Sovereign Assurance Company Limited and Subsidiaries

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 2017.

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

For and on behalf of the Board

Director

Director

02 AUGUST 2017

02 AUGUST 2017

Annual Report
For the year ended 30 June 2017

SOVEREIGN

Contents

Corporate Governance

The Board places great importance on the governance of 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 SACL'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 and external consultants are engaged in the search for new independent 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.

As at 30 June 2017, the chairperson of the Board was Mr G.R. Walker. The other directors were Mr S.R.S. Blair, Mr M.A. Cant, Ms B.J. Chapman, Mr J.P. Hartley, Mr D.J. May, Mr S.P. Ward and Mr N.J.S. Stanhope.

Effective from 31 July 2017, Ms B.J. Chapman and Mr D.J. May resigned as directors of the Board.

Committees of the Board

The Board has delegated specific powers and responsibilities to committees of the Board and to management. Key decisions made by the Board committees are reported to the full Board. Management 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 current chairperson of the BARC is Mr J.P. Hartley.

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.

Corporate Governance *(continued)*

3. Oversee and monitor the performance of the internal and external auditors. The BARC 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 a 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.

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.

As at 30 June 2017, the members of the Appointment and Remuneration Committee were Mr G.R. Walker (chairperson), Mr D.J. May and Ms B.J. Chapman.

Effective from 1 August 2017, Ms B.J. Chapman and Mr D.J. May have been replaced by Mr M.A. Cant and Mr S.P. Ward.

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. The objectives:

- reflect Sovereign's strategic priorities;
- are based on both financial and non-financial measures 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.

Diversity and Inclusion

The Group is committed to diversity and inclusion across its business. The Group's diversity and inclusion priorities are designed to ensure that:

- the Group's workforce and leadership is more reflective of both the communities in which the Group operates and it's customer base; and
- the Group has a culture in which diversity is encouraged, understood, respected, valued and leveraged so that talented people can thrive and the Group's customers and reputation both benefit.

The Group's diversity and inclusion priorities are:

- Diversity in leadership;
- Inclusive culture; and
- You can be you.

As at 30 June 2017, 50% of all senior leadership roles were held by women. The Group has a target that 50% of all senior leadership roles will be held by women by 2020.

Talent sourcing processes have been reviewed to ensure that support is given to the diversity and inclusion priorities.

Income Statement

$ millions For the year ended 30 June	Note	2017	2016
Premium income	4	**715**	691
Less: Reinsurance expense	4	**(50)**	(49)
Net premium income		**665**	642
Investment income	5	**96**	167
Other income		**1**	6
Total operating income		**762**	815
Claims expense	6	**382**	374
Less: Reinsurance recoveries	6	**(34)**	(39)
Net claims expense		**348**	335
Other operating expenses	7	**286**	291
Decrease in life insurance contract liabilities	17	**(31)**	(30)
Increase in life investment contract liabilities	17	**47**	13
Total operating expenses		**650**	609
Net profit before taxation		**112**	206
Taxation	9	**8**	99
Net profit after taxation	3	**104**	107

Statement of Comprehensive Income

$ millions For the year ended 30 June	2017	2016
Net profit after taxation	**104**	107
Other comprehensive expense, net of taxation		
Items that will not be reclassified to the Income Statement:		
Remeasurement of defined benefit plans net of tax	**(1)**	-
Total other comprehensive expense, net of taxation	**(1)**	-
Total comprehensive income	**103**	107

These statements are to be read in conjunction with the notes on pages 8 to 39 and the Independent Auditor's Report on pages 40 and 41.

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Statement of Changes in Equity

$ millions	Note	Contributed Capital	Retained Earnings	Total Shareholders' Equity
For the year ended 30 June 2017				
Balance at beginning of year		**540**	**207**	**747**
Net profit after taxation		**-**	**104**	**104**
Other comprehensive expense, net of taxation		**-**	**(1)**	**(1)**
Total comprehensive income		**-**	**103**	**103**
Ordinary dividend paid	20	**-**	**(82)**	**(82)**
Balance as at 30 June 2017		**540**	**228**	**768**
For the year ended 30 June 2016				
Balance at beginning of year		540	232	772
Net profit after taxation		-	107	107
Total comprehensive income		-	107	107
Ordinary dividend paid	20	-	(132)	(132)
Balance as at 30 June 2016		540	207	747

These statements are to be read in conjunction with the notes on pages 8 to 39 and the Independent Auditor's Report on pages 40 and 41.

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Balance Sheet

$ millions As at 30 June	Note	2017	2016
Assets			
Cash and cash equivalents	12	**536**	564
Trade and other receivables	15	**48**	53
Securities	11	**1,594**	1,690
Derivative assets	30	**11**	29
Liabilities ceded under reinsurance	17	**13**	9
Property, plant and equipment		**16**	17
Intangible assets	14	**16**	15
Retirement benefit surplus	16	**-**	1
Total assets		**2,234**	2,378
Total interest earning and discount bearing assets		***1,375***	*1,437*
Liabilities			
Trade and other payables	19	**108**	95
Derivative liabilities	30	**1**	1
Life investment contract liabilities	17	**739**	835
Life insurance contract liabilities	17	**100**	146
Current taxation liability		**9**	22
Deferred taxation liability	18	**509**	532
Total liabilities		**1,466**	1,631
Shareholders' Equity			
Contributed capital	20	**540**	540
Retained earnings		**228**	207
Total shareholders' equity		**768**	747
Total liabilities and shareholders' equity		**2,234**	2,378
Total interest and discount bearing liabilities		***9***	*10*

The Board of Directors authorised these financial statements for issue on 2 August 2017.

Director

Director

These statements are to be read in conjunction with the notes on pages 8 to 39 and the Independent Auditor's Report on pages 40 and 41.

Cash Flow Statement

$ millions For the year ended 30 June	2017	2016
Cash flows from operating activities		
Cash was provided from:		
Premium and deposit premium receipts	739	721
Dividend receipts	15	18
Interest receipts	48	54
Reinsurance receipts	34	32
Management fees and commission receipts	1	5
	837	830
Cash was applied to:		
Claims, surrenders and maturities payments	534	473
Commission payments	145	142
Payments to suppliers and employees	130	140
Tax payments	44	22
Reinsurance premiums	50	49
	903	826
Net cash flows from operating activities	(66)	4
Cash flows from investing activities		
Cash was provided from:		
Proceeds from sale of securities	481	710
Proceeds from sale of intangible assets	-	1
Net settlement of foreign exchange contracts	37	-
	518	711
Cash was applied to:		
Purchase of securities	390	574
Purchase of property, plant and equipment	1	2
Purchase and development of intangible assets	7	2
Net settlement of related party balances	-	2
Net settlement of foreign exchange contracts	-	7
	398	587
Net cash flows from investing activities	120	124
Cash flows from financing activities		
Cash was applied to:		
Dividends paid	82	132
Net cash flows from financing activities	(82)	(132)
Summary of movements in cash flows		
Net decrease in cash and cash equivalents	(28)	(4)
Add: cash and cash equivalents at beginning of year	564	568
Cash and cash equivalents at end of year	536	564

These statements are to be read in conjunction with the notes on pages 8 to 39 and the Independent Auditor's Report on pages 40 and 41.

Cash Flow Statement (continued)

$ millions For the year ended 30 June	2017	2016
Reconciliation of net profit after taxation to net cash flows from operating activities		
Net profit after taxation	**104**	107
Non-cash items included in net profit after taxation		
Loss on disposal of intangible assets	**-**	1
Amortisation and depreciation	**8**	8
Net realised and unrealised gains	**(18)**	(84)
Non-cash dividends received	**(13)**	(10)
Decrease in life insurance contract liabilities recognised in the Income Statement	**(31)**	(30)
Increase in life investment contract liabilities recognised in the Income Statement	**47**	13
Movements in assets and liabilities		
Trade and other receivables - increase	**(1)**	(2)
Net income tax liability - (decrease)/increase	**(36)**	77
Trade and other payables - increase/(decrease)	**17**	(9)
Increase in life investment contract liabilities recognised in the Balance Sheet	**(143)**	(67)
Net cash flows from operating activities	**(66)**	4

These statements are to be read in conjunction with the notes on pages 8 to 39 and the Independent Auditor's Report on pages 40 and 41.

