SOVEREIGN ASSURANCE COMPANY LIMITED AND SUBSIDIARIES

ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2015

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 2015.

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

3 August 2015

Director

3 August 2015

CORPORATE GOVERNANCE

The Board places great importance on the governance of the Sovereign Assurance Company Limited ("SACL") and its subsidiaries (together, 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:

- a separate Board Audit and Risk Committee (the "BARC"). All non-executive directors are members of the BARC and 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 Committee, affecting his position, remuneration or performance; and
- there are established criteria for the appointment of new directors.

The guidelines for licenced insurers issued by the Reserve Bank of New Zealand ("RBNZ") recommend 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 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.

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 forgoing, 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;
   - legal services; or
   - executive recruitment or extensive human resource function

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 Appointments 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.

Executives are rewarded with a mix of fixed remuneration and incentives. Total remuneration is intended to be market competitive when compared against similar roles at peer organisations; as well as reflecting position responsibilities, individual competencies, experience and performance.

Executives' incentive remuneration is based on a set of clear objectives that will drive sustainable performance and that: reflect Sovereign's strategic priorities; are based on both financial and non-financial measures managed through objectives that are set at the beginning of the performance period; and discourage excessive risk taking.

Directors and Officers' Liability Insurance

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

$ millions

For the year ended 30 June	Note	2015	2014
Premium income	5	**669**	642
Less: Reinsurance expense	5	**(47)**	(42)
Net premium income		**622**	600
Investment income	6	**228**	184
Other income		**10**	8
Total income		**860**	792
Claims expense	7	**365**	358
Less: Reinsurance recoveries	7	**(41)**	(33)
Net claims expense		**324**	325
Other operating expenses	8	**291**	291
Increase/(decrease) in life insurance contract liabilities	18	**(23)**	(22)
Increase/(decrease) in life investment contract liabilities	18	**82**	71
Total expenses		**674**	665
Net profit before tax		**186**	127
Tax expense	10	**61**	25
Net profit after tax attributed to shareholders	4	**125**	102
Other comprehensive income, net of tax		**-**	-
Total comprehensive income attributed to shareholders		**125**	102

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

$ millions

For the year ended 30 June	Note	2015	2014
CONTRIBUTED CAPITAL			
Ordinary share capital			
Balance at the beginning of the year		**540**	540
Total ordinary share capital	19	**540**	540
Total contributed capital at the end of the year		**540**	540
RETAINED EARNINGS			
Retained earnings at the beginning of the year		**136**	204
Total comprehensive income attributed to shareholders		**125**	102
Ordinary dividends paid to parent		**(29)**	(170)
Retained earnings at the end of the year		**232**	136
Dividends per ordinary share (cents)		**15**	91

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

CONSOLIDATED BALANCE SHEET

$ millions As at 30 June	Note	**2015**	2014
ASSETS			
Cash and cash equivalents	12	**568**	476
Trade and other receivables	14	**48**	56
Investments	13	**1,786**	1,701
Derivative assets	26	**1**	9
Liabilities ceded under reinsurance	18	**12**	11
Property, plant and equipment		**18**	20
Intangible assets	17	**21**	27
Current tax asset		**1**	-
Total assets		**2,455**	2,300
LIABILITIES			
Trade and other payables	15	**104**	111
Derivative liabilities	26	**33**	1
Life investment contract liabilities	18	**889**	867
Life insurance contract liabilities	18	**179**	201
Current tax liability		**-**	17
Deferred tax liability	10	**478**	427
Total liabilities		**1,683**	1,624
Net assets		**772**	676
EQUITY			
Contributed capital	19	**540**	540
Shareholder retained earnings		**232**	136
Total equity		**772**	676

Signed for and on behalf of the Board of Directors on 3 August 2015

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

CONSOLIDATED STATEMENT OF CASH FLOWS

$ millions For the year ended 30 June	Note	2015	2014
Premiums received		**701**	678
Interest received		**58**	53
Dividends received		**21**	20
Fees, commissions and other revenue received		**9**	7
Claims paid		**(470)**	(453)
Commissions paid		**(144)**	(143)
Payments to suppliers and employees		**(130)**	(133)
Net reinsurance received/(paid)		**4**	(15)
Net income tax received/(paid)		**(28)**	10
Net cash inflow/(outflow) from operating activities	12	**21**	24
Net proceeds from sales/(purchases) of investments and derivatives		**101**	101
Net movement in related party balances		**2**	-
Purchase of property, plant and equipment		**-**	(1)
Purchase of intangible assets	17	**(5)**	(12)
Proceeds from disposal of intangible assets		**2**	-
Net cash inflow/(outflow) from investing activities		**100**	88
Dividends paid		**(29)**	(170)
Net cash inflow/(outflow) from financing activities		**(29)**	(170)
Net increase/(decrease) in cash and cash equivalents		**92**	(58)
Cash and cash equivalents at the beginning of the year		**476**	534
Cash and cash equivalents at the end of the year	12	**568**	476

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

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Sovereign Assurance Company Limited ("SACL") is registered under the Companies Act 1993, domiciled and incorporated in New Zealand. The financial statements presented are those for SACL and its subsidiaries (together, the "Group"). SACL is 100% owned by ASB Group (Life) Limited. The ultimate parent is Commonwealth Bank of Australia ("CBA"). SACL's registered address is Level 2, ASB North Wharf, 12 Jellicoe Street, Auckland Central, Auckland 1010. SACL's and the 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, including derivative contracts, at fair value through profit or loss.

