10059641049

SOVEREIGN ASSURANCE COMPANY LIMITED AND SUBSIDIARY

ANNUAL REPORT

For the year ended 30 June 2010

Directors' Report

The Directors have pleasure in presenting the Annual Report of Sovereign Assurance Company Limited and its subsidiary for the year ended 30 June 2010.

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 audit report.

For and on behalf of the Board

Director	Charles Anderson Director
19 October 2010	19 October 2010

SOVEREIGN ASSURANCE COMPANY LIMITED AND SUBSIDIARY

Financial Statements

For the year ended 30 June 2010

TABLE OF CONTENTS

INCOME STATEMENT

$ millions *For the year ended 30 June*	Note	Sovereign Assurance Company Limited Consolidated **2010**	 2009	 Parent **2010**	 2009
Premium income	4	**518**	488	**518**	488
Reinsurance income	5	**52**	61	**52**	61
Investment income	6	**177**	(100)	**182**	(101)
Management fees and other income	7	**-**	7	**-**	4
Total Operating income		**747**	456	**752**	452
Reinsurance expenses	5	**61**	69	**61**	69
Claims, surrenders and maturities	8	**362**	291	**362**	291
Net change in Life insurance contract liabilities	17	**(104)**	(188)	**(104)**	(188)
Net change in Life investment contracts	17	**29**	(105)	**29**	(105)
Commission and management expenses	9	**259**	261	**259**	257
Total Operating expenses		**607**	328	**607**	324
Net profit before taxation		**140**	128	**145**	128
Taxation	10	**22**	18	**22**	18
Net profit after taxation attributable to shareholder	3	**118**	110	**123**	110

These statements are to be read in conjunction with the notes on pages 6 to 40 and the Auditor's Report on pages 41 and 42.

STATEMENT OF COMPREHENSIVE INCOME

$ millions *For the year ended 30 June*	Note	Sovereign Assurance Company Limited Consolidated **2010**	 2009	 Parent **2010**	 2009
Net profit after taxation	3	**118**	110	**123**	110
Total Comprehensive income		**118**	110	**123**	110

STATEMENT OF CHANGES IN EQUITY

Contributed Capital					
Contributed capital	22	**452**	444	**452**	444
		452	444	**452**	444
Retained Earnings					
Retained earnings at beginning of year		**144**	60	**138**	54
Total Comprehensive income		**118**	110	**123**	110
Ordinary dividends paid		**(97)**	(26)	**(97)**	(26)
Retained earnings at end of year		**165**	144	**164**	138
Dividends per ordinary share (cents)		**90**	26	**90**	26

These statements are to be read in conjunction with the notes on pages 6 to 40 and the Auditor's Report on pages 41 and 42.

BALANCE SHEET

$ millions As at 30 June	Note	Sovereign Assurance Company Limited Consolidated **2010**	 2009	 Parent **2010**	 2009
ASSETS					
Financial Assets					
- Cash and cash equivalents	13	**532**	533	**527**	523
- Securities	12	**1,509**	1,493	**1,509**	1,493
- Derivative financial instruments	14	**16**	44	**16**	44
- Trade and other receivables	16	**43**	44	**43**	43
Reinsured Life insurance contracts	18	**67**	64	**67**	64
Current taxation asset		**57**	61	**56**	61
Deferred acquisition cost - Life investment contract liabilities		**18**	20	**18**	20
Deferred acquisition cost - other		**1**	1	**-**	-
Investment in subsidiaries	15	**-**	-	**7**	7
Total Assets		**2,243**	2,260	**2,243**	2,255
Financed by:					
LIABILITIES					
Life insurance contract liabilities	17	**270**	371	**270**	371
Financial Liabilities					
- Life investment contracts	17	**884**	917	**884**	917
- Derivative financial instruments	14	**6**	6	**6**	6
- Deposited reserves	18	**39**	39	**39**	39
- Amounts due to subsidiaries	24	**-**	-	**1**	-
- Trade and other payables	20	**126**	76	**126**	76
Deferred taxation liability	19	**301**	263	**301**	264
Total Liabilities		**1,626**	1,672	**1,627**	1,673
SHAREHOLDER'S EQUITY					
Contributed capital	22	**452**	444	**452**	444
Retained earnings		**165**	144	**164**	138
Total Shareholder's equity		**617**	588	**616**	582
Total Liabilities and Shareholder's equity		**2,243**	2,260	**2,243**	2,255

For and on behalf of the Board

[signature] Director

Charles Anderson Director

18 October 2010

18 October 2010

These statements are to be read in conjunction with the notes on pages 6 to 40 and the Auditor's Report on pages 41 and 42.

CASH FLOW STATEMENT

$ millions		Sovereign Assurance Company Limited			
		Consolidated		Parent	
For the year ended 30 June	Note	**2010**	2009	**2010**	2009
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash was provided from:					
Premium receipts		**578**	565	**578**	565
Dividend receipts		**11**	22	**16**	22
Interest receipts		**49**	62	**49**	61
Mortgage interest receipts		**-**	1	**-**	1
Management and other fees		**1**	2	**-**	-
Net receipts from related parties for tax related items		**23**	30	**23**	30
		662	682	**666**	679
Cash was applied to:					
Claims, surrenders and maturities payments		**437**	443	**437**	443
Net reinsurance payments		**6**	7	**6**	7
Commission payments		**139**	135	**139**	135
Payments to suppliers and employees		**117**	124	**117**	123
Tax payments		**4**	-	**4**	-
		703	709	**703**	708
Net Cash flows from operating activities		**(41)**	(27)	**(37)**	(29)
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash was provided from:					
Proceeds from sale of Securities		**1,143**	3,645	**1,143**	3,645
Net forward foreign exchange contract gains		**121**	-	**121**	-
		1,264	3,645	**1,264**	3,645
Cash was applied to:					
Purchase of Securities		**1,133**	3,382	**1,133**	3,382
Forward foreign exchange contract losses		**-**	151	**-**	151
Net movement in related party balances		**2**	1	**1**	-
		1,135	3,534	**1,134**	3,533
Net Cash flows from investing activities		**129**	111	**130**	112
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash was provided from:					
Issue of capital	22	**8**	-	**8**	-
		8	-	**8**	-
Cash was applied to:					
Dividends		**97**	26	**97**	26
Net Cash flows from financing activities		**(89)**	(26)	**(89)**	(26)

These statements are to be read in conjunction with the notes on pages 6 to 40 and the Auditor's Report on pages 41 and 42.