Notes to the Financial Statements

For the year ended 30 June 2017

1 Statement of Accounting Policies

General Accounting Policies

Sovereign Assurance Company Limited (SACL) is registered under the Companies Act 1993 and is 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 (ASBGL). 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.

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 consolidated financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with International Financial Reporting Standards (IFRS) 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 for-profit entities.

Comparative information has been reclassified or restated to ensure consistency with presentation in the current reporting period.

There are no new or revised NZ IFRS applicable for the first time for the financial year beginning on or after 1 July 2016 that would have a material impact to the Group.

The following new standards relevant to the Group have been issued. The Group does not intend to apply these standards until their effective dates.

- NZ IFRS 9 *Financial Instruments* addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of NZ IFRS 9 was issued in September 2014. It replaces the guidance in NZ IAS 39 *Financial Instruments: Recognition and Measurement* that relates to the classification and measurement of financial instruments.

  NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. There is now a new expected credit losses model that replaces the incurred loss impairment model for financial assets used in NZ IAS 39.

  NZ IFRS 9 relaxes the requirements for hedge effectiveness, and requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same that is used by management for risk management purposes. The standard is effective for the Group's reporting period beginning on 1 July 2018. Early adoption is permitted.

  The Group is assessing the effect of adopting NZ IFRS 9 on its financial statements, but does not expect the impact to be material, other than additional disclosure requirements and changes in presentation.

- NZ IFRS 15 *Revenue from Contracts with Customers* addresses recognition of revenue from contracts with customers. It replaces the current revenue recognition guidance in NZ IAS 18 *Revenue* and NZ IAS 11 *Construction Contracts* and is applicable to all entities with revenue from contracts with customers. It sets out a five-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 July 2018. Early adoption is permitted. The Group is assessing the effect of adopting NZ IFRS 15 on its financial statements, but does not expect the impact to be material.

- NZ IFRS 16 *Leases* replaces the current guidance in NZ IAS 17 *Leases*. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. This standard is effective for the Group's reporting period beginning on 1 July 2019. Early adoption is only permitted following adoption of NZ IFRS 15 *Revenue from Contracts with Customers*. The Group is assessing the effect of adopting NZ IFRS 16 on its financial statements, but does not expect the impact to be material.

- IFRS 17 *Insurance Contracts* was issued in May 2017 as a replacement for IFRS 4 *Insurance Contracts*. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of:
  - discounted probability-weighted cash flows
  - an explicit risk adjustment, and
  - a contractual service margin (CSM) representing the unearned profit of the contract which is recognised as revenue over the coverage period.

  The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

  There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity's share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

  The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features. The group is currently assessing the effect of adopting IFRS 17 on its financial statements.

Notes to the Financial Statements

For the year ended 30 June 2017

1 Statement of Accounting Policies (continued)

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 the Income Statement.

Critical Accounting Estimates and Judgements

Preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The areas where a high degree of judgement is applied by management, that have the most significant effect on amounts recognised in the financial statements are the valuation of: financial instruments (refer notes 1f and 25), life insurance contract liabilities and life investment contract liabilities (refer notes 1k and 17), intangible assets (refer notes 1h and 14) and deferred taxation liability (refer notes 1i and 18). 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 income tax expense in future periods may be required.

Presentation Currency and Rounding

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

Particular Accounting Policies

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

(a) Basis 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 is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. 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. SACL has 100% ownership of each of its subsidiaries (refer note 13). There are no substantial removal rights and it has controlling economic interests.

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

SACL Group Companies Acting as Trustee or Manager of Superannuation Schemes

As at the balance date, the Group provides investment management services for the Sovereign Superannuation Retirement Fund (SSRF). The assets and liabilities of SSRF are not included in the Group financial statements as there is no capacity to control.

(b) Foreign Currency Translation

All foreign currency monetary assets and liabilities are translated to New Zealand currency at the exchange rate ruling as at balance date.

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

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

(c) Revenue Recognition

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

Premium Income

(i) Life Insurance Contracts
Premiums received for providing services and bearing risks are recognised as revenue on an accrual basis.

(ii) Life Investment Contracts
Premiums received are split, with the fee portion 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 by the Group at that time. Otherwise initial entry fee income is deferred as a component of life investment contract liabilities and is amortised as related services are provided under the contract.

Investment Income

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

Other Income

Other income is recognised on an accrual basis.

1 Statement of Accounting Policies (continued)

(d) 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.

Commission and Management Expenses

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

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.

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 the life insurance contract liabilities. Amortisation of acquisition costs are recognised in the Income Statement as a component of 'net change in insurance contract liabilities' at the same time as policy margins are released.

Acquisition Costs - Life Investment Contracts

Commission that varies with and is directly related to securing new contracts is capitalised as a deferred acquisition cost asset and is included in intangible assets. The deferred acquisition cost asset is subsequently amortised over the life of the contracts and is recognised in other operating expenses in the Income Statement.

Maintenance and Investment Management Expenses

Maintenance costs are the fixed and variable costs of administering policies subsequent to sale and are recognised in the Income Statement on an accrual basis. 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 and are recognised in the Income Statement on an accrual basis.

Other Operating Expenses

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

Other operating expenses also include 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.

(e) Dividend Recognition

Ordinary dividends are recognised as a movement in equity in the reporting period within which they have been approved by the SACL Board.

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 on the Balance Sheet.

(f) Financial Instruments

BASIS OF RECOGNITION AND MEASUREMENT

The Group classifies financial instruments into one of the following categories at initial recognition: financial assets at fair value through the Income Statement, held for trading, loans and receivables, financial liabilities at fair value through the Income Statement and financial liabilities at amortised cost. Regular purchases and sales of financial assets are recognised and derecognised, as applicable, using trade date accounting.

Some of these categories require measurement at fair value. Where available, quoted market prices are used as a measure of fair value. Where quoted market prices do not exist, fair values are estimated using present value or other market accepted valuation techniques, using methods and assumptions that are based on market conditions and risks existing as at 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. Impairment losses are calculated by discounting the expected future cash flows, at the original effective interest rate or approximation thereof, and comparing the resultant present value with the assets current carrying 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.

Notes to the Financial Statements

For the year ended 30 June 2017

1 Statement of Accounting Policies (continued)

(f) Financial Instruments (continued)

BASIS OF RECOGNITION AND MEASUREMENT *(continued)*

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired. Derecognition also occurs when the rights to receive cash flows from financial assets have been transferred together with substantially all of their risks and rewards. A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT

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

Securities

Securities held by life insurance companies are recognised at fair value through the Income Statement at inception because they back life insurance contract liabilities or life investment contract liabilities. Gains and losses arising from the fair value remeasurement of securities are included as part of investment income in the Income Statement.

Securities include equity securities, property securities and fixed interest securities.

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

The Group recognises derivatives in the Balance Sheet at their fair value. Derivative assets are the fair value of derivatives which have a positive fair value. Derivative liabilities are the fair value of derivatives which have a negative fair value.

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. Loans and receivables include:

Cash and Cash Equivalents

Cash and Cash Equivalents include bank current accounts, cash on deposit and registered certificates of deposit, readily convertible to known amounts of cash, that are subject to an insignificant risk of changes in value. Assets in this category are at face value and interest is taken to the Income Statement when earned. Bank overdrafts are shown within cash and cash equivalents if the net position is an asset due to the Group's right to offset overdrafts within its banking facility.

Trade and Other Receivables

Trade and other receivables include investment receivables, amounts due from related parties, amounts due from agents and other current assets. These assets are short term in nature and the carrying amount includes allowances for impaired receivables and therefore is considered a reasonable estimate of fair value.

FINANCIAL LIABILITIES AT FAIR VALUE THROUGH INCOME STATEMENT

Life investment contract liabilities are measured at fair value, with subsequent gains and losses arising from fair value remeasurement recognised in the Income Statement. Refer to note 1k for more details of life investment contract liabilities.

FINANCIAL LIABILITIES AT AMORTISED COST

This category includes all financial liabilities other than those designated by the Group as at fair value through the Income Statement. Liabilities in this category include:

Trade and Other Payables

Trade and other payables includes amounts due to agents, outstanding claims, investment creditors, trade creditors and accruals, amounts due to related parties and other payables. Liabilities in this category are initially measured at fair value plus transaction costs. After initial recognition, they are measured at amortised cost using the effective interest method.