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

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

2b Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). They comply with the International Financial Reporting Standards and the New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS, as appropriate for profit-orientated entities.

SACL is a reporting entity under the Financial Markets Conduct Act 2013. The financial statements have been prepared in accordance with the Financial Markets Conduct Act 2013. The directors do not have the power to amend the financial statements once issued.

New and amended standards adopted

There are no new or revised NZ IFRS's and NZ IFRS Interpretations applicable for the first time for the financial year beginning on or after 1 July 2014 that would be expected to have a material impact to the Group.

All policies have been applied on a basis consistent with that used in the financial year ended 30 June 2014.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. 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 other than revenue relating to leasing, insurance, financial instruments, and group accounting. 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.

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 areas, where judgement is applied by management, that have the most significant effect on the amounts recognised in the financial statements are in the valuation of:

- Financial instruments, refer to notes 2i and 24.
- Life insurance contract liabilities, including claims reserves, refer to notes 2p and 18.
- Life investment contract liabilities, refer to notes 2p and 18.
- Tax, refer to notes 2j and 10.
- Intangible assets, refer to notes 2r and 17.

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 Statement of Comprehensive Income. 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.

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 Statement of Comprehensive Income.

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 Statement of Comprehensive Income using the effective interest method. Dividend income is recognised in the Statement of Comprehensive Income 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 Statement of Comprehensive Income on an accrual basis, unless otherwise stated.

Other operating expenses incorporate all other expenditure involved in running the Group including costs of new and renewed 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.

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 Statement of Comprehensive Income 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 Statement of Comprehensive Income.

(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 Statement of Comprehensive Income 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 Statement of Comprehensive Income. 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 Statement of Comprehensive Income. 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.

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 recorded at face value and interest is taken to the Statement of Comprehensive Income 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 Statement of Comprehensive Income. 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 Statement of Comprehensive Income, 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 balance sheet 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.

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 2014 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 Statement of Comprehensive Income 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2p Life insurance business

Statutory obligations

The New Zealand insurance industry is regulated by the Reserve Bank of New Zealand ("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. SACL 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, SACL established a statutory fund, the Sovereign Statutory Fund No. 1, that relates solely to SACL's life insurance business as defined by IPSA. SACL'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 SACL'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 21 and 22.

SACL 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 2014.

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 20: Valuation *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).

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 Statement of Comprehensive Income 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 Statement of Comprehensive Income 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 an 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 Statement of Comprehensive Income 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 Statement of Comprehensive Income.

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 Statement of Comprehensive Income.

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 Statement of Comprehensive Income.

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 Statement of Comprehensive Income 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 2015. Doune Connett FNZSA, as the Appointed Actuary of SACL, 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.20 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 3.6% p.a. (30 June 2014 4.4%) and equity investments 7.6% p.a. (30 June 2014 8.4%). The discount rates used for individual classes of business varied between 3.6% p.a. and 4.9% p.a. (30 June 2014 4.4% and 6.3%).

(ii) Other business

The discount rate used to determine life insurance contract liabilities is a risk free discount rate. 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 3.3% p.a. and 4.4% p.a. were used (30 June 2014 4.3% to 5.1%).

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 Limted ("SSL"), a wholly owned subsidiary of SACL, and external fund managers. Future inflation has been assumed to be 2.0% p.a. (30 June 2014 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 2014 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 New Zealand standard industry table, the NZ97. 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 reductions in mortality assumptions for some lines of business since 30 June 2014.

3 Actuarial assumptions and methods (continued)

The proportions of NZ97 adopted for the major products range from 48% to 96% (30 June 2014 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 rate assumptions for some lines of disability income business have improved since 30 June 2014.

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 2015.

Future rates of discontinuance are:

		Policy duration (years)									
	Age	1	2	3	4	5	6	7	8	9	10+
As at 30 June 2015											
Life Rate for Age	< 30	**11%**	**16%**	**18%**	**16%**	**16%**	**15%**	**15%**	**15%**	**14%**	**13%**
	30 - 39	**7%**	**11%**	**13%**	**13%**	**13%**	**12%**	**12%**	**12%**	**11%**	**10%**
	40 - 49	**7%**	**11%**	**13%**	**12%**	**12%**	**12%**	**11%**	**11%**	**11%**	**9%**
	50 - 64	**8%**	**11%**	**15%**	**13%**	**14%**	**14%**	**13%**	**13%**	**12%**	**11%**
	65+	**15%**	**18%**	**23%**	**21%**	**21%**	**21%**	**21%**	**21%**	**20%**	**19%**
Life Level to Age 80	< 30	**15%**	**17%**	**14%**	**12%**	**11%**	**10%**	**9%**	**9%**	**9%**	**9%**
	30 - 39	**10%**	**12%**	**9%**	**8%**	**7%**	**6%**	**5%**	**5%**	**5%**	**5%**
	40 - 49	**8%**	**7%**	**8%**	**6%**	**5%**	**4%**	**4%**	**4%**	**4%**	**3%**
	50 - 64	**7%**	**6%**	**10%**	**6%**	**6%**	**5%**	**4%**	**3%**	**3%**	**3%**
	65+	**6%**	**5%**	**9%**	**6%**	**5%**	**5%**	**4%**	**3%**	**3%**	**3%**
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		2015			2014		
	Age	Life	Non Life	Total	Life	Non Life	Total
Other risk	< 30	**21%**	**15%**		20%	15%	
	30 - 39	**14%**	**13%**		14%	13%	
	40 - 49	**12%**	**12%**		12%	12%	
	50 - 64	**10%**	**13%**		10%	14%	
	65+	**8%**	**17%**		8%	18%	
Participating				**4%**			4%
Savings				**12%**			12%

$ millions					
For the year ended 30 June	Note	**2015**	2014	**2015**	2014

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 2014 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%**	1.25%
Bonus rate on existing bonus	**1.25%**	1.25%
Ex-NZI policies		
Bonus rate on sum assured	**0.13%**	0.13%
Bonus rate on existing bonus	**0.25%**	0.25%
Ex-Colonial policies		
Bonus rate on sum assured	**0.40%**	0.40%
Bonus rate on existing bonus	**0.40%**	0.40%
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	**4.06%**	3.08%

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	**26**	(44)	**1**	(7)
Non-market related changes to discount rates	**(3)**	(40)	**-**	(2)
Mortality and morbidity	**16**	(13)	**(1)**	2
Discontinuance rates	**68**	13	**-**	-
Maintenance expenses	**(13)**	(2)	**-**	-
Other assumptions	**32**	17	**-**	(1)

NOTES TO THE FINANCIAL STATEMENTS

$ millions

For the year ended 30 June	Note	2015	2014
4 Sources of profit			
Life insurance			
Planned margins of revenues over expenses		**62**	62
Difference between actual and assumed experience		**28**	7
Effects of changes in underlying assumptions		**1**	6
Net profit after tax attributable to shareholders arising from life insurance contracts		**91**	75
Life investment			
Planned margins of revenues over expenses		**9**	8
Difference between actual and assumed experience		**1**	(1)
Net profit after tax attributable to shareholders arising from life investment contracts		**10**	7
Investment earnings on shareholders assets		**23**	19
Total life activities		**124**	101
Non-life activities			
Other		**1**	1
Total non-life activities		**1**	1
Net profit after tax attributed to shareholders		**125**	102
5 Premium income			
Life insurance contract premiums		**667**	640
Life investment contract premiums and fee income		**34**	36
Total premiums		**701**	676
Less: Deposit premiums recognised as an increase in life investment contract liabilities	18	**(32)**	(34)
Total premium income		**669**	642
Less: Reinsurance expense		**(47)**	(42)
Total net premium income		**622**	600

NOTES TO THE FINANCIAL STATEMENTS

$ millions For the year ended 30 June	Note	2015	2014
6 Investment income			
Dividends		**26**	26
Net realised and unrealised gains/(losses)		**73**	101
Total equity securities		**99**	127
Interest received		**58**	52
Net realised and unrealised gains/(losses)		**39**	(2)
Total fixed interest securities		**97**	50
Dividends received		**5**	4
Net realised and unrealised gains/(losses)		**25**	1
Total property securities		**30**	5
Other investment income		**2**	2
Total investment income		**228**	184
7 Claims expense			
Death, disability and medical claims		**321**	313
Maturities		**35**	20
Surrenders		**97**	119
Annuities		**4**	5
Total claims		**457**	457
Less: Claims recognised as a decrease in life investment contract liabilities	18	**(92)**	(99)
Total claims expense		**365**	358
Less: Reinsurance recoveries		**(41)**	(33)
Total net claims expense		**324**	325

NOTES TO THE FINANCIAL STATEMENTS

$ millions	Life insurance contracts		Life investment contracts		Total	
For the year ended 30 June	**2015**	2014	**2015**	2014	**2015**	2014
8 Other operating expenses						
Initial commission	**54**	60	**-**	-	**54**	60
Other acquisition expenses	**71**	68	**2**	2	**73**	70
Policy acquisition expenses	**125**	128	**2**	2	**127**	130
Renewal commission	**83**	81	**3**	3	**86**	84
Other maintenance expenses	**65**	63	**2**	5	**67**	68
Policy maintenance expenses	**148**	144	**5**	8	**153**	152
Investment management expenses	**3**	3	**2**	2	**5**	5
Total life expenses	**276**	275	**9**	12	**285**	287
Superannuation management	**-**	-	**-**	-	**1**	-
Asset management	**-**	-	**-**	-	**5**	4
Total other operating expenses	**276**	275	**9**	12	**291**	291