CASH FLOW STATEMENT *(continued)*

$ millions *For the year ended 30 June*	Note	Sovereign Assurance Company Limited Consolidated **2010**	 2009	 Parent **2010**	 2009
SUMMARY OF MOVEMENTS IN CASH FLOWS					
Net (decrease) / increase in Cash and cash equivalents		**(1)**	58	**4**	57
Add: *Cash and cash equivalents at beginning of year*		**533**	475	**523**	466
Cash and cash equivalents at end of year		**532**	533	**527**	523
Represented by:					
Cash at bank and on deposit	13	**528**	510	**523**	500
Foreign currency deposits	13	**4**	23	**4**	23
		532	533	**527**	523
RECONCILIATION OF NET PROFIT AFTER TAXATION TO NET CASH FLOWS FROM OPERATING ACTIVITIES					
Net profit after taxation	3	**118**	110	**123**	110
Add: Non-cash items and items classified as investing and financing activities					
Net realised and unrealised (gains) / losses		**(112)**	189	**(112)**	189
Non-cash dividends received		**(7)**	(7)	**(7)**	(7)
Deferred acquisition cost amortisation	9	**2**	3	**2**	3
Change in Life insurance contract liabilities recognised in Income Statement - decrease	17	**(104)**	(188)	**(104)**	(188)
Change in Life investment contracts recognised in Income Statement - increase / (decrease)	17	**29**	(105)	**29**	(105)
		(192)	(108)	**(192)**	(108)
Add: Movements in Balance Sheet items					
Trade and other receivables - decrease / (increase)		**3**	1	**2**	(1)
Trade and other payables - increase		**50**	3	**50**	2
Net Income tax liability - increase		**42**	48	**42**	49
Life insurance contract liabilities - savings premium, claims, maturities and surrenders (net)	17	**-**	-	**-**	-
Life investment contracts - savings premium, claims, maturities and surrenders (net)	17	**(62)**	(81)	**(62)**	(81)
		33	(29)	**32**	(31)
Net Cash flow from operating activities		**(41)**	(27)	**(37)**	(29)

These statements are to be read in conjunction with the notes on pages 6 to 40 and the Auditor's Report on pages 41 and 42.

Notes to the Financial Statements

For the year ended 30 June 2010

1. Statement of Accounting Policies

General Accounting Policies

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

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

The financial statements comply with the Financial Reporting Act 1993 and the Companies Act 1993. They were approved for issue by the Directors on 18 October 2010.

The following new standards and amendments to standards relevant to the Group are not yet effective and have not yet been applied in preparing the financial statements.

NZ IFRS 9 *Financial Instruments* replaces part of NZ IAS 39 *Financial Instruments* and will be mandatory for the Group's financial statements for the year beginning 1 July 2013. It establishes two primary measurement categories for financial assets: amortised cost and fair value, with classification depending on an entity's business model and the contractual cash flow characteristics of the financial asset. The impact of this standard on the financial statements of the Group has not yet been determined.

The following new accounting standards and amendments to standards relevant to the Group have been adopted from 1 July 2009 and have been applied in the preparation of these financial statements. Adoption of the standards has not resulted in any changes to the Group's reported profit or financial position.

NZ IAS 1 *Presentation of Financial Statements (revised)* has resulted in the presentation of a Statement of Comprehensive Income and a Statement of Changes in Equity. These statements have replaced the Statement of Recognised Income and Expense.

NZ IFRS 7 *Financial Instruments: Disclosures (revised)* has resulted in changes to the financial and descriptive information disclosed about the Group's financial instruments.

Basis of Preparation

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

Critical Accounting Judgements and Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The valuation of financial instruments (refer Note 28), Life insurance contract liabilities (refer Note 17), Life investment contracts (refer Note 17), Taxation (refer Note 19) and Provisions for impairment loss (refer Note 30) all require estimates to be made. Actual results could differ from these estimates, although other than for the computation of tax provisions, it is not anticipated that such differences would be material. Uncertainties exist with respect to the interpretation of complex tax regulations for life insurance activities. Given the complexity of life insurance tax legislation and the assumptions involved, adjustments to income tax expense in future years may be required.

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

Presentation Currency and Rounding

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

Particular Accounting Policies

There have been no material changes to accounting policies in the year ended 30 June 2010. All policies have been applied on a basis consistent with that used in the year ended 30 June 2009.

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

1. Statement of Accounting Policies *(continued)*

(a) Basis of Consolidation

Subsidiaries

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

Acquisition During the Year
Where an entity is acquired by the Group during the year, the results of that entity are included in the Income Statement of the Group from the date that control or significant influence commenced.

Group Company Acting as Superannuation Scheme Manager
The assets and liabilities of superannuation schemes managed by Sovereign Superannuation Funds Limited are not included in the Group financial statements.

(b) Foreign Currency Translation

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

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

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

(c) Revenue Recognition

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

Premium Income

(i) Life Insurance Contracts

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

(ii) Life Investment Contracts

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

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

Investment Income

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

Management Fee Income

Management fees are recognised on an accrual basis and are charged to the superannuation schemes managed by the Group in accordance with the trust deeds of the schemes.

Initial entry fee income is recognised as revenue at the outset of a 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 to a Deferred income reserve and is amortised as related services are provided.

Other Income

Other income is recognised on an accrual basis.

1. Statement of Accounting Policies *(continued)*

(d) Expense Recognition

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

Claims, Surrenders and Maturities

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

Other Expenses

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

Commission and Management Expenses

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

Acquisition Costs

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

Acquisition Costs - Life Insurance Contracts

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

Acquisition Costs - Life Investment Contracts and Managed Superannuation Schemes

Commission that varies with and is directly related to securing new contracts is capitalised as a Deferred acquisition cost asset. All other acquisition costs are recognised as expenses in the Income Statement when incurred. The Deferred acquisition cost asset is subsequently amortised over the life of the contract and recognised in the Income Statement. Unamortised acquisition costs are separately disclosed in the Balance Sheet.

Maintenance and Investment Management Expenses

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

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

Other

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

(e) Financial Instruments

Basis of Recognition and Measurement

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

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

Notes to the Financial Statements

For the year ended 30 June 2010

1. Statement of Accounting Policies *(continued)*

(e) Financial Instruments *(continued)*

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

Financial Assets at Fair Value Through Profit or Loss

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

Securities

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

Assets included within Securities are as follows:

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

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

(ii) Fixed Interest Securities

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

(iii) Mortgages and Loans on Policies

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

Derivative Assets

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

Reinsured Life Investment Contracts

Refer to (k) for details on reinsured Life investment contracts.

Available for Sale Financial Assets

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

Loans and Receivables

Assets in this category are recognised initially at fair value and are subsequently measured at amortised cost less any allowance for uncollectible amounts, and include:

Cash and Cash Equivalents

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

Trade and Other Receivables

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

Held to Maturity

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

Derecognition of Financial Assets

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

Financial Liabilities at Fair Value Through Profit or Loss

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

Investment Contracts

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

1. Statement of Accounting Policies *(continued)*

(e) Financial Instruments *(continued)*

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

Deposited Reserves
Refer to (k) for details on Deposited reserves.