Notes to the Financial Statements

For the year ended 30 June 2017

1 Statement of Accounting Policies (continued)

(g) 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:

› Leasehold improvements and services	10 - 18 years
› Office equipment, furniture and fittings and computer equipment	3 - 10 years

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

(h) Intangible Assets

Internally Developed Software, Acquired Software Licences and Application Software

The Group generally expenses computer software costs in the year 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 certain criteria are met. Acquired computer software licenses 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).

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. Other operating costs (refer note 1d) 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.

› Agency purchases	18 - 54 months
› Deferred acquisition costs	6 - 17 years

Intangible Assets Impairment Reviews

Intangible assets are assessed at an asset level when they generate independent cash inflows, otherwise they are grouped into CGUs for impairment purposes. Impairment reviews are performed annually to identify events or changes in circumstances that indicate that the carrying amount may not be recoverable. If the asset or the CGU's carrying amount is greater than its estimated recoverable amount, the carrying amount of the asset or CGU is written down to its recoverable amount. The recoverable amount is the higher of the asset or CGU's fair value less costs to sell and the value in use. Any impairment loss is recognised immediately in the Income Statement.

(i) Taxation

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

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at balance date after taking advantage of all allowable deductions under current taxation legislation. It also includes any adjustment to tax payable in respect of previous financial years. Current tax is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

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

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

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.

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 expenses) 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 2016 28%). As the life insurer is taxed as proxy for the policyholder, returns to policyholders are tax exempt.

Notes to the Financial Statements

For the year ended 30 June 2017

1 Statement of Accounting Policies (continued)

(i) Taxation (continued)

The regime is applicable to all life insurance policies, irrespective of when they were issued. However, the new regime offers a concessional tax treatment (known as a transitional adjustment) for life insurance policies that were in force prior to 1 July 2010. The impact of the transitional adjustment is that it effectively treats designated policies (known as grandparented policies) as having income tax levied on a basis equivalent to the life office base under the old tax regime. In general, grandparented status lasted for 5 years from 1 July 2010. However, for certain policy types, namely level term policies, the grandparented status can be for the duration of the policy.

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.

(j) Provisions

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

(k) 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 IPSA) 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 28.

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 15 December 2016.

Life Insurance and Life Investment Contracts - Classification

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

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: *Determination of Life Insurance Liabilities*. MoS is designed to recognise profits on life insurance policies as services are provided to policyholders and income is received. Under MoS, the planned profit margins of premium received less expenses is deferred and amortised over the life of the contract, whereas losses are recognised immediately.

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

Profit is analysed into the following categories:

(i) *Planned Margins of Revenues Over Expenses*

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

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

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

Notes to the Financial Statements

For the year ended 30 June 2017

1 Statement of Accounting Policies (continued)

(k) Life Insurance Business (continued)

(iii) *Changes to Underlying Assumptions*

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

The financial effect of a change in discount rates resulting from changes in market conditions is recognised in the year that the rates are changed. The financial effect of all other changes to assumptions is recognised in the Income Statement over the future years during which services are provided to policyholders. If, based on best estimate assumptions, written business of a group of related products is expected to be unprofitable, the total expected loss for that related product group is recognised in the Income Statement immediately. When loss making business becomes profitable previously recognised losses are reversed.

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

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

Life Investment Contract Liabilities

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

Identification of Assets Backing Life Investment Contracts

All contracts issued by the Group that are classified as life insurance 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.

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

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

Liabilities ceded under reinsurance are the present value of future reinsurance claims receivable and premiums payable by the Group and have been classified as an asset, liabilities ceded under reinsurance. Reinsurance assets are assessed for impairment on a quarterly basis.

(l) Retirement Benefits Obligations

The Group currently sponsors the SSRF superannuation plan for its employees and ex-employees. The assets and liabilities of this plan are held independently of the Company's assets in a separate trustee administered fund. The plan has both a defined benefit and defined contribution section and has been closed to new members since 01 July 2004.

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

Defined Benefit Plans

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

The asset recognised on the Balance Sheet in respect of SSRF is calculated as the present value of the defined benefit obligation and the fair value of the plan's assets deducted. The discount rate is the yield at balance date on government securities which have approximately the same terms to maturity. 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 the above valuation are charged or credited directly to retained earnings.

Defined Contribution Plans

The SSRF Defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions to the plan 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 SSRF are recognised as an expense in the Income Statement as incurred.

(m) Contingent Liabilities

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

Notes to the Financial Statements

For the year ended 30 June 2017

1 Statement of Accounting Policies (continued)

(n) Cash Flow Statement

This has been prepared using the direct approach, modified by the netting of cash flows associated with related parties and foreign exchange forward contracts. 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.

(o) 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.

(p) Operating Leases

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

Notes to the Financial Statements

For the year ended 30 June 2017

2 Actuarial Assumptions and Methods

The effective date of the policy liabilities and solvency margin calculation for the Group is 30 June 2017. Bartosz Piwcewicz FIAA, as the Chief Actuary of SACL, is satisfied as to the accuracy of the data from which the amount of life insurance and life investment contract liabilities has been determined.

The projection method is used to determine life insurance and life investment contract liabilities. In principle, 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 contract liabilities.

Life insurance and life investment contract liabilities have been determined in accordance with Professional Standard 20 of the New Zealand Society of Actuaries and the requirements of NZ IFRS 4.

Key assumptions used in determining life insurance and life investment contract liabilities are as follows:

(a) Discount Rates

(i) *Business Where Benefits are Contractually Linked to the Performance of Assets Held*

The discount rates used to determine life insurance and life investment contract liabilities reflect the expected future gross returns on the Group's current strategic asset mix. Fixed interest investments were assumed to earn 3.1% pa (30 June 2016 2.4%) and equity investments 7.1% pa (30 June 2016 6.4%). The discount rates used for individual classes of business varied between 3.1% pa and 4.4% pa (30 June 2016 2.4% and 3.7%).

(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 2.8% and 3.8% pa were used (30 June 2016 2.2% to 3.3%).

(b) Profit Carriers

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

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

(c) Investment and Maintenance Expenses

Future maintenance and investment expenses have been assumed at current levels in line with contractual fees set out in agreement with Sovereign Services Limited (SSL), a wholly owned subsidiary of SACL, and external fund managers. Future inflation has been assumed to be 2.0% pa (30 June 2016 2.0%) for determining future expenses and inflation linked increases in benefits and premiums.

(d) Taxation

The rates of taxation enacted or substantially enacted at the date of the valuation are assumed to continue into the future. The corporate tax rate used is 28% (30 June 2016 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.

(e) Rates of Growth of Unit Prices

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

(f) Mortality and Morbidity

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

In general, mortality assumptions are reviewed based on annual experience studies.

The following changes have been made to mortality assumptions for 30 June 2017:

- A consolidation was performed for legacy business mortality assumptions such that assumptions are set at a more aggregated level. In particular, savings business moved from 3 bases to a single one.
- The mortality assumption for participating business has been increased by 6% and guaranteed acceptance business by 3%.

For the other business, there have been no changes in mortality assumptions since 30 June 2016.

The proportions of NZ97 adopted for the major products range from 48% to 96% (30 June 2016 48% to 96%).

Projected future morbidity experience are 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.

Notes to the Financial Statements

For the year ended 30 June 2017

2 Actuarial Assumptions and Methods (continued)

(f) Mortality and Morbidity (continued)

In general, morbidity assumptions are reviewed based on annual experience studies.

The following changes have been made to morbidity assumptions for 30 June 2017:

- Disability Income (DI) total claim assumptions adjusted by between -40% and +23% due to a mix of incidence and recovery assumption changes.
- Living Assurance Benefit (LAB) claim assumptions have been rationalised, with legacy business moving from using a range of different assumptions, to be based on the same assumptions as modern LAB products. Legacy LAB claim assumptions have increased by approximately 10% and Modern LAB claim assumptions have increased by between 0% and 4%.
- Legacy Total and Permanent Disability (TPD) assumptions have been rationalised from using a range of different assumptions, to be based on the same table as modern TPD products. In general the Legacy TPD claim assumptions have decreased by approximately 30%.
- Health claims assumptions have seen a number of changes resulting in an overall increase in projected claim costs.

(g) Rates of Discontinuance

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

Discontinuance rates were reviewed for 30 June 2017.

