27
Cost	23		11	
Accumulated amortisation	(13)		(4)	
Accumulated impairment	(2)		-	
Closing net book value	8	12	7	27
For the year ended 30 June 2013				
Cost	17		4	
Accumulated amortisation	(6)		(2)	
Opening net book value	11	16	2	29
Additions	4	-	1	5
Disposal - cost	(2)	-	-	(2)
Amortisation	(3)	(2)	(1)	(6)
Closing net book value	10	14	2	26
Cost	19		5	
Accumulated amortisation	(9)		(3)	
Closing net book value	10	14	2	26
Parent				
For the year ended 30 June 2014				
Opening net book value	-	14	-	14
Additions	-	-	8	8
Disposal - cost	-	-	(1)	(1)
Disposal - accumulated amortisation	-	-	1	1
Amortisation	-	(2)	(2)	(4)
Closing net book value	-	12	6	18
Cost	-		7	
Accumulated amortisation	-		(1)	
Closing net book value	-	12	6	18
For the year ended 30 June 2013				
Opening net book value	-	16	-	16
Amortisation	-	(2)	-	(2)
Closing net book value	-	14	-	14

NOTES TO THE FINANCIAL STATEMENTS

\$ millions		Life insurance contracts		Life investment contracts	
For the year ended 30 June	Note	2014	2013	2014	2013
19 Life insurance and life investment contract liabilities					
Reconciliation of movements in policy liabilities					
Balance at the beginning of the year		221	248	861	835
Increase/(decrease) in liabilities recognised in the Income Statement, excluding reinsurance		(20)	(27)	79	108
Decrease in deferred fee income reserve recognised in the Income Statement		-	-	(8)	(7)
Deposit premium recognised as an increase in policy liabilities	5	-	-	34	40
Claims recognised as a decrease in policy liabilities	7	-	-	(99)	(115)
Total policy liabilities		201	221	867	861

Movements in life investment contract liabilities valuations reflect maturities, surrenders, claims experience and investment performance. The impact on the fair value of life investment contract liabilities due to changes in credit risk is nil (30 June 2013 nil), except to the extent that the market value of investments backing life investment contract liabilities is affected by changes in credit risk. Any such credit risk impact is reflected in the movement of investment balances during the year.

Expected realisation maturity analysis

Under one year	(33)	(30)	75	71
Greater than one year	234	251	792	790
	201	221	867	861

The maturity value of life investment contract liabilities is determined by the fair value of the linked assets at maturity date.

Liabilities ceded under reinsurance

Balance at the beginning of the year	9	8
Increase/(decrease) in life insurance contract liabilities ceded under reinsurance	2	1
Total liabilities ceded under reinsurance at the end of the year	11	9

Maturity analysis

Under one year	8	8
Greater than one year	3	1
	11	9

NOTES TO THE FINANCIAL STATEMENTS

\$ millions		Life insurance contracts		Life investment contracts	
For the year ended 30 June	Note	2014	2013	2014	2013
19 Life insurance and life investment contract liabilities (continued)					
Policy liabilities related to guarantees					
Policy liabilities with a discretionary participation feature		623	676	-	-
Policy liabilities with an investment performance guarantee		-	-	12	10
Valuation of policy liabilities					
Future policy benefits		5,974	6,468	-	-
Future bonuses		117	86	-	-
Future expenses		2,420	2,478	-	-
Future planned margins of revenue over expenses		965	1,028	-	-
Future premiums		(8,911)	(9,476)	-	-
Unvested policyholder benefits		64	57	-	-
Less: deferred tax		(428)	(420)	-	-
Total policy liabilities		201	221	-	-
Life insurance contract liabilities future net cash inflows					
Under one year		275	229	-	-
Between one and five years		833	739	-	-
Greater than five years		1,695	1,821	-	-
		2,803	2,789	-	-

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.