Other Financial Liabilities
This category includes all financial liabilities other than those designated by the Group as fair value through profit or loss. Trade and other payables are in this category.

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

Derecognition of Financial Liabilities
A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

(f) Derivative Financial Instruments

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

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

Derivative Financial Instruments at Fair Value Through Profit or Loss

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

(g) Investments in Subsidiaries

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

(h) Offsetting Financial Instruments

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

(i) Taxation

Income tax on profit for the year comprises current and deferred tax. Income tax is recognised in the Income Statement.

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

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

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

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

1. Statement of Accounting Policies *(continued)*

(i) Taxation *(continued)*

Life Insurance Tax

Life insurers are subject to a special tax regime. Two tax bases are maintained; the life office base which is subject to tax on investment income less expenses plus underwriting income, and the policyholder base which seeks to tax benefits as they accrue to policyholders under the policies. The life insurer pays tax on the higher of the two bases at the company tax rate of 30% (30 June 2009 30%). The life insurer is able to use accumulated imputation credits generated in the life office base to meet any tax liability arising in the policyholder base. As the life insurer is taxed as proxy for the policyholder, returns to policyholders are tax exempt.

From 1 July 2010, the income tax regime applying to life insurers changes significantly. Life insurers will pay tax at the prevailing corporate tax rate on both the shareholder and the policyholder tax bases, life premiums will be taxable and life claims will be deductible. Transitional provisions have the effect of maintaining the previous rules for most policies in force on 30 June 2010 for a period of time (five years in most cases).

(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

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 18 *Revenue* and NZ IAS 39.

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

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

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

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

Profit is analysed into the following categories:

(i) Planned Margins of Revenues Over Expenses

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

(ii) The Difference Between Actual and Assumed Experience

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

(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.

Notes to the Financial Statements

For the year ended 30 June 2010

1. Statement of Accounting Policies *(continued)*

(k) Life Insurance Business *(continued)*

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

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

Life Investment Contracts

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

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

Identification of Assets Backing Life Investment Contracts

All contracts issued by the Group that are classified as Life insurance 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 that meet the definition of a Life insurance contract have been classified as an asset, Reinsured Life insurance contracts in the Balance Sheet. Reinsurance contracts that do not meet this definition have been classified as a financial asset, Reinsured Life investment contracts.

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

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

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

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

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

(l) Retirement Benefits Obligations

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

Defined Benefit Plans

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

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

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

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

(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.

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 reinsurance due to the rights of set off, and intercompany transactions including the group settlement of tax balances. Cash and cash equivalents are considered to be cash on hand, bank current accounts, cash on deposit and bank overdrafts. Cash flows are shown exclusive of Goods and Services Tax ("GST").

(o) Segment Reporting

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

(p) Fair Value Estimates

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

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

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

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

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

Notes to the Financial Statements

For the year ended 30 June 2010

1. Statement of Accounting Policies *(continued)*

GLOSSARY OF TERMS

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements

For the year ended 30 June 2010

2. Actuarial Policies and Methods

Policy liabilities and solvency reserves as at 30 June 2010 for the Group were prepared by Doune Connett FNZSA.

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

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

(a) Discount Rates

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

The discount rates used to determine Life insurance contract liabilities reflect the expected future gross returns on the Group's current asset mix. Fixed interest investments were assumed to earn 5.3% pa (30 June 2009 5.9% pa) and equity investments 9.3% pa (30 June 2009 9.9% pa). The discount rates used for individual classes of business varied between 5.3% and 7.1% (30 June 2009 5.9% and 6.8%).

Other Business

The discount rate used to determine Life insurance contract liabilities is a risk free discount rate. For annuities and traditional non-participating business a rate of 5.3% pa was used (30 June 2009 5.9% pa). For other risk business a rate of 4.7% pa was used (30 June 2009 4.8% pa). These rates were based on the 10 year government bond rate and the 5 year government bond rate respectively.

(b) Profit Carriers

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

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

(c) Investment and Maintenance Expenses

Future maintenance and investment expenses have been assumed at current levels in line with contractual fees set out in agreement with Sovereign Services Limited ("SSL") and ASB Group Investments Limited. Future inflation has been assumed to be 2.0% pa (30 June 2009 2.0% pa) for determining future expenses and inflation linked increases in benefits and premiums.

(d) Taxation

The rates of taxation enacted or substantially enacted at the date of the valuation are assumed to continue into the future. The corporate tax rate used was 30% up until 30 June 2011 and then 28% thereafter (30 June 2009 30%). Allowance has been made for the "fair dividend rate" rules that apply to global equities, where tax is paid on 5% of the market value of investments, regardless of the actual rate of investment income.

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

Assumptions are reviewed based on annual experience studies. There have been no significant changes in assumed mortality since 30 June 2009.

The proportions of the NZ97 adopted range from 53% to 120% (30 June 2009 53% to 120%).

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

The only significant change in assumptions since 30 June 2009 was an increase in the claims cost assumption for health insurance.

	Sovereign Assurance Company Limited	
	Consolidated and Parent	
For the year ended 30 June	**2010**	2009

2. Actuarial Policies and Methods *(continued)*

(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 revised at 30 June 2010 for all business.

Future rates of discontinuances classified between risk and savings policies in aggregate are:

	2010	2009
Risk policies	**13%**	13%
Savings policies	**10%**	9%
Participating policies	**4%**	4%

(h) Basis of Calculation of Surrender Values

Surrender values are based on the provisions specified in the policy contract. There have been no changes to surrender bases during the year (or the prior year) which would materially affect the valuation result.

(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 2009 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:

		2010	2009
Ex-Prudential policies	Bonus rate on sum assured	**1.25%**	0.90%
	Bonus rate on existing bonus	**1.25%**	0.90%
Ex-NZI policies	Bonus rate on sum assured	**0.50%**	0.18%
	Bonus rate on existing bonus	**1.00%**	0.35%

Ex-Metropolitan Life participating products are treated in the same manner as other investment account contracts. The supportable bonus concept does not apply. Bonus rates were assumed to be 0% for 30 June 2010 (30 June 2009 0%).