$ millions		
For the year ended 30 June	**2015**	2014
Included within other operating expenses are the following:		
Employee benefits expense		
Wages and salaries	**81**	78
Defined contribution plan expense	**2**	2
Operating lease expenses	**5**	5
Fiduciary expenses (asset management)	**2**	3
Amortisation of intangible assets	**9**	9
Impairment of intangible assets	**1**	2
Depreciation	**2**	3

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	**952**	888
Fees for the review of superannuation schemes	**20**	20
Audit of solvency return	**40**	41
Review of regulatory compliance	**13**	28
Tax related services	**4**	23
Other assurance related services	**58**	26

NOTES TO THE FINANCIAL STATEMENTS

$ millions

For the year ended 30 June	Note	2015	2014
10 Tax			
Analysis of tax expense			
Current tax expense/(income)			
Current tax expense		**10**	13
Deferred tax expense/(income)			
Deferred tax expense		**51**	12
Total tax expense/(income) recognised in the Statement of Comprehensive Income		**61**	25

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

Net profit before tax		**186**	127
Income tax at the current tax rate		**52**	36
Tax effect of:			
Non-deductible expenditure		**30**	31
Non-assessable income		**(23)**	(23)
Prior period adjustments		**(4)**	(4)
Imputation credit adjustments		**(3)**	(2)
Movement in policy liabilities and tax reserving amounts		**43**	(1)
Investment income adjustments		**(34)**	(12)
Total tax expense		**61**	25
The weighted average effective tax rate was:		**33%**	20%

NOTES TO THE FINANCIAL STATEMENTS

$ millions For the year ended 30 June	Note	2015	2014

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. SACL 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 2015 is $465m (30 June 2014 $628m). 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.

		2015	2014
Deferred tax liability			
Balance at the beginning of the year		**427**	415
Charged/(credited) to the Statement of Comprehensive Income		**51**	12
Balance at the end of the year		**478**	427
Deferred tax comprises:			
Life insurance and life investment contract liabilities		**472**	420
Other		**6**	7
Total deferred tax liability		**478**	427
Maturity analysis			
Expected to crystallise within 12 months		**24**	24
Expected to crystallise in more than 12 months		**454**	403
Net deferred tax liability		**478**	427
Deferred tax recognised in the Statement of Comprehensive Income			
Life insurance and life investment contract liabilities		**52**	10
Other		**(1)**	2
Total deferred tax recognised in the Statement of Comprehensive Income		51	12

NOTES TO THE FINANCIAL STATEMENTS

11 Principal subsidiaries

SACL 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

For the year ended 30 June	Note	2015	2014
12 Cash and cash equivalents			
Cash at bank and on deposit		**565**	473
Foreign currency at bank		**3**	3
Cash and cash equivalents		**568**	476

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

	Note	2015	2014
Net profit after tax	4	**125**	102
Net realised and unrealised (gains)/losses		**(137)**	(100)
Impairment of intangible assets		**1**	2
Gain on disposal of intangible assets		**(1)**	-
Amortisation and depreciation		**11**	12
Non-cash dividends received		**(11)**	(11)
Net increase/(decrease) in tax liability		**33**	35
Change in life insurance contract liabilities recognised in the Statement of Comprehensive Income	18	**(23)**	(22)
Change in life investment contract liabilities recognised in the Statement of Comprehensive Income	18	**82**	71
Change in life investment contract liabilities recognised in the Balance Sheet	18	**(60)**	(65)
Other items		**1**	-
Net cash inflow/(outflow) from operating activities		**21**	24

NOTES TO THE FINANCIAL STATEMENTS

$ millions

For the year ended 30 June	Note	2015	2014

13 Investments

Equity securities		**784**	784
Fixed interest securities			
New Zealand government stock		**673**	619
Corporate bonds		**30**	29
Foreign government stock		**178**	140
Total fixed interest securities	13b	**881**	788
Property securities		**97**	100
Loans on policies	13a	**21**	22
Mortgages		**3**	7
Total investments		**1,786**	1,701

As at 30 June 2015 no investments were pledged under repurchase agreements or other arrangements (30 June 2014 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 Fixed interest securities

Maturity analysis

Under one year	**2**	11
Between one and two years	**3**	3
Between two and three years	**13**	4
Between three and four years	**48**	46
Between four and five years	**49**	45
Greater than five years	**766**	679
	881	788

NOTES TO THE FINANCIAL STATEMENTS

$ millions For the year ended 30 June	Note	2015	2014
14 Trade and other receivables			
Investment receivables		**19**	19
Outstanding premiums		**20**	19
Amounts due from reinsurers		**5**	15
Amounts due from advisors		**2**	1
Other receivables		**2**	2
Total trade and other receivables		**48**	56

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

15 Trade and other payables			
Outstanding claims		**46**	58
Amounts due to reinsurers		**2**	3
Amounts due to advisors		**6**	7
Prepaid premiums		**12**	12
Expense creditors		**18**	13
Investment creditors		**8**	9
Employee benefits		**12**	9
Total trade and other payables		**104**	111

An analysis of current and non-current liabilities is presented in a maturity analysis of financial liabilities, refer to note 27.