NOTES TO THE FINANCIAL STATEMENTS

\$ millions		Group		Parent	
		2014	2013	2014	2013
For the year ended 30 June		Note			
20 Contributed capital					
Total contributed capital			540	540	540
Represented by:					
Number of shares					
Ordinary share capital - \$74.22 fully paid			4,805,849	4,805,849	4,805,849
Ordinary share capital - \$1.00 fully paid			183,000,000	183,000,000	183,000,000

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

21 Contingent liabilities and commitments

There are no contingent liabilities as at 30 June 2014 (30 June 2013 nil). There are no contractual commitments for the acquisition of property, plant and equipment or intangible assets as at 30 June 2014 (30 June 2013 nil).

The following non-cancellable operating lease commitments existed at the end of the year:

Under one year	5	5	-	-
Between one and five years	17	17	-	-
Greater than five years	29	33	-	-
Total leasing commitments	51	55	-	-

On 6 October 2005, SSL signed an 18 year lease on Sovereign House, its Head Office premises at Smales Farm, Auckland. The lease term commenced in October 2007. A fixed rate of increase is applied to the annual lease cost. SSL has a number of other properties and equipment under operating leases. The leases have a variety of lease periods and a number of the leases contain options to renew. Payments made under operating leases are charged to the Income Statement on a straight line basis over the period of the lease.

NOTES TO THE FINANCIAL

22 Capital management

Capital risk management

The objectives of the Group with regard to the management of capital adequacy are:

- (i) Maintain a level of target surplus which creates a buffer over minimum regulatory capital while still allowing for efficient use of capital;
- (ii) Maintain a strong capital base to cover the inherent risks of the business; and
- (iii) Support the future development and growth of the business to maximise shareholder value.

The Board has ultimate responsibility for compliance with the solvency standard and managing capital. The Board approves the capital policy and minimum capital levels and limits. Minimum capital levels are set based on maintaining a target surplus in excess of solvency margin requirements under the Solvency Standard for Life Insurance Business issued in accordance with the IPSA. Under its licence, the RBNZ requires the Parent to hold a solvency margin of at least \$0 for each life fund. The Parent has two life funds, the Statutory Fund and the Other Fund.

If the Board has reasonable grounds to believe that a failure to maintain a solvency margin in either life fund is likely to occur at any time within the next 3 years, the likely failure must be reported to the RBNZ as soon as is reasonably practicable. Compliance with these requirements is a continuous obligation. As a minimum, calculations must be undertaken twice a year, at six monthly intervals, and reported to the RBNZ.

Target surplus is a capital buffer held on top of regulatory requirements to ensure the likelihood of a breach of regulatory requirements is at a level consistent with the Parent's risk appetite. The level of target surplus takes account of management assessments of actual risk and forecasts/stress testing of future capital requirements. The BARC approves the methodology and basis for determining target surplus. The solvency margin of the Parent remains greater than the target surplus.

The solvency position of the Parent is as follows:

	Sovereign Statutory Fund		
\$ millions	No.1	Other Fund	Total
For the year ended 30 June 2014			
Actual solvency capital	555	72	627
Minimum solvency capital	470	65	535
Solvency margin	85	7	92

For the year ended 30 June 2013*

Actual solvency capital	694
Minimum solvency capital	536
Solvency margin	158

* Solvency was reported in aggregate prior to the establishment of separate life funds, as required by IPSA, on 1 July 2013.

NOTES TO THE FINANCIAL STATEMENTS

23 Disaggregated information

NZ IFRS 4 requires a life insurer to disclose disaggregated information for each life fund, as defined in the solvency standards under IPSA.

Disaggregated information for the major components of the Group's life funds are presented in the tables below.