(j) Impact of Changes in Assumptions

Refer to Note 1(k) for an explanation of the treatment of changes in actuarial assumptions on Life insurance contract liabilities. The impact of changes in actuarial assumptions made at 30 June 2010 are as follows:

$ millions	Effect on Future Profit Margins		Effect on Life Insurance Contract Liabilities	
As at 30 June	**2010**	2009	**2010**	2009
Assumption Change				
Market related changes to discount rates	**4**	74	**2**	**(9)**
Non-market related changes to discount rates	**7**	(13)	**-**	**-**
Mortality and morbidity	**(52)**	64	**2**	**-**
Discontinuance rates	**(100)**	(86)	**-**	**2**
Maintenance expenses	**(14)**	(11)	**-**	**(1)**
Net impact of tax changes	**(42)**	-	**(23)**	-
Other assumptions	**78**	(12)	**(3)**	**(2)**

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

$ millions		Sovereign Assurance Company Limited			
		Consolidated		Parent	
For the year ended 30 June	Note	**2010**	2009	**2010**	2009

3. Net Profit After Taxation

Net profit after taxation arose from:

Life Insurance					
Planned margins of revenues over expenses		**59**	58	**59**	58
Difference between actual and assumed experience		**9**	3	**9**	3
Losses on groups of related products		**7**	3	**7**	3
Effects of changes in underlying assumptions		**16**	10	**16**	10
		91	74	**91**	74
Life Investment					
Planned margins of revenues over expenses		**8**	10	**7**	9
Difference between actual and assumed experience		**(1)**	1	**-**	2
		7	11	**7**	11
Investment earnings on assets in excess of Life insurance contract liabilities and Life investment contracts		**20**	25	**20**	25
Total Life activities		**118**	110	**118**	110
Net profit after taxation		**118**	110	**118**	110
Non-life Activities					
Dividend from subsidiary		**-**	-	**5**	-
Net profit after taxation		**118**	110	**123**	110

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

4. Premium Income

Life insurance contract premiums - disclosed in the Income Statement		**518**	488	**518**	488
Life investment contract deposit premiums - disclosed in Life investment contract liabilities	16	**63**	77	**63**	77
		581	565	**581**	565

Notes to the Financial Statements

For the year ended 30 June 2010

$ millions *For the year ended 30 June*	Sovereign Assurance Company Limited			
	Consolidated		Parent	
	2010	2009	**2010**	2009
5. Reinsurance				
Reinsurance recoveries - Life insurance contracts	**30**	29	**30**	29
Portfolio reinsurance recoveries	**9**	13	**9**	13
Reinsurance recoveries - Life investment contracts	**13**	19	**13**	19
Total Reinsurance income	**52**	61	**52**	61
Reinsurance risk premiums - Life insurance contracts	**38**	37	**38**	37
Portfolio reinsurance expenses	**9**	13	**9**	13
Reinsurance expenses - Life investment contracts	**14**	19	**14**	19
Total Reinsurance expenses	**61**	69	**61**	69

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

The Group has reinsured 93.1% (30 June 2009 93.1%) of all Metropolitan Life business. Policy reserves are deposited back by the reinsurers.

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

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

	Consolidated 2010	Consolidated 2009	Parent 2010	Parent 2009
6. Investment Income				
Life Insurance Contracts				
Income from:				
Equity securities	**16**	(89)	**16**	(89)
Fixed interest securities	**83**	68	**83**	68
Mortgage investments	**-**	1	**-**	1
Loans on policies	**2**	3	**2**	3
Property investments	**5**	(6)	**5**	(6)
	106	(23)	**106**	(23)
Life Investment Contracts				
Income from:				
Equity securities	**49**	(95)	**49**	(95)
Fixed interest securities	**21**	28	**21**	28
Property investments	**1**	(11)	**1**	(11)
	71	(78)	**71**	(78)
Other Investment Income				
Interest on call deposits	**-**	1	**-**	-
Dividend from subsidiary	**-**	-	**5**	-
	-	1	**5**	-
Total Investment Income				
Income from:				
Equity securities	**65**	(184)	**65**	(184)
Fixed interest securities	**104**	96	**104**	96
Mortgage investments	**-**	1	**-**	1
Loans on policies	**2**	3	**2**	3
Property investments	**6**	(17)	**6**	(17)
Other investment income	**-**	1	**5**	-
Total Investment income	**177**	(100)	**182**	(101)

Included within Total Investment income is dividend income of $18m (30 June 2009 $28m) for consolidated and $23m (30 June 2009 $28m) for parent, interest income of $47m (30 June 2009 $61m) for consolidated and $47m (30 June 2009 $61m) for parent, and net realised and unrealised gains of $112m (30 June 2009 losses of $189m) for both consolidated and parent, including realised and unrealised gains on Derivative financial instruments of $94m (30 June 2009 losses of $99m).

Income from Equity securities includes distributions from unit trusts.

Notes to the Financial Statements

For the year ended 30 June 2010

$ millions *For the year ended 30 June*	Note	Sovereign Assurance Company Limited Consolidated **2010**	 2009	 Parent **2010**	 2009
7. Management Fees and Other Income					
Use of money interest		-	4	-	4
Management fees from superannuation schemes		-	3	-	-
Total Management fees and other income		-	7	-	4
8. Claims, Surrenders and Maturities					
Life Insurance Contracts					
Death, disability and medical claims		**265**	237	**265**	237
Maturities		**18**	19	**18**	19
Surrenders		**74**	30	**74**	30
Annuities		**5**	5	**5**	5
		362	291	**362**	291
Risk claims - disclosed in the Income Statement		**362**	291	**362**	291
		362	291	**362**	291
Life Investment Contracts					
Deaths		**4**	3	**4**	3
Surrenders		**121**	155	**121**	155
		125	158	**125**	158
Deposit claims - disclosed in Life investment contracts	17	**125**	158	**125**	158
		487	449	**487**	449
Death, disability and medical claims		**269**	240	**269**	240
Maturities		**18**	19	**18**	19
Surrenders		**195**	185	**195**	185
Annuities		**5**	5	**5**	5
Total Claims, surrenders and maturities		**487**	449	**487**	449
Risk claims - disclosed in the Income Statement		**362**	291	**362**	291
Deposit claims - disclosed in Life investment contracts		**125**	158	**125**	158
Total Claims, surrenders and maturities		**487**	449	**487**	449
9. Commission and Management Expenses					
Life Insurance Contract Expenses					
Acquisition costs:					
Commission and other direct new business costs		**94**	93	**94**	93
Management expenses		**45**	47	**45**	47
		139	140	**139**	140
Maintenance costs:					
Commission		**50**	47	**50**	47
Management expenses		**48**	43	**48**	43
		98	90	**98**	90
Investment management costs		**5**	5	**5**	5
Total Life insurance contract expenses		**242**	235	**242**	235
Life Investment Contract Expenses					
Acquisition costs:					
Commission and other direct new business costs		**1**	1	**1**	1
Management expenses		**1**	1	**1**	1
Deferred acquisition cost amortisation		**2**	3	**2**	3
		4	5	**4**	5
Maintenance costs:					
Commission		**4**	4	**4**	4
Management expenses		**7**	7	**7**	7
		11	11	**11**	11
Investment management costs		**2**	6	**2**	6
Total Life investment contract expenses		**17**	22	**17**	22
Total Life expenses		**259**	257	**259**	257