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.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	**2015**	2014	**2015**	2014
Reconciliation of amounts recognised in the Balance Sheet				
Present value of funded obligations	**(3)**	(3)	**(4)**	(4)
Fair value of fund assets	**3**	3	**9**	8
(Deficit)/surplus	**-**	-	**5**	4
Adjustment for the limit on the use of net assets*	**-**	-	**(5)**	(4)
Total retirement benefit obligations (inclusive of specified superannuation contribution withholding tax)	**-**	-	**-**	-
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 2015 were $9m (30 June 2014 $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	Life investment contract deferred acquisition costs	Other intangible assets	Total
17 Intangible assets			
For the year ended 30 June 2015			
Cost	**12**	**32**	**44**
Accumulated amortisation	**-**	**(17)**	**(17)**
Opening net book value	**12**	**15**	**27**
Additions	**-**	**5**	**5**
Disposal - cost	**-**	**(1)**	**(1)**
Impairment	**-**	**(1)**	**(1)**
Amortisation	**(2)**	**(7)**	**(9)**
Closing net book value	**10**	**11**	**21**
For the year ended 30 June 2014			
Cost	-	24	24
Accumulated amortisation	-	(12)	(12)
Opening net book value	14	12	26
Additions	-	12	12
Disposal	-	(2)	(2)
Disposal - accumulated amortisation	-	2	2
Impairment	-	(2)	(2)
Amortisation	(2)	(7)	(9)
Closing net book value	12	15	27

NOTES TO THE FINANCIAL STATEMENTS

$ millions		Life insurance contracts		Life investment contracts	
For the year ended 30 June	Note	**2015**	2014	**2015**	2014
18 Life insurance and life investment contract liabilities					
Reconciliation of movements in policy liabilities					
Balance at the beginning of the year		**201**	221	**867**	861
Increase/(decrease) in liabilities recognised in the Statement of Comprehensive Income, excluding reinsurance		**(22)**	(20)	**87**	79
Decrease in deferred fee income reserve recognised in the Statement of Comprehensive Income		**-**	-	**(5)**	(8)
Deposit premium recognised as an increase in policy liabilities	5	**-**	-	**32**	34
Claims recognised as a decrease in policy liabilities	7	**-**	-	**(92)**	(99)
Total policy liabilities		**179**	201	**889**	867

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 2014 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	**(17)**	(33)	**88**	75
Greater than one year	**196**	234	**801**	792
	179	201	**889**	867

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	**11**	9
Increase/(decrease) in life insurance contract liabilities ceded under reinsurance	**1**	2
Total liabilities ceded under reinsurance at the end of the year	**12**	11

Maturity analysis

Under one year	**8**	8
Greater than one year	**4**	3
Total	**12**	11

$ millions		Life insurance contracts	
For the year ended 30 June	Note	**2015**	2014
18 Life insurance and life investment contract liabilities (continued)			
Policy liabilities related to guarantees			
Policy liabilities with a discretionary participation feature		**663**	623
Valuation of life insurance contract liabilities			
Future policy benefits		**6,453**	5,974
Future bonuses		**101**	117
Future expenses		**2,699**	2,420
Future planned margins of revenue over expenses		**1,108**	965
Future premiums		**(9,772)**	(8,911)
Unvested policyholder benefits		**69**	64
Less: deferred tax		**(479)**	(428)
Total life insurance contract liabilities		**179**	201

Life investment contract policy liabilities with an investment performance guarantee at 30 June 2015 were $11 million (30 June 2014 $12m).

Life insurance contract liabilities future net cash inflows

Under one year		**299**	275
Between one and five years		**912**	833
Greater than five years		**1,980**	1,695
		3,191	2,803

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 For the year ended 30 June	Note	2015	2014
19 Contributed capital			
Total contributed capital		**540**	540
Represented by:			
Number of shares			
Ordinary share capital - $74.22 fully paid		**4,805,849**	4,805,849
Ordinary share capital - $1.00 fully paid		**183,000,000**	183,000,000

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

20 Contingent liabilities and commitments

There are no contingent liabilities as at 30 June 2015 (30 June 2014 nil). There are no contractual commitments for the acquisition of property, plant and equipment or intangible assets as at 30 June 2015 (30 June 2014 nil).

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

	2015	2014
Under one year	**5**	5
Between one and five years	**18**	17
Greater than five years	**24**	29
Total leasing commitments	**47**	51

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 Statement of Comprehensive Income on a straight line basis over the period of the lease.

21 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 SACL to hold a solvency margin of at least $0 for each life fund. SACL 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 SACL'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 Board Audit and Risk Committee (the "BARC") approves the methodology and basis for determining target surplus. The solvency margin of SACL remains greater than the target surplus.