\$ millions	Sovereign Statutory Fund No.1		Other Fund		Total
	Life insurance contracts	Life investment contracts	Life insurance contracts	Life investment contracts	
For the year ended 30 June 2014					
Premium income	567	2	74	-	643
Investment income	73	109	2	-	184
Claims expense	314	-	44	-	358
Other operating expenses	246	12	25	-	283
Investment income paid or allocated to policyholders	58	109	-	-	167
Net profit before tax	99	26	4	-	129
Net profit after tax	94	7	3	-	104
Capital payments made to funds/(distributions made from funds)	(52)	-	52	-	-
As at 30 June 2014					
Life insurance contract liabilities	276	-	(75)	-	201
Life Investment contract liabilities	-	867	-	-	867
Other liabilities	532	-	16	-	548
Retained profits/(losses) directly attributable to shareholders	172	10	(51)	-	131

IPSA requires a life insurer to allocate the operating profit or loss of a statutory fund or a category of business of a statutory fund in accordance with the regulations. The regulations define two categories of business: participating business and non-participating business. The Parent classifies all its life insurance business as participating business or non-participating business in order to ensure the appropriate allocation of profit, as shown below:

\$ millions	Sovereign Statutory Fund No.1		Other Fund		Total
	Life insurance contracts	Life investment contracts	Life insurance contracts	Life investment contracts	
For the year ended 30 June 2014					
Net profit after tax	108	7	3	-	118
Net profit after tax allocated to policyholders' retained profits	14	-	-	-	14
Participating net profit after tax allocated to shareholders' retained profits	4	-	-	-	4
Non-participating net profit after tax allocated to shareholders' retained profits	90	7	3	-	100

NOTES TO THE FINANCIAL STATEMENTS

\$ millions For the year ended 30 June	Group		Parent	
	2014	2013	2014	2013

24 Related party transactions and balances

ASB Bank Limited ("ASB") is a fellow CBA subsidiary of the Group. During the year ended 30 June 2014, the Group has entered into, or had in place various financial transactions with ASB, and other fellow CBA subsidiaries. Arrangements with related parties were conducted on an arm's length basis and on normal commercial terms, and within the Group's approved policies.

Related Party Transactions**Received from ASB**

Interest income	12	11	12	11
Recovery of costs relating to the origination of mortgages	1	1	-	-
Investment administration	2	2	-	-
Utilisation of tax-related items	22	14	22	14

Received from subsidiaries

Utilisation of tax-related items	-	-	-	3
----------------------------------	---	---	---	---

Received from CBA/Other fellow CBA subsidiaries

Interest and dividends on investments	8	8	8	8
Utilisation of tax-related items	1	-	1	-

Paid to ASB

Administrative services	9	9	-	-
Insurance commission	31	36	31	36
Transactional banking services	2	1	-	-

Paid to subsidiaries

Administrative services	-	-	135	131
-------------------------	---	---	-----	-----

Paid to other fellow CBA subsidiaries

Investment management	1	2	1	2
Utilisation of tax-related items	-	8	-	8

Related Party Balances**Balances with ASB**

Cash and cash equivalents	285	463	260	436
Investments	1	1	1	1
Derivative assets	9	10	9	10
Trade and other receivables	1	-	1	-
Derivative liabilities	1	27	1	27
Trade and other payables	-	-	1	1

Balances with subsidiaries

Due to SSL	-	-	12	7
------------	---	---	----	---

Balances with CBA/Other fellow CBA subsidiaries

Investments	348	359	348	359
-------------	-----	-----	-----	-----

Balances with trusts managed/administered by other fellow CBA subsidiaries

Investments	-	2	-	2
-------------	---	---	---	---

Directors and key management personnel

Directors and key management personnel compensation	5	5	-	-
---	---	---	---	---

Key management personnel are defined as permanent members of the executive leadership team. The Group has no other transactions or balances with key management personnel. The compensation paid to directors and key management personnel is predominantly in the form of short term benefits.

Other

Refer to note 11 for details of the Group's interests in subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS**25 Fair value of assets and liabilities**

The following table presents the Group's assets and liabilities categorised by fair value measurement hierarchy levels. 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 2p for a description of how life investment contract liabilities are calculated.

Level 3:

Fair values are estimated using inputs that are not based on observable market data (refer to note 2i). A sensitivity analysis and reconciliation has not been provided on the basis that these assets are not a material component of the Group's total financial assets.