$ millions		Sovereign Assurance Company Limited			
		Consolidated		Parent	
For the year ended 30 June	Note	**2010**	2009	**2010**	2009

9. Commission and Management Expenses *(continued)*

Life Expenses					
Acquisition costs:					
Commission and other direct new business costs		**95**	94	**95**	94
Management expenses		**46**	48	**46**	48
Deferred acquisition cost amortisation		**2**	3	**2**	3
		143	145	**143**	145
Maintenance costs:					
Commission		**54**	51	**54**	51
Management expenses		**55**	50	**55**	50
		109	101	**109**	101
Investment management costs		**7**	11	**7**	11
Total Life expenses		**259**	257	**259**	257
Non-life Expenses					
Management expenses: superannuation		**-**	4	**-**	-
Total Non-life expenses		**-**	4	**-**	-
Total Commission and management expenses		**259**	261	**259**	257

Additional Disclosures

The audit fee for the Group's statutory audit performed by PricewaterhouseCoopers is met by SSL.

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

Fiduciary expenses of $7m (30 June 2009 $11m) were paid to ASB Group Investments Limited, a fellow Commonwealth Bank of Australia subsidiary, for the provision of asset management services.

10. Taxation

Taxation expense comprises:					
Value of current year tax losses		**(1)**	(28)	**-**	(29)
Adjustment to prior year		**(4)**	(2)	**(4)**	(2)
Deferred taxation - current year	19	**28**	47	**27**	48
Deferred taxation - prior year	19	**(1)**	1	**(1)**	1
Total Taxation expense		**22**	18	**22**	18

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

Net profit before taxation		**140**	128	**145**	128
Tax at the domestic rate		**42**	38	**44**	38
Tax impact of income not subject to taxation		**(130)**	(84)	**(132)**	(84)
Tax impact of expenses not deductible for tax purposes		**133**	64	**133**	64
Prior year tax deductions not previously recognised		**(4)**	-	**(4)**	-
Effect of change in tax rate		**(19)**	-	**(19)**	-
Total Taxation expense		**22**	18	**22**	18
The weighted average effective tax rate was:		**16%**	14%	**15%**	14%

The change in the effective tax rate for the year ended 30 June 2010 is due to the change in the level of life premiums and claims, movement in policyholder reserves, the tax treatment of Investment income and the impact on deferred tax balances of the change in tax rate from 30% to 28% effective 1 July 2011.

A net taxable loss of $3m (30 June 2009 $93m) has been generated by the Group for the year. Provisional tax payments of $4m (30 June 2009 Nil) have been made.

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

$ millions		Sovereign Assurance Company Limited			
		Consolidated		**Parent**	
For the year ended 30 June	Note	**2010**	2009	**2010**	2009

11. Imputation and Policyholder Credit Accounts

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

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

As the Company is a life insurance company, the ICA group is required to maintain a policyholder credit account ("PCA"). A balance in a PCA can be transferred back to an imputation credit account and is therefore available to shareholders (and shareholders of other ICA group members).

	Note	Consolidated 2010	Consolidated 2009	Parent 2010	Parent 2009
Imputation Credit Account					
Balance at beginning of year		**56**	13		
Opening balances of associates entering the ICA group		**-**	5		
Net income tax paid		**307**	53		
Imputation credits attached to dividends received		**4**	16		
Less: Imputation credits attached to dividends paid		**(76)**	(31)		
Balance at end of year		**291**	56		
Policyholder Credit Account					
Balance at beginning of year		**-**	-		
Balance at end of year		**-**	-		

12. Securities

	Note	Consolidated 2010	Consolidated 2009	Parent 2010	Parent 2009
Equity Securities					
Shares in listed companies		**240**	185	**240**	185
Unit trusts and managed funds		**455**	455	**455**	455
		695	640	**695**	640
Fixed Interest Securities	12a	**756**	794	**756**	794
Mortgage Investments					
Mortgages	12b	**7**	8	**7**	8
Loans on policies		**23**	24	**23**	24
		30	32	**30**	32
Property Investments					
Unit trusts and managed funds		**28**	27	**28**	27
Total Securities		**1,509**	1,493	**1,509**	1,493

As at 30 June 2010 no Securities were pledged under repurchase agreements or other arrangements (30 June 2009 Nil). A current / non current split has not been presented because Securities are liquid assets and the timing of realisation is not known.

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

	Consolidated 2010	Consolidated 2009
Equity securities	**160**	109
Debt securities	**590**	636
Property investments	**10**	12
	760	757

$ millions	Sovereign Assurance Company Limited			
	Consolidated		Parent	
As at 30 June	**2010**	2009	**2010**	2009

12. Securities *(continued)*

12a Fixed Interest Securities

New Zealand government stock	**200**	48	**200**	48
Corporate bonds	**49**	124	**49**	124
Medium term notes	**30**	30	**30**	30
Foreign government stock	**477**	592	**477**	592
	756	794	**756**	794
Maturity analysis:				
Under one year	**34**	-	**34**	-
Between one and two years	**21**	14	**21**	14
Between two and three years	**16**	34	**16**	34
Between three and four years	**81**	45	**81**	45
Between four and five years	**71**	50	**71**	50
Greater than five years	**533**	651	**533**	651
	756	794	**756**	794

12b Mortgage Valuations

Securities include Mortgages carried at an estimated fair value of $7m (30 June 2009 $8m). This fair value was derived using a valuation technique that uses experienced judgement to estimate the credit risk component of the valuation. The experienced judgment is not supported by observable market prices; it is based on assessments concerning economic conditions, loss experience, and the risk characteristics associated with the particular mortgages. These assessments are subjective in nature and the range of possible alternative assumptions is considered immaterial. The impact of credit risk on the fair value of Mortgages as at 30 June 2010 is $1m (30 June 2009 $1m). The change in fair value due to change in the credit risk for the year ended 30 June 2010 is Nil (30 June 2009 Nil).