Future rates of discontinuance are:

		Policy Duration (years)									
	Age	1	2	3	4	5	6	7	8	9	10+
As at 30 June 2017											
Life rate for age	< 30	8%	11%	15%	15%	15%	13%	13%	12%	11%	10%
	30 - 39	6%	9%	13%	13%	12%	11%	10%	10%	10%	9%
	40 - 49	6%	9%	13%	12%	12%	11%	11%	11%	11%	9%
	50 - 64	6%	11%	17%	15%	16%	14%	14%	14%	14%	11%
	65+	13%	17%	23%	22%	21%	20%	21%	20%	20%	18%
Life level to age 80	< 30	16%	9%	14%	10%	9%	8%	9%	8%	7%	6%
	30 - 39	12%	7%	10%	8%	6%	6%	6%	6%	5%	4%
	40 - 49	9%	4%	8%	5%	5%	4%	4%	4%	3%	3%
	50 - 64	5%	5%	8%	6%	5%	5%	4%	4%	4%	3%
	65+	5%	5%	8%	6%	5%	5%	4%	4%	4%	3%
As at 30 June 2016											
Life rate for age	< 30	10%	14%	16%	16%	15%	14%	13%	13%	12%	10%
	30 - 39	7%	11%	13%	13%	13%	12%	11%	11%	10%	9%
	40 - 49	7%	10%	14%	13%	12%	12%	11%	11%	11%	9%
	50 - 64	7%	12%	17%	16%	15%	14%	14%	14%	13%	11%
	65+	14%	18%	22%	21%	21%	20%	20%	20%	19%	18%
Life level to age 80	< 30	12%	13%	13%	12%	10%	10%	9%	9%	9%	7%
	30 - 39	9%	10%	10%	9%	7%	7%	7%	6%	6%	5%
	40 - 49	6%	6%	6%	6%	5%	5%	4%	4%	4%	3%
	50 - 64	7%	7%	9%	6%	6%	5%	4%	4%	4%	3%
	65+	6%	7%	8%	6%	6%	5%	4%	4%	4%	3%

As at 30 June		2017			2016		
	Age	Life	Non-Life	Total	Life	Non-Life	Total
Other Risk	< 30	20%	12%		22%	14%	
	30 - 39	14%	12%		14%	13%	
	40 - 49	11%	12%		11%	12%	
	50 - 64	10%	13%		9%	13%	
	65+	8%	16%		8%	16%	
Participating				3%			4%
Savings				8%			10%

(h) Basis of Calculation of Surrender Values

Surrender values are set using an asset share approach and taking into consideration equity between continuing and terminating policyholders.

Notes to the Financial Statements

For the year ended 30 June 2017

2 Actuarial Assumptions and Methods (continued)

(i) Participating business

For most participating business, bonus rates are set such that, over long periods, the returns to policyholders are commensurate with the investment returns achieved on the relevant assets, together with other sources of profit arising from this business. Distributions are split between policyholders and shareholders with the valuation allowing for shareholders to share in distributions at a maximum allowable rate of 20% (30 June 2016 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:

As at 30 June		2017	2016
Ex-Colonial policies	Bonus rate on sum assured	**0.20%**	0.20%
	Bonus rate on existing bonus	**0.20%**	0.20%
Ex-Prudential policies	Bonus rate on sum assured	**0.25%**	0.25%
	Bonus rate on existing bonus	**0.25%**	0.25%
Ex-NZI policies	Bonus rate on sum assured	**0.13%**	0.13%
	Bonus rate on existing bonus	**0.25%**	0.25%
Ex-Metropolitan life policies	Bonus rate on sum assured	**0.00%**	0.00%
	Bonus rate on existing bonus	**0.00%**	0.00%
Investment account policies	Crediting Rate	**3.16%**	3.13%

(j) Impact of Changes in Assumptions

Refer to note 1k 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:

$ millions	Effect on Future Profit Margins		Effect on Life Insurance Contract Liabilities	
For the year ended 30 June	**2017**	2016	**2017**	2016
Market related changes to discount rates	**(49)**	94	**2**	4
Non-market related changes to discount rates	**(1)**	-	**-**	-
Mortality and morbidity	**4**	33	**1**	16
Discontinuance rates	**2**	41	**1**	-
Maintenance expenses	**3**	(60)	**1**	(1)
Other assumptions	**(22)**	13	**(3)**	1

3 Sources of Profit

$ millions **For the year ended 30 June**	**2017**	2016
Life insurance		
Planned margins of revenues over expenses	**74**	70
Unwind of discount on policy liabilities	**9**	13
Difference between actual and assumed experience	**8**	22
Effects of changes in underlying assumptions	**(3)**	(2)
Reversal / (recognition) of future expected losses	**1**	(14)
Net profit after taxation arising from life insurance contracts	**89**	89
Life investment		
Planned margins of revenues over expenses	**9**	10
Difference between actual and assumed experience	**1**	-
Net profit after taxation arising from life investment contracts	**10**	10
Shareholder investment earnings	**5**	6
Total life activities	**104**	105
Non-life activities		
Other	**-**	2
Total non-life activities	**-**	2
Net profit after taxation attributed to shareholders	**104**	107

Notes to the Financial Statements

For the year ended 30 June 2017

4 Premium Income

$ millions For the year ended 30 June	Note	2017	2016
Life insurance contract premiums		**714**	689
Life investment contract deposit premiums and fee income		**25**	31
Total premiums		**739**	720
Less: Deposit premiums recognised as an increase in life investment contract liabilities	17	**(24)**	(29)
Total premium income		**715**	691
Less: Reinsurance expense		**(50)**	(49)
Total net premium income		**665**	642

5 Investment Income

$ millions For the year ended 30 June	2017	2016
Dividends	**23**	23
Net realised and unrealised gains/(losses)	**59**	(13)
Total equity securities and fund certificates	**82**	10
Dividends	**5**	4
Net realised and unrealised (losses)/gains	**(6)**	3
Total property securities	**(1)**	7
Interest	**50**	56
Net realised and unrealised (losses)/gains	**(54)**	41
Total fixed interest securities and cash	**(4)**	97
Net realised and unrealised gains	**19**	53
Total derivatives	**19**	53
Total investment income	**96**	167

6 Claims Expense

$ millions For the year ended 30 June	Note	2017	2016
Death, disability and medical claims		**335**	333
Maturities		**43**	35
Surrenders		**167**	98
Annuities		**4**	4
Total claims		**549**	470
Less: Claims recognised as a decrease in life investment contract liabilities	17	**(167)**	(96)
Total claims expense		**382**	374
Less: Reinsurance recoveries		**(34)**	(39)
Total net claims expense		**348**	335

Notes to the Financial Statements

For the year ended 30 June 2017

7 Other Operating Expenses

$ millions For the year ended 30 June	Life Insurance contracts 2017	 2016	Life Investment contracts 2017	 2016	Total 2017	 2016
Initial commission	56	52	-	-	56	52
Other acquisition expenses	64	63	2	2	66	65
Policy acquisition expenses	120	115	2	2	122	117
Renewal commission	90	87	3	3	93	90
Other maintenance expenses	66	74	2	2	68	76
Policy maintenance expenses	156	161	5	5	161	166
Investment management expenses	1	3	1	2	2	5
Total life expenses	277	279	8	9	285	288
Other expenses					1	3
Total other operating expenses					286	291
Included above:						
Operating lease expenses					5	5
Amortisation of intangible assets					6	6
Depreciation					2	2
Employee benefits expense						
Wages and salaries					79	82
Defined contribution plan expense					2	2
Fiduciary expenses					2	2

8 Auditor's Remuneration

$ thousands For the year ended 30 June	2017	2016
PricewaterhouseCoopers is the appointed auditor of the Group for the current and prior year.		
Fees paid to PricewaterhouseCoopers are as follows:		
Fees for the audit and review of financial statements	945	912
Review of controls relating to superannuation schemes	22	20
Audit of solvency return	39	40
Risk assessment audit of anti-money laundering and counter financing of terrorism	15	-
Other assurance related services	11	11

Other assurance related services include work performed over the off-quarter disclosure statements and other agreed upon procedures.