\$ millions	Note	Level 1	Level 2	Level 3	Total
For the year ended 30 June 2014					
Assets at fair value					
Equity securities	13	339	445	-	784
Fixed interest securities	13c	788	-	-	788
Property securities	13	100	-	-	100
Loans on policies	13a	-	-	22	22
Mortgages	13b	-	-	7	7
Derivative assets	27	-	9	-	9
Total assets at fair value		1,227	454	29	1,710
Liabilities at fair value					
Life investment contract liabilities	19	-	867	-	867
Derivative liabilities	27	-	1	-	1
Total liabilities at fair value		-	868	-	868
For the year ended 30 June 2013					
Assets at fair value					
Equity securities	13	349	449	-	798
Fixed interest securities	13c	785	-	-	785
Property securities	13	81	-	-	81
Loans on policies	13a	-	-	22	22
Mortgages	13b	-	-	7	7
Derivative assets	27	-	10	-	10
Total assets at fair value		1,215	459	29	1,703
Liabilities at fair value					
Life investment contract liabilities	19	-	861	-	861
Derivative liabilities	27	-	27	-	27
Total liabilities at fair value		-	888	-	888

NOTES TO THE FINANCIAL STATEMENTS

\$ millions	Note	Group						Fair value
		At fair value through profit or loss			At amortised cost			
		Designated			Loans and receivables	Financial liabilities	Total carrying amounts	
		Held for trading	on initial recognition					

25 Fair value of assets and liabilities (continued)

The following table summarises the carrying amounts and fair values of categories of assets and liabilities. Refer to note 2i for a description of how fair values are estimated.

For the year ended 30 June 2014**Assets**

Cash and cash equivalents	12	-	-	476	-	476	476
Trade and other receivables	14	-	-	56	-	56	56
Investments	13	-	1,701	-	-	1,701	1,701
Derivative assets	27	9	-	-	-	9	9
Total assets		9	1,701	532	-	2,242	2,242

Liabilities

Trade and other payables	15	-	-	-	111	111	111
Derivative liabilities	27	1	-	-	-	1	1
Life investment contract liabilities	19	-	867	-	-	867	867
Total liabilities		1	867	-	111	979	979

For the year ended 30 June 2013**Assets**

Cash and cash equivalents	12	-	-	534	-	534	534
Trade and other receivables	14	-	-	77	-	77	77
Investments	13	-	1,693	-	-	1,693	1,693
Derivative assets	27	10	-	-	-	10	10
Total assets		10	1,693	611	-	2,314	2,314

Liabilities

Trade and other payables	15	-	-	-	109	109	109
Derivative liabilities	27	27	-	-	-	27	27
Life investment contract liabilities	19	-	861	-	-	861	861
Total liabilities		27	861	-	109	997	997

NOTES TO THE FINANCIAL STATEMENTS

\$ millions	Note	Parent						Fair value
		At fair value through profit or loss			At amortised cost			
		Held for trading	Designated on initial recognition	Loans and receivables	Financial liabilities	Total carrying amounts		
25 Fair value of assets and liabilities (continued)								
For the year ended 30 June 2014								
Assets								
Cash and cash equivalents	12	-	-	451	-	451	451	
Trade and other receivables	14	-	-	55	-	55	55	
Investments	13	-	1,701	-	-	1,701	1,701	
Derivative assets	27	9	-	-	-	9	9	
Total assets		9	1,701	506	-	2,216	2,216	
Liabilities								
Trade and other payables	15	-	-	-	91	91	91	
Amounts due to subsidiaries		-	-	-	12	12	12	
Derivative liabilities	27	1	-	-	-	1	1	
Life investment contract liabilities	19	-	867	-	-	867	867	
Total liabilities		1	867	-	103	971	971	
For the year ended 30 June 2013								
Assets								
Cash and cash equivalents	12	-	-	507	-	507	507	
Trade and other receivables	14	-	-	76	-	76	76	
Investments	13	-	1,693	-	-	1,693	1,693	
Derivative assets	27	10	-	-	-	10	10	
Total assets		10	1,693	583	-	2,286	2,286	
Liabilities								
Trade and other payables	15	-	-	-	89	89	89	
Amounts due to subsidiaries		-	-	-	7	7	7	
Derivative liabilities	27	27	-	-	-	27	27	
Life investment contract liabilities	19	-	861	-	-	861	861	
Total liabilities		27	861	-	96	984	984	

NOTES TO THE FINANCIAL STATEMENTS

26 Asset quality

The Group has no material impaired or past due assets.