Maturity analysis:				
Less than 12 months	**1**	-	**1**	-
Greater than 12 months	**6**	8	**6**	8
	7	8	**7**	8

12c Loans on Policies

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

13. Cash and Cash Equivalents

Cash at bank and on deposit	**528**	510	**523**	500
Foreign currency deposits	**4**	23	**4**	23
Total Cash and cash equivalents	**532**	533	**527**	523

14. Derivative Financial Instruments

Non-hedge Derivatives at Fair Value Through Profit or Loss

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

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

14. Derivative Financial Instruments *(continued)*

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

	Sovereign Assurance Company Limited					
	Consolidated			Parent		
$ millions	Notional	Fair Value		Notional	Fair Value	
As at 30 June 2010	Amount	Assets	Liabilities	Amount	Assets	Liabilities
Fair Value Through Profit or Loss						
Exchange Rate Contracts						
Forward contracts - buy	**38**	**1**	**-**	**38**	**1**	**-**
Forward contracts - sell	**872**	**15**	**6**	**872**	**15**	**6**
Total Exchange rate contracts	**910**	**16**	**6**	**910**	**16**	**6**
Total Derivative financial instruments		**16**	**6**		**16**	**6**
As at 30 June 2009	Notional Amount	Fair Value Assets	Fair Value Liabilities	Notional Amount	Fair Value Assets	Fair Value Liabilities
Fair Value through Profit or Loss						
Exchange Rate Contracts						
Forward contracts - buy	70	-	3	70	-	3
Forward contracts - sell	1,089	44	3	1,089	44	3
Total Exchange rate contracts	1,159	44	6	1,159	44	6
Total Derivative financial instruments		44	6		44	6

15. Investment in Subsidiaries

The Company has an interest in the following entity:

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

Sovereign Superannuation Funds Limited was incorporated in New Zealand.

SST (2002) Limited, a non-trading company, was deregistered on 23 November 2009. The Company's shares in Kuranda Investments Limited, a non-trading company, were redeemed on 31 May 2010. Neither the deregistration nor the redemption had any impact on the net assets of the Group.

Holdings in the Investor Wholesale New Zealand Equity Trust are below the 75% threshold where there is the ability to appoint a new manager of the Trust and control the operating and financing decisions. The nature of business was Investment, and the Company had 73% ownership as at 30 June 2010 (30 June 2009 73%).

16. Trade and Other Receivables

		Consolidated		Parent	
As at 30 June	Note	**2010**	2009	**2010**	2009
Investment receivables		**18**	21	**18**	21
Agent balances receivable		**1**	1	**1**	1
Outstanding premiums		**12**	10	**12**	10
Amounts due from reinsurers		**8**	10	**8**	10
Amounts due from related parties	24	**4**	2	**4**	1
Total Trade and other receivables (all current)		**43**	44	**43**	43

$ millions		Sovereign Assurance Company Limited			
		Consolidated		Parent	
For the year ended 30 June	Note	**2010**	2009	**2010**	2009
17. Life Insurance Contract Liabilities and Life Investment Contracts					
Life Insurance Contract Liabilities					
Opening Life insurance contract liabilities		**371**	554	**371**	554
Recognised in Income Statement*		**(101)**	(183)	**(101)**	(183)
Closing Life insurance contract liabilities		**270**	371	**270**	371
Life Insurance Contract Liabilities					
Expected to be realised within 12 months		**(35)**	(34)	**(35)**	(34)
Expected to be realised in more than 12 months		**305**	405	**305**	405
		270	371	**270**	371

* The item 'Recognised in Income Statement' is stated gross of reinsurance. The reinsurance figures recognised in the Income Statement are included in Note 5.

	Note	2010	2009	2010	2009
Life insurance contract liabilities - recognised in Income Statement		**(101)**	(183)	**(101)**	(183)
Increase in Reinsurance assets - recognised in Income Statement	18	**(3)**	(4)	**(3)**	(4)
Decrease in Deposited reserves - recognised in Income Statement	18	**-**	(1)	**-**	(1)
Net change in Life insurance contract liabilities		**(104)**	(188)	**(104)**	(188)
Life insurance contracts with a discretionary participation feature - the amount of the liabilities that relates to guarantees		**519**	643	**519**	643
Life insurance contract liabilities contain the following components:					
Future policy benefits		**5,262**	4,786	**5,262**	4,786
Future bonuses		**116**	52	**116**	52
Future expenses		**1,914**	1,547	**1,914**	1,547
Future planned margins of revenues over expenses		**877**	902	**877**	902
Future premiums		**(7,680)**	(6,716)	**(7,680)**	(6,716)
Unvested policyholder benefits		**48**	52	**48**	52
Less Deferred taxation liability		**(267)**	(252)	**(267)**	(252)
		270	371	**270**	371
Life Insurance Contract Liabilities Future Net Cash Inflows					
Up to one year		**189**	176	**189**	176
One to five years		**614**	529	**614**	529
Later than five years		**1,479**	1,189	**1,479**	1,189
Total Life insurance contract liabilities future net cash inflows		**2,282**	1,894	**2,282**	1,894

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

Life Investment Contracts	Note	2010	2009	2010	2009
Opening Life investment contracts		**851**	1,030	**851**	1,030
Deposit premium	4	**63**	77	**63**	77
Maturities and surrenders	8	**(125)**	(158)	**(125)**	(158)
Recognised in Income Statement		**39**	(98)	**39**	(98)
Closing Life investment contracts		**828**	851	**828**	851
Opening Deferred income reserve		**66**	73	**66**	73
Recognised in Income Statement		**(10)**	(7)	**(10)**	(7)
Closing Deferred income reserve		**56**	66	**56**	66
		884	917	**884**	917

Movements in Life investment contract valuations reflect maturities, surrenders, claims experience and investment performance. The impact on the fair value of Life investment contracts due to changes in credit risk is Nil (30 June 2009 Nil), except to the extent that the market value of investments backing Life investment contracts is affected by changes in credit risk. Any such credit risk impact is reflected in the movement of Securities balances during the year.

		Sovereign Assurance Company Limited			
		Consolidated		Parent	
$ millions *For the year ended 30 June*	Note	2010	2009	2010	2009
17. Life Insurance Contract Liabilities and Life Investment Contracts *(Continued)*					
Life Investment Contracts					
Expected to be realised within 12 months		**50**	38	**50**	38
Expected to be realised in more than 12 months		**834**	879	**834**	879
		884	917	**884**	917

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

18. Reinsurance Assets and Liabilities

	Note	2010	2009	2010	2009
Liabilities Ceded Under Reinsurance					
Balance at beginning of year		**64**	60	**64**	60
Increase in Reinsurance assets recognised in Net change in Life insurance contract liabilities reported in the Income Statement	17	**3**	4	**3**	4
Balance at end of year		**67**	64	**67**	64
Liabilities Ceded Under Reinsurance					
Expected to be realised within 12 months		**9**	9	**9**	9
Expected to be realised in more than 12 months		**58**	55	**58**	55
		67	64	**67**	64
Deposited Reserves (Life Insurance Component)					
Balance at beginning of year		**39**	40	**39**	40
Decrease in Deposited reserves recognised in Net change in Life insurance contract liabilities reported in the Income Statement	17	**-**	(1)	**-**	(1)
Balance at end of year		**39**	39	**39**	39
Deposited Reserves (Life Insurance Component)					
Expected to be realised within 12 months		**1**	2	**1**	2
Expected to be realised in more than 12 months		**38**	37	**38**	37
		39	39	**39**	39