The solvency position of SACL is as follows:

$ millions	Sovereign Statutory Fund No.1	Other Fund	Total
For the year ended 30 June 2015			
Actual solvency capital	**633**	**86**	**719**
Minimum solvency capital	**481**	**74**	**555**
Solvency margin	**152**	**12**	**164**
Solvency ratio	**131%**	**116%**	**129%**
For the year ended 30 June 2014			
Actual solvency capital	555	72	627
Minimum solvency capital	470	65	535
Solvency margin	85	7	92
Solvency ratio	118%	111%	117%

NOTES TO THE FINANCIAL STATEMENTS

22 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.

	Sovereign Statutory Fund No.1			Other Fund
$ millions	Life insurance contracts	Life investment contracts	Total	
For the year ended 30 June 2015				
Premium income	**593**	**2**	**595**	**75**
Investment income	**127**	**99**	**226**	**1**
Claims expense	**322**	**-**	**322**	**43**
Other operating expenses	**246**	**9**	**255**	**28**
Investment income paid or allocated to policyholders	**94**	**99**	**193**	**-**
Net profit before tax	**156**	**10**	**166**	**20**
Net profit after tax	**100**	**11**	**111**	**14**
Capital payments made to funds/(distributions made from funds)	**(33)**	**-**	**(33)**	**4**
For the year ended 30 June 2014				
Premium income	567	2	569	74
Investment income	73	109	182	2
Claims expense	314	-	314	44
Other operating expenses	246	12	258	25
Investment income paid or allocated to policyholders	58	109	167	-
Net profit before tax	99	26	125	4
Net profit after tax	94	7	101	3
Capital payments made to funds/(distributions made from funds)	(52)	-	(52)	(118)
As at 30 June 2015				
Life insurance contract liabilities	**267**	**-**	**267**	**(88)**
Life investment contract liabilities	**-**	**889**	**889**	**-**
Other liabilities	**558**	**17**	**575**	**28**
Retained profits/(losses) directly attributable to shareholders	**245**	**16**	**261**	**(34)**
Investment Assets	**1,033**	**750**	**1,783**	**3**
Other Assets	**450**	**134**	**584**	**68**
As at 30 June 2014				
Life insurance contract liabilities	276	-	276	(75)
Life investment contract liabilities	-	867	867	-
Other liabilities	532	-	532	16
Retained profits/(losses) directly attributable to shareholders	172	10	182	(51)
Investment Assets	985	710	1,695	6
Other Assets	396	132	528	58

NOTES TO THE FINANCIAL STATEMENTS

22 Disaggregated information (continued)

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. SACL 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:

	Sovereign Statutory Fund No.1			Other Fund
$ millions	Life insurance contracts	Life investment contracts	Total	
For the year ended 30 June 2015				
Participating net profit after tax	**4**	**-**	**4**	**-**
Non-participating net profit after tax	**96**	**11**	**107**	**14**
Net profit allocated to shareholders	**100**	**11**	**111**	**14**
Policyholders net profit after tax	**16**	**-**	**16**	**-**
Net profit after tax shareholders and policyholders combined	**116**	**11**	**127**	**14**
For the year ended 30 June 2014				
Participating net profit after tax	4	-	4	-
Non-participating net profit after tax	90	7	97	3
Net profit allocated to shareholders	94	7	101	3
Policyholders net profit after tax	14	-	14	-
Net profit after tax shareholders and policyholders combined	108	7	115	3

NOTES TO THE FINANCIAL STATEMENTS

$ millions		
For the year ended 30 June	**2015**	2014

23 Related party transactions and balances

ASB Bank Limited ("ASB") is a fellow CBA subsidiary of the Group. During the year ended 30 June 2015, 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. Balances due from/to related parties are unsecured, payable on demand and settlement occurs in cash.

Related Party Transactions		
Received from ASB		
Interest income	**7**	9
Recovery of costs relating to the origination of mortgages	**2**	1
Investment administration	**2**	2
Utilisation of tax-related items	**4**	22
Interest and dividends on investments	**10**	8
Utilisation of tax-related items	**-**	1
Paid to ASB		
Administrative services	**9**	9
Insurance commission	**35**	31
Transactional banking services	**2**	2
Paid to other fellow CBA subsidiaries		
Investment management	**1**	1
Utilisation of tax-related items	**2**	-
Related Party Balances		
Balances with ASB		
Cash and cash equivalents	**274**	285
Investments	**-**	1
Derivative assets	**1**	9
Trade and other receivables	**1**	1
Derivative liabilities	**33**	1
Trade and other payables	**2**	-
Balances with CBA/Other fellow CBA subsidiaries		
Investments	**365**	348
Directors and key management personnel		
Directors and key management personnel compensation	**6**	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.