Credit quality of financial assets that are not past due or impaired

Cash and cash equivalents

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

As at 30 June	2014	2013
ASB Bank Limited	AA-	AA-
Westpac New Zealand Limited	AA-	AA-
Citigroup Inc.	A-	A-
ANZ Bank New Zealand Limited	AA-	AA-

Investments

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

\$ millions							
For the year ended 30 June	Note	2014	2013	2014	2013	2014	2013
		Investment-linked*		Non-linked		Total	
AAA		5	1	8	9	13	10
AA+		32	34	723	720	755	754
AA		4	4	-	-	4	4
AA-		12	11	-	-	12	11
A+		3	4	-	-	3	4
A		-	1	-	-	-	1
A-		1	1	-	-	1	1
Equity securities		581	585	203	213	784	798
Property securities		70	58	30	23	100	81
Loans on policies		-	-	22	22	22	22
Mortgages		-	-	7	7	7	7
Total investments	13	708	699	993	994	1,701	1,693

* For investment-linked assets, the liability to policyholders is linked to the performance of and value of the assets that back these liabilities. The shareholder has no direct exposure to any risk in the assets which back these liabilities.

Credit ratings are not provided for equity and property securities because ratings are either not available or are not considered an appropriate measure of asset quality.

Derivative financial instruments

The counterparty for the Group's derivative financial instruments at balance date is ASB.

Amounts due from reinsurers

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

As at 30 June	2014	2013
General Reinsurance Life Australia Limited	AA+	AA+
Assicurazioni Generali S.P.A.	A-	A-
RGA Reinsurance Company	AA-	AA-
Swiss Re Life and Health (Australia) Limited	AA-	AA-
Munich Reinsurance Company of Australasia Limited	AA-	AA-

NOTES TO THE FINANCIAL STATEMENTS

27 Risk management policies

Introduction

The Group is exposed to risk through its financial assets, financial liabilities, reinsurance assets and life insurance contract liabilities. Risk management policies focus on ensuring cash flows from assets are sufficient to fund obligations arising from life insurance and life 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 ("CRO"), who reports to the Chief Executive Officer. The Group's risk management strategy is set by the Board through the BARC. This committee comprises members of the Board and is chaired by an independent member of the Board. The CRO 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 review. Periodic assessments of all risk management systems, key business processes and applications are undertaken by the internal audit function.

The following sections describe the risk management framework components:

Insurance risk

Insurance risk is risk, other than financial risk, that is transferred from the holder of a contract to the issuer.

The Group's objectives in managing risks arising from its insurance business are:

- (i) To ensure insurance risk is managed in accordance with the principles set out in the Risk Appetite Statement. The Risk Appetite Statement describes the Group's tolerance and intolerance to key risks via a set of statements and principles.
- (ii) To ensure that an appropriate return on capital is made in return for accepting insurance risk.
- (iii) To ensure that strong internal controls are embedded within the business to mitigate underwriting risk.
- (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.

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 AUD90m for single event claims in excess of AUD20m.

Insurance risk is measured by using sensitivity analysis to show the effects of the risks of mortality and morbidity on equity and profit (refer to note 28).

NOTES TO THE FINANCIAL STATEMENTS**27 Risk management policies (continued)****Terms and conditions of insurance contracts**

The nature of terms of life insurance contracts written is such that certain external variables can be identified on which related cash flows for claim payments depend. The table below provides 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 life 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.	<ul style="list-style-type: none"> - Mortality - Morbidity - Discontinuance rates - Market returns 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.	<ul style="list-style-type: none"> - Mortality - Morbidity - Market risk - Discontinuance rates - Market returns 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.	<ul style="list-style-type: none"> - Longevity - Market returns on underlying assets

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 currency 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 credit policy that covers the approval and management of all credit risk.