9 Taxation

$ millions For the year ended 30 June	Note	2017	2016
Current taxation		31	45
Deferred taxation	18	(23)	54
Total taxation charged to the Income Statement		8	99

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

	2017	2016
Net profit before taxation	112	206
Income tax at the current rate of 28% (2016 28%)	31	58
Investment income adjustments	(12)	5
Imputation credit adjustments	(2)	(2)
Movement in investment contract liabilities and adjustments	14	4
Movement in insurance contract liabilities, reserves and adjustments	(19)	46
Other non-deductible expenditure	-	1
Prior period adjustments	(4)	(13)
Total taxation charged to the Income Statement	8	99
Weighted average effective tax rate	7%	48%

Notes to the Financial Statements

For the year ended 30 June 2017

10 Imputation Credit Account

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

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

The amount of imputation credits available to all members of the ICA Group as at 30 June 2017 is $936 million (30 June 2016 $727 million). This amount includes imputation credits that will arise from the payment of the provision for income tax and from the receipt of dividends recognised as receivables as at the reporting date, and imputation debits that will arise from the payment of dividends recognised as payables as at the reporting date.

11 Securities

$ millions **As at 30 June**	Note	**2017**	2016
Equity securities and fund certificates		**681**	734
Fixed interest securities			
New Zealand government stock		**710**	664
Corporate bonds		**25**	28
Foreign government stock		**104**	158
Total fixed interest securities	11(a)	**839**	850
Property securities		**74**	83
Loans on policies		**-**	23
Total securities		**1,594**	1,690

As at 30 June 2017 no investments were pledged under repurchase agreements or other arrangements (30 June 2016 nil). A maturity analysis for equity securities and fund certificates and property securities has not been presented because these investments are liquid assets and the timing of realisation is not known.

(a) Fixed Interest Securities

	2017	2016
Maturity analysis:		
Under one year	**6**	3
Between one and two years	**9**	7
Between two and three years	**7**	12
Between three and four years	**38**	38
Between four and five years	**7**	64
Greater than five years	**772**	726
	839	850

12 Cash and Cash Equivalents

$ millions **As at 30 June**	**2017**	2016
Cash at bank and on deposit	**534**	561
Foreign currency deposits	**2**	3
Total cash and cash equivalents	**536**	564

Notes to the Financial Statements

For the year ended 30 June 2017

13 Principal Subsidiaries

The Group has an interest in the following entities:

Entity Name	%	Nature of Business	Balance Date
Sovereign Services Limited	100	Administration services	30 June
Sovereign Superannuation Funds Limited	100	Superannuation scheme manager	30 June
Westside Properties Limited	100	Asset leasing	30 June

All entities were incorporated in New Zealand.

14 Intangible Assets

$ millions	Life investment contract deferred acquisition costs	Internally developed software	Other intangible assets	Total
Gross carrying value				
Balance at 1 July 2016	**9**	**22**	**6**	**37**
Additions	**-**	**6**	**1**	**7**
Disposals and write-offs	**(2)**	**(5)**	**(1)**	**(8)**
Balance as at 30 June 2017	**7**	**23**	**6**	**36**
Accumulated amortisation and impairment losses				
Balance at 1 July 2016	**-**	**(19)**	**(3)**	**(22)**
Amortisation expense	**(2)**	**(2)**	**(2)**	**(6)**
Disposals and write-offs	**2**	**5**	**1**	**8**
Balance as at 30 June 2017	**-**	**(16)**	**(4)**	**(20)**
Net carrying value at 30 June 2017	**7**	**7**	**2**	**16**
Gross carrying value				
Balance at 1 July 2015	10	22	9	41
Additions	-	1	1	2
Disposals and write-offs	(1)	(1)	(4)	(6)
Balance as at 30 June 2016	9	22	6	37
Accumulated amortisation and impairment losses				
Balance at 1 July 2015	-	(16)	(4)	(20)
Amortisation expense	(1)	(3)	(2)	(6)
Disposals and write-offs	1	-	3	4
Balance as at 30 June 2016	-	(19)	(3)	(22)
Net carrying value at 30 June 2016	9	3	3	15

15 Trade and Other Receivables

$ millions As at 30 June	Note	2017	2016
Investment receivables		**16**	21
Outstanding premiums		**17**	16
Amounts due from related parties	22	**1**	1
Amounts due from reinsurers		**12**	12
Agent balances receivables		**1**	2
Other assets		**1**	1
Total trade and other receivables		**48**	53

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

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Notes to the Financial Statements

For the year ended 30 June 2017

16 Retirement Benefit Surplus

Actuarial gains and losses are recognised in full each year.

The Prudential Assurance Co NZ Limited Pension Scheme (Prudasco) is a defined benefit plan. The last full triennial actuarial review was completed in 2016. As at 30 November 2016, Prudasco was wound up. As such, the present value of funded obligations and the fair value of fund assets is reported as nil as at 30 June 2017.

SSRF is a superannuation scheme with a defined benefit section and a defined contribution section. The last full triennial actuarial review was completed in 2016. The next triennial actuarial review is scheduled for 31 March 2019.

$ millions	Prudasco		SSRF	
As at 30 June	**2017**	2016	**2017**	2016
Reconciliation of amounts recognised in the Balance Sheet				
Present value of funded obligations	**-**	(3)	**(3)**	(4)
Fair value of fund assets	**-**	3	**9**	9
Surplus	**-**	-	**6**	5
Adjustment for limit on the use of net assets *	**-**	-	**(6)**	(4)
Total retirement benefit surplus (inclusive of specified superannuation contribution withholding tax)	**-**	-	**-**	1

* SSRF's estimated net assets at 30 June 2017 were $9 million (30 June 2016 $9 million), 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.

17 Life Insurance and Life Investment Contract Liabilities

$ millions	Life insurance contracts		Life investment contracts	
For the year ended 30 June	**2017**	2016	**2017**	2016
Reconciliation of movements in policy liabilities				
Balance at the beginning of the period	**146**	179	**835**	889
(Decrease)/increase in liabilities recognised in the Income Statement, excluding reinsurance	**(27)**	(33)	**52**	17
Loans on policies recognised as a decrease in policy liabilities	**(19)**	-	**-**	-
Decrease in deferred fee income reserve recognised in the Income Statement	**-**	-	**(5)**	(4)
Deposit premium recognised as an increase in policy liabilities	**-**	-	**24**	29
Claims recognised as a decrease in policy liabilities	**-**	-	**(167)**	(96)
Total policy liabilities	**100**	146	**739**	835

	Life insurance contracts			
$ millions	**Under one year**	**Between one and five years**	**Greater than five years**	**Total**
Expected realisation maturity analysis				
Expected realisation of policy liabilities as at 30 June 2017	**(13)**	**(26)**	**139**	**100**
Expected realisation of policy liabilities as at 30 June 2016	(13)	(24)	183	146

The maturity value of life investment contract liabilities is determined by the fair value of the linked assets at maturity date. Refer to note 31 for a contractual maturity analysis of life investment contract liabilities.

$ millions	Life insurance contracts		Life investment contracts	
For the year ended 30 June	**2017**	2016	**2017**	2016
Liabilities ceded under reinsurance				
Balance at the beginning of the period	**9**	12	**-**	-
Increase/(decrease) in liabilities ceded under reinsurance recognised in the Income Statement	**4**	(3)	**-**	-
Total liabilities ceded under reinsurance	**13**	9	**-**	-
Maturity analysis				
Under one year	**11**	10	**-**	-
Greater than one year	**2**	(1)	**-**	-
	13	9	**-**	-

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17 Life Insurance and Life Investment Contract Liabilities (continued)

$ millions **For the year ended 30 June**	**Life insurance contracts** **2017**	 2016
Policy liabilities related to guarantees		
Policy liabilities with a discretionary participation feature	**639**	719
Valuation of policy liabilities		
Cash flows net of tax:		
Future policy benefits	**7,447**	7,360
Future bonuses	**82**	61
Future expenses	**3,103**	3,160
Future planned margins of revenue over expenses	**1,175**	1,253
Future premiums	**(11,265)**	(11,229)
Unvested policyholder benefits	**72**	73
Deferred tax gross up	**(514)**	(532)
Total policy liabilities	**100**	146

Life investment contract policy liabilities with an investment performance guarantee at 30 June 2017 were $7 million (30 June 2016 $9 million).

Life insurance contract liabilities future net cash inflows		
Under one year	**311**	300
Between one and five years	**1,038**	1,000
Greater than five years	**3,889**	3,678
	5,238	4,978

The table above shows the estimated timing of undiscounted 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 undiscounted to the reporting date using the assumed future investment earning rate for each product.