NOTES TO THE FINANCIAL STATEMENTS

24 Fair value of financial assets and financial liablities

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 or markets are considered inactive, 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 2015					
Assets at fair value					
Equity securities	13	**313**	**471**	-	**784**
Fixed interest securities	13b	**881**	-	-	**881**
Property securities	13	**97**	-	-	**97**
Loans on policies	13a	-	-	**21**	**21**
Mortgages		-	-	**3**	**3**
Derivative assets	26	-	**1**	-	**1**
Total assets at fair value		**1,291**	**472**	**24**	**1,787**
Liabilities at fair value					
Life investment contract liabilities	18	-	**889**	-	**889**
Derivative liabilities	26	-	**33**	-	**33**
Total liabilities at fair value		-	**922**	-	**922**
For the year ended 30 June 2014					
Assets at fair value					
Equity securities	13	339	445	-	784
Fixed interest securities	13b	788	-	-	788
Property securities	13	100	-	-	100
Loans on policies	13a	-	-	22	22
Mortgages		-	-	7	7
Derivative assets	26	-	9	-	9
Total assets at fair value		1,227	454	29	1,710
Liabilities at fair value					
Life investment contract liabilities	18	-	867	-	867
Derivative liabilities	26	-	1	-	1
Total liabilities at fair value		-	868	-	868

NOTES TO THE FINANCIAL STATEMENTS

24 Fair value of financial assets and financial liabilities (continued)

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

		At fair value through profit or loss		At amortised cost			
$ millions	Note	Held for trading	Designated on initial recognition	Loans and receivables	Financial liabilities	Total carrying amounts	Fair value
For the year ended 30 June 2015							
Financial assets							
Cash and cash equivalents	12	**-**	**-**	**568**	**-**	**568**	**568**
Trade and other receivables	14	**-**	**-**	**48**	**-**	**48**	**48**
Investments	13	**-**	**1,786**	**-**	**-**	**1,786**	**1,786**
Derivative assets	26	**1**	**-**	**-**	**-**	**1**	**1**
Total financial assets		**1**	**1,786**	**616**	**-**	**2,403**	**2,403**
Financial liabilities							
Trade and other payables	15	**-**	**-**	**-**	**34**	**34**	**34**
Derivative liabilities	26	**33**	**-**	**-**	**-**	**33**	**33**
Life investment contract liabilities	18	**-**	**889**	**-**	**-**	**889**	**889**
Total financial liabilities		**33**	**889**	**-**	**34**	**956**	**956**
For the year ended 30 June 2014							
Financial 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	26	9	-	-	-	9	9
Total financial assets		9	1,701	532	-	2,242	2,242
Financial liabilities							
Trade and other payables	15	-	-	-	32	32	32
Derivative liabilities	26	1	-	-	-	1	1
Life investment contract liabilities	18	-	867	-	-	867	867
Total financial liabilities		1	867	-	32	900	900

25 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 Standard and Poors ("S&P") credit ratings for the Group's major cash holdings are:

As at 30 June	2015	2014
ASB Bank Limited	AA-	AA-
Westpac New Zealand Limited	AA-	AA-
Citigroup Inc.	A-	A-
ANZ Bank New Zealand Limited	AA-	AA-
Bank of 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	2015	2014	2015	2014	2015	2014
		Investment-linked*		Non-linked		Total	
AAA		-	5	9	8	9	13
AA+		40	32	812	723	852	755
AA		3	4	-	-	3	4
AA-		11	12	-	-	11	12
A+		3	3	-	-	3	3
A		1	-	-	-	1	-
A-		2	1	-	-	2	1
Equity securities		609	581	175	203	784	784
Property securities		80	70	17	30	97	100
Loans on policies		-	-	21	22	21	22
Mortgages		-	-	3	7	3	7
Total investments	13	749	708	1,037	993	1,786	1,701

* 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 Bank Limited.

Amounts due from reinsurers

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

As at 30 June	Rating Agency	2015	Rating Agency	2014
General Reinsurance Life Australia Limited	S&P	AA+	S&P	AA+
Assicurazioni Generali S.P.A.	AM Best	A	S&P	A-
RGA Reinsurance Company	S&P	AA-	S&P	AA-
Swiss Re Life and Health (Australia) Limited	S&P	AA-	S&P	AA-
Munich Reinsurance Company of Australasia Limited	S&P	AA-	S&P	AA-

26 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 function is 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 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.

The sensitivity analysis in the risk categories that follow, 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

26 Risk management policies (continued)

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.

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.	- Mortality - Morbidity - Discontinuance rates
Life insurance contracts with discretionary participating benefits (endowment and whole of life)	These policies include a clearly defined initial guaranteed sum assured which is payable on death. The guaranteed amount is a multiple of the amount that is increased throughout the duration of the policy by the addition of regular bonuses annually which, once added, are not removed. Regular bonuses are also added retrospectively.	Benefits arising from the discretionary participation feature are based on the performance of a specified pool of contracts or a specified type of contract.	- Mortality - 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.	- Longevity - Market returns on underlying assets

Sensitivity to insurance risk

Insurance risk is measured by using sensitivity analysis to show the effects on equity and profit.