NOTES TO THE FINANCIAL STATEMENTS

27 Risk management policies (continued)

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 BARC for approval as appropriate. Guidelines and limits are set for security credit ratings and aggregate exposure to any single geographic region or counterparty as documented within the investment management agreement.

Reinsurance is entered into for the purpose of risk transfer. The credit risk inherent in reinsurance arrangements is managed by establishing minimum credit standards for reinsurers.

For investment linked contracts the 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

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk is designed to ensure that the Group has the ability to meet its 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 the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risk arises from the mismatch between assets and liabilities. The Group is exposed to market risk on diverse financial instruments including interest bearing assets, foreign currency investments, 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 and 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.

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 2014, shareholder's funds in the Group were invested 1% (30 June 2013 1%) in growth assets (equity and property) and 99% (30 June 2013 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.

Market risk is measured by using sensitivity analysis to model changes in interest rates, equity values and foreign currency rates.

Market risk comprises three types of risk: currency risk, interest rate risk and price risk.

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates.

Foreign currency exposures and risks arise as the Group invests or borrows from offshore. As at 30 June 2014 foreign currency denominated investments amounted to 35% (30 June 2013 40%) 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 is denominated.

NOTES TO THE FINANCIAL STATEMENTS

27 Risk management policies (continued)

The Group uses foreign currency forward contracts to mitigate its exposure to currency risk from foreign currency denominated investments. Equity and property investments denominated in foreign currency have a weighted average hedging ratio of 64% (30 June 2013 79%) and fixed interest investments denominated in a foreign currency have a hedging ratio of 100% (30 June 2013 100%). All investments denominated in emerging market currencies are unhedged.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market 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 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 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 expense and interest income in the current year and in future years. Cash flow interest rate risk arises on the Group's mortgage portfolio. 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.

(iii) Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or by factors affecting all similar financial instruments traded in the market.

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

Derivative financial instruments

The Group enters into derivative transactions which provide economic hedges for risk exposures but do not meet the accounting requirements for hedge accounting treatment. The Group purchases foreign currency forward contracts as economic hedges to manage currency risk. Gains or losses on the forward contracts have been recorded in investment income with the gains or losses on the investments they have hedged.

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

NOTES TO THE FINANCIAL STATEMENTS

\$ millions		Group		Parent	
For the year ended 30 June	Note	2014	2013	2014	2013

27 Risk management policies (continued)

The face value 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 interest payments and 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.

Forward contract assets	9	10	9	10
Total derivative assets	9	10	9	10
Forward contract liabilities	1	27	1	27
Total derivative liabilities	1	27	1	27
Total net derivative financial instruments *	8	(17)	8	(17)

* Amounts associated with master netting arrangements are presented gross; net amounts of recognised financial assets and financial liabilities are not set off on the Balance Sheet (refer to note 2i).

Currency contracts face value

Forward contracts	612	1,686	612	1,686
-------------------	-----	-------	-----	-------

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 management framework and operational risk policy.

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 BCM programme including plan development, testing and education is in place across all divisions and includes technology disaster recovery planning.

NOTES TO THE FINANCIAL STATEMENTS

27 Risk management policies (continued)

Internal audit

The Group is serviced by ASB's internal audit function. 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 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 BARC.

The BARC 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.

28 Sensitivity analysis

The Group conducts sensitivity analysis to quantify the exposure to risk of changes in the key underlying variables such as interest rate, currency 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.

(i) Currency rate risk

The Group does not fully hedge foreign currency denominated equity instruments. Adverse movements in currency rates relating to the New Zealand dollar will subsequently reduce the value of policyholder assets and liabilities.

(ii) 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.

(iii) Mortality rates

For life insurance contracts, 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.

(iv) Morbidity rates

The cost of health-related claims depends on both the incidence of policyholders becoming ill and the duration with which they remain ill. Higher than expected incidence and duration would be likely to increase claim costs, reducing profit and shareholders' equity.

(v) 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.