18 Deferred Taxation Liability

$ millions **For the year ended 30 June**	**2017**	2016
Balance at beginning of year	**532**	478
Recognised in the Income Statement	**(23)**	54
Total deferred taxation liability	**509**	532
Deferred taxation relates to:		
Life insurance and life investment contract liabilities	**510**	527
Other	**(1)**	5
Total deferred taxation liability	**509**	532
Deferred taxation recognised in the Income Statement:		
Life insurance and life investment contract liabilities	**(17)**	55
Other	**(6)**	(1)
Total deferred taxation recognised in the Income Statement	**(23)**	54

Notes to the Financial Statements

For the year ended 30 June 2017

19 Trade and Other Payables

$ millions As at 30 June	2017	2016
Outstanding claims	**54**	43
Expense creditors	**13**	16
Prepaid premiums	**11**	10
Employee benefits	**15**	13
Investment creditors	**4**	7
Agent balances	**6**	5
Amounts due to reinsurers	**1**	1
Other payables	**4**	-
Total trade and other payables	**108**	95

As at 30 June 2017 all trade and other payables have an expected settlement date of less than 12 months, with the exception of $3m long term employee benefits (30 June 2016 $3m) and $4m other payables (30 June 2016 nil).

A maturity analysis of current and non-current financial liabilities is presented in note 31.

20 Contributed Capital

$ millions As at 30 June	2017	2016
Issued ordinary share capital		
Balance at beginning of year	**540**	540
Balance at end of year	**540**	540

Share capital includes 4,805,849 ordinary shares paid to $74.22 and 183,000,000 ordinary shares paid to $1.00 (30 June 2016 4,805,849 ordinary shares paid to $74.22 and 183,000,000 ordinary shares paid to $1.00).

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

Dividend on ordinary shares for the year ended 30 June 2017 was $82m (30 June 2016 $132m), equating to $0.44 per share (30 June 2016 $0.70).

Notes to the Financial Statements

For the year ended 30 June 2017

21 Capital 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 SACL Board has ultimate responsibility for compliance with the solvency standard and managing capital. The SACL 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 IPSA. Under its licence, the RBNZ requires SACL to hold a solvency margin of at least $0 (30 June 2016 $0) for each life fund. SACL has two life funds, the Statutory Fund and the Other Fund.

If the SACL 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 SACL BARC approves the methodology and basis for determining target surplus.

The solvency position of SACL for the two life funds is as follows:

$ millions	Sovereign Statutory Fund	Other Fund	Total
For the year ended 30 June 2017			
Actual solvency capital	**602**	**111**	**713**
Minimum solvency capital	**482**	**91**	**573**
Solvency margin	**120**	**20**	**140**
Solvency ratio	**125%**	**123%**	**125%**
For the year ended 30 June 2016			
Actual solvency capital	576	119	695
Minimum solvency capital	497	92	589
Solvency margin	79	27	106
Solvency ratio	116%	129%	118%

Notes to the Financial Statements

For the year ended 30 June 2017

22 Related Party Transactions and Balances

$ millions For the year ended 30 June	2017	2016

During the year ended 30 June 2017, the Group has entered into, or had in place, financial transactions with the following reporting entities:

- The Commonwealth Bank of Australia Group (the Overseas Banking Group) is domiciled in Australia and comprises CBA, the worldwide activities of CBA, and its controlled entities; and
- The CBA New Zealand Banking Group (the NZ Banking Group) refers to all New Zealand operations of the Overseas Banking Group, primarily comprising ASB Bank Limited (ASB).

Arrangements with related parties were conducted on an arm's length basis and on normal commercial terms, and within the Group's approved policies. Loans to and borrowings from related parties are unsecured.

Related Party Transactions

	2017	2016
Income		
Interest received from NZ Banking Group	4	7
Interest and dividends received from Overseas Banking Group	8	7
Fees received from NZ Banking Group	2	3
Fees received from superannuation schemes managed by a subsidiary of SACL	1	2
Net realised/unrealised gains/(losses) on fund certificates managed by the Overseas Banking Group	45	(36)
Net realised/unrealised gains on derivatives issued by the NZ Banking Group	19	53
	79	36
Expenses		
Paid to Overseas Banking Group for investment management services	1	1
Paid to NZ Banking Group for administrative services	12	12
Paid to NZ Banking Group for insurance commission	42	39
	55	52

Related Party Balances

	2017	2016
Overseas Banking Group		
Assets		
Securities*	377	400
NZ Banking Group		
Assets		
Cash and cash equivalents	204	223
Trade and other receivables	1	1
Derivative assets	11	29
	216	253
Liabilities		
Derivative liabilities	1	1
Tax liabilities	-	6
	1	7

* This balance represents investments in external fund certificates issued by the Overseas Banking Group, whereby the underlying exposure to related party securities is $1m as at 30 June 2017 (30 June 2016 $1m).

Refer to the Statement of Changes in Equity and note 20 for details of dividends paid to the Shareholder.

The Group is the sponsor, investment manager and assists with administration of one off-balance sheet employee superannuation scheme (refer note 16).

On 30 November 2016, the Prudasco scheme was wound up. The scheme was managed by a subsidiary of SACL. Just prior to the wind up, SACL issued Sovereign Superannuation Trustees Limited, the trustee of the scheme, with annuity policies with benefits comparable to those offered by the scheme prior to its termination. On 1 December 2016 the scheme's assets, totalling $3m, were transferred to SACL.

Notes to the Financial Statements

For the year ended 30 June 2017

23 Directors and Key Management Personnel

$ millions For the year ended 30 June	2017	2016
Short term employee benefits	**5**	5
Directors fees	**1**	1
Total directors and key management personnel compensation	**6**	6

$ millions As at 30 June	2017	2016
Provisions for short term benefits	**1**	1
Provisions for long term benefits	**2**	2

Key management personnel are defined as members of the executive leadership team. The Group has no other material transactions or balances with directors and key management personnel.

24 Leasing Commitments and Capital Commitments

$ millions As at 30 June	2017	2016
The following non-cancellable operating lease commitments existed at the end of the year:		
Within one year	**5**	5
Between one and five years	**21**	18
Over five years	**18**	20
Total leasing commitments	**44**	43

All of the Group's leases are classified as operating leases as a significant portion of the risks and rewards of ownership are retained by the lessor.

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 will be applied to the annual lease cost. SSL has a number of other properties under operating leases. The leases have a variety of lease periods and a number of the leases contain options to renew. Payments made under operating leases are charged to the Income Statement on a straight-line basis over the period of the lease.

Capital commitments

The group has no material capital commitments as at 30 June 2017 (30 June 2016 nil).

25 Fair Value of Financial Instruments

The Group's financial assets and financial liabilities are measured on an on-going basis either at fair value or amortised cost.

The fair value of a financial instrument is the price that would be received to sell a financial asset, or paid to transfer a financial liability, in an orderly transaction between market participants at the measurement date.

A significant number of financial instruments are carried on the Balance Sheet at fair value. The best evidence of fair value is a quoted market price in an active market. Therefore, where possible, fair value is based on quoted market prices. Where a quoted market price for a financial instrument is not available, its fair value is based on present value estimates or other valuation techniques based on current market conditions. These valuation techniques rely on market observable inputs wherever possible, or in limited instances, rely on inputs which are unobservable but are reasonable assumptions based on market conditions.

There are three levels in the hierarchy of fair value measurements which are based on the inputs used to measure fair values:

- Level 1: inputs are quoted prices (unadjusted) in active markets for identical financial assets or financial liabilities that the Group can access. Level 1 assets comprise:
  Equity and property securities measured based on the bid market price quoted by the stock exchange.
  External fund certificates measured based on the unadjusted unit price provided from the fund manager.
  Bank bonds and government bonds measured based on a quoted bid market price or third party pricing information.
- Level 2: where quoted market prices are not available, fair values have been estimated using present value or other valuation techniques using inputs that are observable for the financial asset or financial liability, either directly or indirectly. Level 2 assets comprise:
  External fund certificates measured based on the most recently available unit price from the fund manager at the time of valuation, adjusted appropriately using market observable benchmarks to accurately reflect the fair value.
  Corporate bonds measured based on third party pricing information.
  Held for trading foreign exchange contracts measured based on market observable foreign currency inputs sourced from third party pricing information.
- Level 3: Fair values are estimated using inputs that are unobservable for the financial asset or financial liability.