19. Deferred Taxation Liability

	Note	2010	2009	2010	2009
Balance at beginning of year		**263**	215	**264**	215
Adjustment to prior years		**11**	-	**11**	-
Taxation expense recognised in the Income Statement	10	**27**	48	**26**	49
Balance at end of year		**301**	263	**301**	264
Deferred taxation relates to:					
Prepaid premiums		**2**	2	**2**	2
Deferred acquisition costs		**5**	6	**5**	6
Outstanding claims reserve discount		**11**	-	**11**	-
Life insurance contract liabilities and Life investment contracts		**251**	232	**251**	232
Unrealised loss on investments		**-**	(9)	**-**	(9)
Impairment expense		**-**	(1)	**-**	-
Accrued expenses and provisions		**32**	33	**32**	33
Total Deferred taxation liability		**301**	263	**301**	264

The amount of Deferred taxation liability, that is expected to be recovered / settled after more than 12 months is $314m (30 June 2009 $200m).

		2010	2009	2010	2009
Deferred taxation recognised in the Income Statement:					
Prepaid premiums		**-**	(1)	**-**	(1)
Deferred acquisition costs		**(1)**	(1)	**(1)**	(1)
Life insurance contract liabilities and Life investment contracts		**38**	48	**38**	48
Decrease in unrealised losses on investments		**9**	2	**9**	2
Impairment expense		**1**	(1)	**-**	-
Accrued expenses and provisions		**(1)**	1	**(1)**	1
Impact of future reduction in taxation rate		**(19)**	-	**(19)**	-
Total Deferred taxation recognised in the Income Statement		**27**	48	**26**	49

	Sovereign Assurance Company Limited			
$ millions	Consolidated		Parent	
For the year ended 30 June	**2010**	2009	**2010**	2009

20. Trade and Other Payables

Agent balances	**4**	2	**4**	2
Prepaid premiums	**11**	12	**11**	12
Outstanding claims	**92**	43	**92**	43
Amounts due to reinsurers	**3**	3	**3**	3
Expense creditors	**2**	2	**2**	2
Investment creditors	**3**	3	**3**	3
Amounts due to related parties	**11**	11	**11**	11
Total Trade and other payables (all current)	**126**	76	**126**	76

21. Retirement Benefit Obligations

Defined Benefit Plans

Recognition of Actuarial Gains and Losses

Actuarial gains and losses are recognised in full each year.

Description of Plan

The Company is the administrator of The Prudential Assurance Co NZ Ltd Pension Scheme ("PACNZ"). PACNZ is a defined benefit plan with only pensioners in payment now remaining in the scheme. The date of the last full triennial actuarial review was 30 June 2010.

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

	PACNZ	
For the year ended 30 June	**2010**	2009
Reconciliation of Amounts Recognised in the Balance Sheet		
Present value of funded obligations	**(4)**	(4)
Fair value of fund assets	**4**	4
Surplus	**-**	-
Asset recognised in the Balance Sheet	**-**	-
Reconciliation of the Present Value of Funded Obligations		
Present value of funded obligations at beginning of year	**4**	4
Present value of funded obligations at end of year	**4**	4
Reconciliation of the Fair Value of Fund Assets		
Fair value of fund assets at beginning of year	**4**	4
Fair value of fund assets at end of year	**4**	4
Actual Investment income on fund assets	**-**	-
Movement in the Net Asset Recognised in the Balance Sheet		
Net asset at beginning of year*	**-**	-
Net expense recognised in the Income Statement	**-**	-
Net asset at end of year*	**-**	-

* Inclusive of specified superannuation contribution withholding tax

Fund Assets

The distribution of fund assets at the balance date is as follows:		
Australasian shares	**n/a**	n/a
Global shares	**n/a**	n/a
Global fixed	**100%**	100%
Cash	**n/a**	n/a

$ millions	Sovereign Assurance Company Limited	
	PACNZ	
For the year ended 30 June	**2010**	2009

21. Retirement Benefit Obligations *(continued)*

Fair Value of Fund Assets

The expected return on assets assumption is determined by weighting the expected long-term return for each asset class by the target allocation of assets to each asset class. The returns used for each asset class are net of investment tax and all expenses.

Principal Actuarial Assumptions at the Balance Date (expressed as weighted averages)		
Discount rate (before tax and expenses)	**3.90%**	4.20% pa
Expected return on fund assets	**4.00%**	4.20% pa
Future salary increases	**n/a**	n/a
Future pension increases	**2.00%**	2.00% pa

Additional salary increases in respect of promotion are assumed.

For the year ended 30 June	**2010**	2009	2008	2007
Historical Information				
Present value of funded obligations	**(4)**	(4)	(4)	(5)
Fair value of fund assets	**4**	4	4	4
Fund deficit	**-**	-	-	(1)
Experience adjustments on fund assets - gain	**-**	-	1	-

	Sovereign Assurance Company Limited			
	Consolidated		Parent	
For the year ended 30 June	**2010**	2009	**2010**	2009

22. Contributed Capital

Ordinary Shares				
Balance at beginning of year	**444**	444	**444**	444
Proceeds from shares issued	**8**	-	**8**	-
Balance at end of year	**452**	444	**452**	444

Share capital includes 4,805,849 ordinary shares paid to $74.22 and 103,000,000 ordinary shares paid to $1.00 (30 June 2009 4,805,849 ordinary shares paid to $74.22, and 95,000,000 ordinary shares paid to $1.00).

The Group issued 8,000,000 ordinary shares to Sovereign Limited paid to a value of $8,000,000 on 28 June 2010.

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

23. Capital Management

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

(i) to comply at all times with the solvency requirements set out in the New Zealand Society of Actuaries Professional Standard 5: *Solvency Reserving for Life Insurance Business* ("PS5.01");

(ii) to maintain a strong capital base to cover the inherent risks of the business; and

(iii) to support the future development and growth of the business to maximise shareholder value.

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

The target surplus as at 30 June 2010 was $90m (30 June 2009 $90m).

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

The solvency position of the Company is as follows:

Equity of shareholder	**616**	582
Less: Equity retained for solvency purposes	**(512)**	(463)
Equity available for distribution	**104**	119

The equity available for distribution was determined as follows:

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

23. Capital Management *(continued)*

The margins applied include:

Insured life mortality: +10%
Trauma claims: +30%
Disability income active life claims: +50%
Termination rates for disability income claims in payment: -25%
Investment earnings: the valuation discount rates as set out in Note 2(a) were used, but with a maximum of the mid swap rate.
Servicing costs: 2.5% margin
Voluntary discontinuances: 25% margin

The margins are unchanged from 30 June 2009.