(vi) Equity prices

For life investment contracts and life insurance contracts with discretionary participation features, liabilities depend on the value of underlying assets. Equity price 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 equity price risk.

NOTES TO THE FINANCIAL STATEMENTS

\$ millions		Group			
		2014	2013	2014	2013
For the year ended 30 June	Note				

28 Sensitivity analysis (continued)

The analysis below demonstrates the impact of changes in interest rates, currency rates, equity prices and key assumptions on the Group's balance sheet and profit after tax. The analysis is based on changes in economic conditions that are considered reasonably possible at the reporting date. The correlation of assumptions will have a significant effect in determining the ultimate profit impact, but to demonstrate the impact of a specific assumption change, modelling had to be done on the basis that all other assumptions were held constant.

		Change in following financial year's shareholder profit/(loss) and equity, net of reinsurance			
Insurance risks		Improvement by 10%		Deterioration by 10%	
Mortality		(2)	(2)	(6)	2
Morbidity		5	5	(13)	(5)
		Improvement by 20%		Deterioration by 20%	
Discontinuance		-	1	(1)	(1)
		Increase of 10%		Decrease of 10%	
Expenses		-	-	-	-
Market risks		Favourable by 10%		Adverse by 10%	
Currency rates		-	1	-	(1)
Equity prices		1	1	(1)	(1)
		Increase of 100 bps		Decrease of 100 bps	
Interest rates		(6)	(1)	5	(2)

NOTES TO THE FINANCIAL STATEMENTS

29 Maturity analysis of financial liabilities

The below 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 liabilities are analysed on a gross basis unless they are settled net. Refer to note 27 for details of how the Group manages liquidity risk.

\$ millions	On Demand	Within 6 months	Between 6 - 12 months	Between 1 - 2 years	Between 2 - 5 Years	Later than 5 Years	Total	Carrying Value
Group								
As at 30 June 2014								
Trade and other payables	68	30	-	-	1	-	99	111
Derivative liabilities	-	604	-	-	-	-	604	1
Life investment contract liabilities	597	11	12	26	79	246	971	867
Total financial liabilities	665	645	12	26	80	246	1,674	979
Simultaneous inflows on derivative financial instruments	-	612	-	-	-	-	612	1
As at 30 June 2013								
Trade and other payables	63	34	-	-	1	1	99	109
Derivative liabilities	-	1,703	-	-	-	-	1,703	27
Life investment contract liabilities	598	9	12	23	71	235	948	861
Total financial liabilities	661	1,746	12	23	72	236	2,750	997
Simultaneous inflows on derivative financial instruments	-	1,686	-	-	-	-	1,686	27
Parent								
For the year ended 30 June 2014								
Trade and other payables	66	13	-	-	-	-	79	91
Amounts due to subsidiaries	12	-	-	-	-	-	12	12
Derivative liabilities	-	604	-	-	-	-	604	1
Life investment contract liabilities	597	11	12	26	79	246	971	867
Total financial liabilities	675	628	12	26	79	246	1,666	971
Simultaneous inflows on derivative financial instruments	-	612	-	-	-	-	612	1
For the year ended 30 June 2013								
Trade and other payables	60	18	-	-	-	1	79	89
Amounts due to subsidiaries	7	-	-	-	-	-	7	7
Derivative liabilities	-	1,703	-	-	-	-	1,703	27
Life investment contract liabilities	598	9	12	23	71	235	948	861
Total financial liabilities	665	1,730	12	23	71	236	2,737	984
Simultaneous inflows on derivative financial instruments	-	1,686	-	-	-	-	1,686	27

30 Events after balance date

On 31 July 2014 Sovereign Limited was amalgamated with its parent company, ASB Group (Life) Limited. The amalgamation has not had any financial impact on the Group.



Independent Auditors' 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 ("the Company") on pages 1 to 47, which comprise the balance sheets as at 30 June 2014, the income statements, statements of comprehensive income and statements of changes in equity and statements of cash flows 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 2014 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.

Auditors' 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 auditors' 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 auditors consider the internal controls relevant to the Company and the 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 the 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 auditors we have no relationship with, or interests in, Sovereign Assurance Company Limited or any of its subsidiaries.