No material transfers between levels have occurred during the reporting period for which the financial statements are prepared.

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25 Fair Value of Financial Instruments (continued)

(a) Fair Value of Financial Instruments Measured at Fair Value

The following table presents an analysis by level in the fair value hierarchy of the fair value measurements of financial statements that are recognised and measured at fair value on a recurring basis.

$ millions	Level 1	Level 2	Level 3	Total
As at 30 June 2017				
Financial assets				
Securities				
Equity securities and fund certificates	**224**	**457**	**-**	**681**
Fixed interest securities	**825**	**14**	**-**	**839**
Property securities	**74**	**-**	**-**	**74**
Derivative assets	**-**	**11**	**-**	**11**
Total financial assets measured at fair value	**1,123**	**482**	**-**	**1,605**
Financial liabilities				
Derivative liabilities	**-**	**1**	**-**	**1**
Life investment contract liabilities	**-**	**739**	**-**	**739**
Total financial liabilities measured at fair value	**-**	**740**	**-**	**740**
As at 30 June 2016				
Financial assets				
Securities				
Equity securities and fund certificates	233	501	-	734
Fixed interest securities	850	-	-	850
Loans on policies	-	-	23	23
Property securities	83	-	-	83
Derivative assets	-	29	-	29
Total financial assets measured at fair value	1,166	530	23	1,719
Financial liabilities				
Derivative liabilities	-	1	-	1
Life investment contract liabilities	-	835	-	835
Total financial liabilities measured at fair value	-	836	-	836

(b) Fair Value of Financial Instruments Not Measured at Fair Value

The following table sets out and compares the fair values of financial instruments not measured at fair value with their carrying amounts.

$ millions As at 30 June 2017	Fair Value	Carrying Value
Financial Assets		
Cash and cash equivalents	**536**	**536**
Trade and other receivables	**48**	**48**
Total financial assets not measured at fair value	**584**	**584**
Financial Liabilities		
Trade and other payables	**82**	**82**
Total financial liabilities not measured at fair value	**82**	**82**

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Notes to the Financial Statements

For the year ended 30 June 2017

25 Fair Value of Financial Instruments (continued)

(b) Fair Value Hierarchy of Financial Instruments Not Measured at Fair Value (continued)

$ millions As at 30 June 2016	Fair Value	Carrying Value
Financial Assets		
Cash and cash equivalents	564	564
Trade and other receivables	53	53
Total financial assets not measured at fair value	617	617
Financial Liabilities		
Trade and other payables	72	72
Total financial liabilities not measured at fair value	72	72

26 Categories of Financial Instruments

	At Fair Value through Income Statement		At Amortised Cost			
$ millions	Held for Trading	Designated on Initial Recognition	Loans and Receivables	Financial Liabilities	Total	Fair Value

The following tables summarise the carrying amounts and fair values of categories of financial assets and financial liabilities. Refer to note 1f for a description of the categories and how fair values are estimated.

$ millions	Held for Trading	Designated on Initial Recognition	Loans and Receivables	Financial Liabilities	Total	Fair Value
As at 30 June 2017						
Financial assets						
Cash and cash equivalents	-	-	536	-	536	536
Trade and other receivables	-	-	48	-	48	48
Securities	-	1,594	-	-	1,594	1,594
Derivative assets	11	-	-	-	11	11
Total financial assets	11	1,594	584	-	2,189	2,189
Financial liabilities						
Trade and other payables	-	-	-	82	82	82
Derivative liabilities	1	-	-	-	1	1
Life investment contracts	-	739	-	-	739	739
Total financial liabilities	1	739	-	82	822	822
As at 30 June 2016						
Financial assets						
Cash and cash equivalents	-	-	564	-	564	564
Trade and other receivables	-	-	53	-	53	53
Securities	-	1,690	-	-	1,690	1,690
Derivative assets	29	-	-	-	29	29
Total financial assets	29	1,690	617	-	2,336	2,336
Financial liabilities						
Trade and other payables	-	-	-	72	72	72
Derivative liabilities	1	-	-	-	1	1
Life investment contracts	-	835	-	-	835	835
Total financial liabilities	1	835	-	72	908	908

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27 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	2017	2016
ASB Bank Limited	AA-	AA-
Westpac New Zealand Limited	AA-	AA-
ANZ Bank New Zealand Limited	AA-	AA-
Citibank NA	A+	A

Securities

The Group holds fixed interest securities issued by counterparties with the following S&P credit ratings:

As at 30 June	2017	2016	2017	2016	2017	2016
$ millions	Investment-linked*		Non-Linked		Total	
Ratings						
AAA	-	-	4	7	4	7
AA+	32	35	753	746	785	781
AA	2	3	32	41	34	44
AA-	11	12	-	-	11	12
A+	2	3	-	-	2	3
A-	3	3	-	-	3	3
Total fixed interest securities	50	56	789	794	839	850

* 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 they are not subject to credit risk.

Derivative Financial Instruments

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

Investment Receivables

This balance comprises outstanding sales, accrued interest, and outstanding dividends. All outstanding sales have subsequently been settled. The credit ratings of counterparties for which accrued interest arises are disclosed in the table above. Credit risk associated with outstanding dividends is deemed to be negligible.

Outstanding Premiums

Outstanding premiums are primarily aged less than 90 days, and in the case of participating policies, have surrender values that are equal to or greater than the premium amount outstanding.

Amounts Due from Reinsurers

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

As at 30 June	Rating Agency	2017	Rating Agency	2016
General Reinsurance Life Australia Limited	S&P	AA+	S&P	AA+
RGA Reinsurance Company of Australia Limited	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-
Lloyd's	S&P	A+	S&P	A
Assicurazioni Generali S.P.A.	AM Best	A	AM Best	A

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28 Disaggregated Information

	Sovereign Statutory Fund			Other Fund
$ millions	Life insurance contracts	Life investment contracts	Total	

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

$ millions	Life insurance contracts	Life investment contracts	Total	Other Fund
For the year ended 30 June 2017				
Premium income	**633**	**1**	**634**	**82**
Investment income	**23**	**72**	**95**	**4**
Claims expense	**332**	**-**	**332**	**50**
Other operating expenses	**257**	**8**	**265**	**31**
Investment income paid or allocated to policyholders	**19**	**72**	**91**	**-**
Net profit before tax	**86**	**18**	**104**	**1**
Net profit after tax	**88**	**10**	**98**	**2**
Net distributions made from funds	**(73)**	**-**	**(73)**	**(9)**
For the year ended 30 June 2016				
Premium income	612	2	614	78
Investment income	120	45	165	1
Claims expense	328	-	328	46
Other operating expenses	253	9	262	27
Investment income paid or allocated to policyholders	88	45	133	-
Net profit before tax	154	25	179	24
Net profit after tax	78	10	88	17
Net distributions made from funds	(146)	-	(146)	14
As at 30 June 2017				
Life insurance contract liabilities/(assets)	**202**	**-**	**202**	**(102)**
Life investment contract liabilities	**-**	**739**	**739**	**-**
Other liabilities	**582**	**1**	**583**	**29**
Retained profits/(losses) directly attributable to shareholders	**222**	**6**	**228**	**(10)**
Investment assets	**969**	**625**	**1,594**	**-**
Other assets	**427**	**105**	**532**	**83**
As at 30 June 2016				
Life insurance contract liabilities/(assets)	252	-	252	(106)
Life investment contract liabilities	-	835	835	-
Other liabilities	601	6	607	34
Retained profits/(losses) directly attributable to shareholders	199	4	203	(2)
Investment Assets	999	688	1,687	3
Other Assets	449	135	584	89

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28 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. 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			Other Fund
$ millions	Life insurance contracts	Life investment contracts	Total	
For the year ended 30 June 2017				
Participating net profit after tax	**3**	**-**	**3**	**-**
Non-participating net profit after tax	**85**	**10**	**95**	**2**
Net profit allocated to shareholders	**88**	**10**	**98**	**2**
For the year ended 30 June 2016				
Participating net profit after tax	4	-	4	-
Non-participating net profit after tax	74	10	84	17
Net profit allocated to shareholders	78	10	88	17

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29 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, market, liquidity, 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:

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 manage business disruption risk. 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 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 reviews of the Group's operations are performed 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.