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.

NOTES TO THE FINANCIAL STATEMENTS

26 Risk management policies (continued)

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.

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.

The table below illustrates the sensitivity of reported profit and loss after tax and equity to changes in insurance risk assumptions:

$ millions

For the year ended 30 June		2015		2014	
		Change in following financial year's shareholder profit/(loss) and equity			
Insurance risks		**Before reinsurance**	**After reinsurance**	Before reinsurance	After reinsurance
Mortality	Improvement by 10%	**(2)**	**(2)**	(2)	(2)
	Deterioration by 10%	**(22)**	**(17)**	(9)	(6)
Morbidity	Improvement by 10%	**8**	**5**	8	5
	Deterioration by 10%	**(23)**	**(19)**	(17)	(13)
Discontinuance	Improvement by 20%	**-**	**-**	-	-
	Deterioration by 20%	**(1)**	**(1)**	(2)	(1)

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).

No collateral exists for any of the securities held by the Group. 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.

The credit rating of counterparties are disclosed in note 25.

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.

26 Risk management policies (continued)

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.

The maturity of life insurance and life investment contract liabilities are disclosed in notes 18 and 27.

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 2015, shareholder's funds in the Group were invested 1% (30 June 2014 1%) in growth assets (equity and property) and 99% (30 June 2014 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 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 2015 foreign currency denominated investments amounted to 34% (30 June 2014 35%) 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

26 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 67% (30 June 2014 64%) and fixed interest investments denominated in a foreign currency have a hedging ratio of 100% (30 June 2014 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.

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) 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.

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

26 Risk management policies (continued)

Sensitivity to market risk

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

The table below illustrates the sensitivity of reported profit and loss after tax and equity to changes in market risk assumptions:

$ millions

For the year ended 30 June		2015		2014	
		Change in following financial year's shareholder profit/(loss) and equity			
Market risks					
		Before reinsurance	**After reinsurance**	Before reinsurance	After reinsurance
Currency rates	Favourable by 10%	-	-	-	-
	Adverse by 10%	-	-	-	-
Equity prices	Favourable by 10%	-	-	1	1
	Adverse by 10%	-	-	(1)	(1)
Interest rates	Increase of 100 bps	(14)	(11)	(9)	(6)
	Decrease of 100 bps	15	12	8	5

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.

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

$ millions

For the year ended 30 June	Note	2015	2014
Forward contract assets		**1**	9
Total derivative assets		**1**	9
Forward contract liabilities		**33**	1
Total derivative liabilities		**33**	1
Total net derivative financial instruments *		**(32)**	8

* 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		**685**	612

26 Risk management policies (continued)

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.

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.

27 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. Refer to note 26 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
As at 30 June 2015								
Trade and other payables	**8**	**26**	**-**	**-**	**-**	**-**	**34**	**34**
Derivative liabilities	**-**	**717**	**-**	**-**	**-**	**-**	**717**	**33**
Life investment contract liabilities	**624**	**11**	**11**	**25**	**82**	**216**	**969**	**889**
Total financial liabilities	**632**	**754**	**11**	**25**	**82**	**216**	**1,720**	**956**
Derivative assets	**-**	**685**	**-**	**-**	**-**	**-**	**685**	**1**
Total financial liabilities net of derivative assets	**632**	**69**	**11**	**25**	**82**	**216**	**1,035**	**955**
As at 30 June 2014								
Trade and other payables	7	25	-	-	-	-	32	32
Derivative liabilities	-	604	-	-	-	-	604	1
Life investment contract liabilities	597	11	12	26	79	246	971	867
Total financial liabilities	604	640	12	26	79	246	1,607	900
Derivative assets	-	612	-	-	-	-	612	9
Total financial liabilities net of derivative assets	604	28	12	26	79	246	995	891

28 Events after balance date

There have been no events after balance date (30 June 2014 Nil).

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 2015.

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 20 "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 2015, 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 2015, 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 3 August **2015**

D B Connett

Doune Connett
Appointed Actuary

Auckland

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Independent Auditors' Report

to the shareholder of Sovereign Assurance Company Limited

Report on the Financial Statements

We have audited the Group financial statements of Sovereign Assurance Company Limited ("the Company") on pages 1 to 46, which comprise the consolidated balance sheet as at 30 June 2015, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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 the Group. The Group comprises the Company and the entities it controlled at 30 June 2015 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards 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's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. 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.

We are independent of the Group. Our firm carries out other services for the Group in the areas of Regulatory reporting, Tax assurance and other consulting services. The provision of these other services has not impaired our independence.

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Independent Auditors' Report
to the shareholder of Sovereign Assurance Company Limited

Opinion
In our opinion, the financial statements on pages 1 to 46 present fairly, in all material respects, the financial position of the Group as at 30 June 2015, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Restriction on Use of our Report
This report is made solely to the Company's shareholder, in accordance with the Companies Act 2013. Our audit work has been undertaken so that we might state 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 shareholder, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants
3 August 2015

Auckland