Independent Auditors' Report

Sovereign Assurance Company Limited

Opinion

In our opinion, the financial statements on pages 1 to 47:

- (i) comply with generally accepted accounting practice in New Zealand; and
- (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 2014, 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 2014:

- (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 Use of our Report

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 shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

A large, stylized handwritten signature in dark ink, appearing to read 'Paul Hogg', is written over the text of the 'Restriction on Use of our Report' section.

Chartered Accountants
4 August 2014

Auckland

To the Directors of Sovereign Assurance Company Limited

Appointed Actuary's Report

This Appointed Actuary's report under Section 78 of the Insurance (Prudential Supervision) Act 2010 (the **Act**) is prepared in respect of the financial statements of Sovereign Assurance Company Limited (**SACL**) for the 12 month period ended 30 June 2014.

I have undertaken a review of the actuarial information (as defined in section 77(4) of the Act) contained in, and used in the preparation of, the financial statements of SACL (the **Financial Statements**) as required under section 77(1) of the Act.

My review has been carried out in accordance with the Solvency Standard for Life Insurance Businesses issued by the Reserve Bank of New Zealand under section 55 of the Act (the **Life Solvency Standard**) and with the New Zealand Society of Actuaries' Professional Standards.

In respect of my review, I confirm as follows:

- (a) I, Doune Connett FNZSA, am the appointed actuary for SACL under section 76 (1) of the Act, and that I have prepared this report
- (b) The work that I have done to review the actuarial information contained in, or used in the preparation of the Financial Statements, includes a review of:
 - (i) information relating to SACL's calculations of premiums, claims, reserves, dividends, insurance and annuity rates, and technical provisions;
 - (ii) information relating to assessments of the probability of uncertain future events occurring and the financial implications for SACL if those events do occur;
 - (iii) SACL's Policy Liability, as defined in the Life Solvency Standard;
 - (iv) reinsurance and other recovery assets relevant to the Policy Liability, or relevant to outstanding claims reserves incurred but not reported claims reserves held outside of the Policy Liability;
 - (v) any deferred or other tax asset relevant to the Policy Liability;
 - (vi) any deferred acquisition cost or deferred fee revenue relevant to the Policy Liability;
 - (vii) the unvested policyholder benefits liability;
 - (viii) the analysis of SACL's profit;
 - (ix) any additional assumptions used in the calculation of the Policy Liability;
 - (x) the consistency between the New Zealand Society of Actuaries Professional Standard 3 "Determination of Life Insurance Policy Liabilities", SACL's valuation methodology document and the calculated Policy Liability; and
 - (xi) SACL's checks and controls over data and valuation processes.
- (c) Other than my relationship as appointed actuary, I am an employee of Sovereign Services Limited, a subsidiary of SACL, and a policyholder of SACL. I do not have any other relationship with, or interests in, SACL or any of its subsidiaries.
- (d) I have obtained all information and explanations that I have required in order to conduct my review under section 77 of the Act,

- (e) I consider that in my opinion and from an actuarial perspective:
- (i) the actuarial information contained in the Financial Statements have been appropriately included in those Financial Statements.
 - (ii) the actuarial information used in the preparation of the Financial Statements has been used appropriately.
- (f) I consider that in my opinion and from an actuarial perspective SACL, as at 30 June 2014, is maintaining a solvency margin that complies with that required under the Life Solvency Standard for the purposes of section 21(2)(b) of the Act.
- (g) I consider that in my opinion and from an actuarial perspective and as at 30 June 2014, SACL is maintaining solvency margins that comply with those required under the Life Solvency Standard for the purposes of section 21(2)(c) of the Act.

I have prepared, dated and signed this report solely in my capacity as SACL's appointed actuary under section 76(1) of the Act. To the fullest extent permitted by law, I do not accept responsibility to anyone other than the Reserve Bank of New Zealand, SACL, its board and shareholder for the contents of this report.

Dated 23 July 2014



Doune Connett
Appointed Actuary

Auckland