29 Risk Management Policies (continued)

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 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 shareholders' equity. The impact may be magnified if the variation leads to a change in actuarial assumptions which cannot be absorbed within the present value of planned margins for a group of related products.

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

Concentrations of insurance risk arise due to:

- Large sums assured on certain individuals. The largest exposures all relate to mortality.
- Geographic concentrations due to employee group schemes. SACL participates in the CBA catastrophe cover reinsurance programme which provides cover of AUD90 million for single event claims in excess of AUD20 million.
- Geographic concentrations due to a pandemic affecting lives in a certain country or region. SACL has pandemic reinsurance cover which provides cover for abnormally high mortality claims cost due to a pandemic of $60 million in excess of 125% of the expected annual mortality claims cost.

Terms and conditions of life 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 inception of the policy.	- Longevity - Market returns on underlying assets

29 Risk Management Policies (continued)

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.

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 to profits from an increase in discontinuance rates.

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

$ millions		Change in following financial year's net profit after tax and shareholders' equity			
As at 30 June		2017		2016	
Insurance risks		Before reinsurance	After reinsurance	Before reinsurance	After reinsurance
Mortality	Improvement by 10%	22	10	17	12
	Deterioration by 10%	(33)	(21)	(34)	(29)
Morbidity	Improvement by 10%	8	5	9	5
	Deterioration by 10%	(35)	(32)	(56)	(52)
Discontinuance	Improvement by 20%	10	2	-	-
	Deterioration by 20%	(13)	(8)	(2)	(1)
Expenses	Increase by 10%	(4)	(4)	(4)	(4)
	Decrease by 10%	4	4	4	4

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 loans to agents, foreign currency contracts and trade receivables. 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.

Investment concentrations for shareholder funds are managed within established guidelines and limits set by the Asset and Liability Committee (ALCO). Some criteria are referred to the SACL BARC for approval. 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 investments 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. The impact on the fair value of life investment contract liabilities due to changes in credit risk is nil (30 June 2016 nil), except to the extent that the market value of securities backing life investment contract liabilities is affected by changes in credit risk. Any such credit risk impact is reflected in the movement of securities balances during the year.

The credit ratings of counterparties are disclosed in note 27.

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 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 17 and 31 respectively.

Notes to the Financial Statements

For the year ended 30 June 2017

29 Risk Management Policies (continued)

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 in accordance with the policyholders' fund selections.

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 shareholders' funds held in the Group. Appropriate investment mandates are set by ALCO for the investment of shareholders' funds. As at 30 June 2017, shareholders' funds in the Group were invested 1% (30 June 2016 1%) in growth assets (equity and property) and 99% (30 June 2016 99%) in income assets (cash and fixed interest).

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 offshore. As at 30 June 2017 foreign currency denominated investments amounted to 29% (30 June 2016 32%) 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.

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 2016 66%) and fixed interest investments denominated in a foreign currency have a hedging ratio of 100% (30 June 2016 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.

For fixed interest investments 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.

The Group reduces interest rate risk by seeking to match the cash flows of assets and liabilities.

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.

Notes to the Financial Statements

For the year ended 30 June 2017

29 Risk Management Policies (continued)

Market Risk (continued)

(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.

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		Change in following financial year's profit after tax and shareholders' equity			
As at 30 June		**2017**		2016	
Market risks		**Before reinsurance**	**After reinsurance**	Before reinsurance	After reinsurance
Equity prices	Favourable by 10%	**1**	**1**	1	1
	Adverse by 10%	**(1)**	**(1)**	(1)	(1)
Interest rates	Increase of 100 bps	**(16)**	**(13)**	(18)	(15)
	Decrease of 100 bps	**17**	**14**	19	14

30 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 enters into foreign currency forward contracts as economic hedges to manage currency risk (refer note 1f). 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.

Face and Fair Values

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 exchanged and does not indicate the Group's exposure to credit risk. The amount predominantly acts as a reference value upon which the 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.

Notes to the Financial Statements

For the year ended 30 June 2017

30 Derivative Financial Instruments (continued)

The fair values of derivative financial instruments held are set out in the following table:

$ millions As at 30 June	2017	2016
Financial instruments subject to enforceable master netting agreements		
Forward contract assets	**11**	29
Total derivative financial assets	**11**	29
Forward contract liabilities	**1**	1
Total derivative financial liabilities	**1**	1
Total net derivative financial instruments *	**10**	28

* Whilst master netting arrangements are in place, derivative assets and derivative liabilities are presented gross on the balance sheet. The Group does not have any collateral arrangements in relation to these financial instruments.

	2017	2016
Currency contracts face value		
Forward contract assets	**387**	588
Forward contract liabilities	**125**	49

31 Maturity Analysis of Financial Liabilities

$ millions	On Demand	Within 6 Months	Between 6 - 12 Months	Between 1 - 2 Years	Between 2 - 5 Years	Over 5 Years	Total	Carrying Value
As at 30 June 2017								
Non derivative financial liabilities								
Trade and other payables	**6**	**72**	-	-	-	**4**	**82**	**82**
Life investment contracts	**677**	**2**	**2**	**6**	**13**	**46**	**746**	**739**
	683	**74**	**2**	**6**	**13**	**50**	**828**	**821**
Derivative financial liabilities								
Inflows from derivatives	-	**125**	-	-	-	-	**125**	
Outflows from derivatives	-	**(126)**	-	-	-	-	**(126)**	
	-	**(1)**	-	-	-	-	**(1)**	
As at 30 June 2016								
Non derivative financial liabilities								
Trade and other payables	5	67	-	-	-	-	72	72
Life investment contracts	596	11	10	28	74	176	895	835
	601	78	10	28	74	176	967	907
Derivative financial liabilities								
Inflows from derivatives	-	49	-	-	-	-	49	
Outflows from derivatives	-	(50)	-	-	-	-	(50)	
	-	(1)	-	-	-	-	(1)	

The above analysis is based on contractual undiscounted cash flows. Where the counterparty has discretion in requesting payment, liabilities have been classified according to the earliest time period in which the Group may be required to pay. Refer to note 29 for details of how the Group manages liquidity risk.

32 Funds Under Management and Administration

The Group manages and administers investment products that are closed to new business. As at 30 June 2017 the Group had $737 million funds under management and administration (30 June 2016 $897 million). The Group utilises external fund managers and investment consultants in the management of these funds, including entities which are fellow CBA subsidiaries (refer note 22).

33 Events after the Reporting Period

There were no events subsequent to the reporting period which would materially affect the financial statements.

Independent auditor's report

To the shareholder of Sovereign Assurance Company Limited

Sovereign Assurance Company Limited's consolidated financial statements comprise:

- the balance sheet as at 30 June 2017;
- the income statement and statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the cash flow statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion the financial statements of Sovereign Assurance Company Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2017, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of controls assurance over related entities, assurance engagement over the solvency return, anti-money laundering and counter financing of terrorism processes and an agreed upon procedures engagement. The provision of these other services has not impaired our independence. In addition, certain partners and employees of our firm may deal with the Company on normal terms within the ordinary course of trading activities of the Company.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the consolidated financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-5/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholder. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholder, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Karl Deutschle.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
2 August 2017

Auckland

Appointed Actuary's Report

To the Directors of Sovereign Assurance Company Limited

This Appointed Actuary's report under Sections 77 and 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 2017.

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 Business 2014 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 crediting and bonus rates used for participating and investment account contracts;
- (ix) the analysis of SACL's profit and the movement in the solvency margin;
- (x) the sensitivity of SACL's profit to changes in insurance and market risk assumptions;
- (xi) the assumptions used in the calculation of the Policy Liability and the solvency margin and the impacts of changes in those assumptions;

(xii) the methodology used to calculate the Policy Liability and the Solvency Margin;

(xiii) 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

(xiv) SACL's checks and controls over data, valuation and solvency calculation processes.

(c) Other than my relationship as appointed actuary, I am an employee of Sovereign Services Limited, a subsidiary of SACL. I do not have any other relationship with, or interests in, SACL or any of its subsidiaries. At the time of preparing this report, I was also Acting Chief Risk Officer for SACL

(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; and

(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 2017, 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 2017, 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 1 August **2017**

D Connett

Doune Connett
Appointed Actuary

Auckland