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

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

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

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

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

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

24. Related Party Transactions and Balances

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

<u>Transactions with Fellow CBA Subsidiaries</u>

<u>ASB Bank Limited and Subsidiaries (the "Bank")</u>

Cash and Deposits

The Group has cash balances and deposits of $525m (30 June 2009 $508m) with the Bank. The Group received interest income on deposits from the Bank of $15m (30 June 2009 $24m). These deposits are held on normal commercial terms and conditions.

Securities

The Group holds Securities issued by the Bank of $35m (30 June 2009 $33m) and received interest income on Securities issued by the Bank of $1m (30 June 2009 $2m). The Group holds Securities issued by trusts managed by the Bank of $43m (30 June 2009 $43m) and received interest and dividends on Securities issued by these trusts of Nil (30 June 2009 $1m).

Derivative Transactions

The Group has foreign exchange forward contracts with the Bank with a face value of $910m (30 June 2009 $1,159m). There are net unrealised gains on these contracts of $10m (30 June 2009 $38m).

Insurance Commissions

The Group has paid insurance commissions of $31m to the Bank (30 June 2009 $33m).

Investment Management

The Group paid $7m (30 June 2009 $11m) to the Bank for the provision of investment management services in relation to holdings of equity securities, fixed interest securities and property investments (refer to Notes 6 and 12).

Taxation

Net receipts of $23m (30 June 2009 $56m) were received from the Bank, relating to the utilisation of tax related items. Use of money interest of Nil was received from the Bank (30 June 2009 $4m).

<u>Other Fellow CBA Subsidiaries</u>

Securities

The Group holds Securities issued by other fellow CBA subsidiaries of $344m (30 June 2009 $336m) and received interest and dividends on Securities issued by other fellow CBA subsidiaries of $4m (30 June 2009 $2m).

		Sovereign Assurance Company Limited			
$ millions		Consolidated		Parent	
For the year ended 30 June	Note	**2010**	2009	**2010**	2009

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

Taxation

Net receipts of Nil (30 June 2009 payments of $26m) were made to other fellow CBA subsidiaries relating to the utilisation of tax related items.

Expenses and Services

The Group has been recharged $111m (30 June 2009 $110m) for administration and management services by SSL.

Transactions with Parent Company

The Group holds CBA equity securities of $8m (30 June 2009 $4m) and earned dividends on CBA equity securities of Nil (30 June 2009 Nil).

Transactions with Subsidiaries

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

Balances with Related Parties

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

	Note	Consolidated 2010	Consolidated 2009	Parent 2010	Parent 2009
Balances with Fellow CBA Subsidiaries					
ASB Bank Limited and Subsidiaries		**-**	(2)	**-**	(2)
ASB Group (Life) Limited		**4**	(5)	**4**	(5)
The Colonial Mutual Life Assurance Society Limited - New Zea		**(1)**	1	**(1)**	1
Sovereign Services Limited		**(9)**	(4)	**(9)**	(4)
Westside Properties Limited		**(1)**	-	**(1)**	-
Balances with Trusts Administered or Managed by the Bank					
Complete Investor Plan Super		**-**	1	**-**	-
		(7)	(9)	**(7)**	(10)
Disclosed as follows:					
Amounts due to related parties	20	**(11)**	(11)	**(11)**	(11)
Amounts due from related parties	16	**4**	2	**4**	1
		(7)	(9)	**(7)**	(10)

25. Directors and Key Management Personnel

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

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

26. Contingent Liabilities and Capital Commitments

Contingent Liabilities

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

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

Should the IRD issue reassessments for all relevant tax years, the estimated maximum potential tax liability (including use of money interest and excluding penalties) as at 30 June 2010 would be $67m (30 June 2009 $53m). The increase in the estimated liability since 30 June 2009 results from increased use of money interest, the addition of expected reassessments for 2009 and 2010 years and from the separate recognition of a tax asset arising from the successful resolution of an unrelated matter that had been offset against the contingent liability as at 30 June 2009.

There are no other contingent liabilities as at 30 June 2010 (30 June 2009 Nil).

Capital Commitments

There are no capital commitments as at 30 June 2010 (30 June 2009 Nil).

$ millions	Sovereign Assurance Company Limited			
	Consolidated		Parent	
As at 30 June	**2010**	2009	**2010**	2009

27. Interest Rate Summary

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

Assets:				
Foreign government stock	**3.2%**	3.4%	**3.2%**	3.4%
New Zealand government stock	**5.1%**	4.6%	**5.1%**	4.6%
Corporate bonds	**5.7%**	4.3%	**5.7%**	4.3%
Medium term notes	**3.8%**	3.7%	**3.8%**	3.7%
Mortgages	**3.5%**	6.5%	**3.5%**	6.5%
Loans on policies	**8.0%**	8.0%	**8.0%**	8.0%

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

28. Fair Value of Financial Instruments

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

	Consolidated		Parent	
As at 30 June 2010	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Cash and cash equivalents	**532**	**532**	**527**	**527**
Trade and other receivables	**43**	**43**	**43**	**43**
Deposited reserves	**39**	**39**	**39**	**39**
Amounts due to subsidiaries	**-**	**-**	**1**	**1**
Trade and other payables	**126**	**126**	**126**	**126**
As at 30 June 2009				
Cash and cash equivalents	533	533	523	523
Trade and other receivables	44	44	43	43
Deposited reserves	39	39	39	39
Trade and other payables	76	76	76	76

Investment contracts which contain a discretionary participation feature have been valued as insurance contracts under NZ IFRS 4. These contracts are investment account contracts where policyholder monies are accumulated in an account which earns interest at a crediting rate, the amount and timing of which is at the Group's discretion. The carrying amount of these contracts at 30 June 2010 is $59m (30 June 2009 $116m). Due to the unknown nature of such a discretion, the fair value of the discretionary participation feature cannot be reliably measured.

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

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

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

Level 3: Fair values are estimated using inputs that are not based on observable market data. The Group has mortgages, loans on policies and Deposited reserves for which fair value is estimated using valuation techniques that are not based on observable market data. A sensitivity analysis and reconciliation of movements in mortgages and loans on policies has not been provided on the basis that these assets are not a material component of the Group's total financial assets. A sensitivity analysis has not been provided for Deposited reserves on the basis that changing one or more of the inputs to reasonably possible alternative assumptions would not change fair value significantly (refer to Note 18 for a reconciliation of movements in Deposited reserves).

Notes to the Financial Statements
For the year ended 30 June 2010

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

$ millions	Note	Sovereign Assurance Company Limited Consolidated Level 1	Level 2	Level 3	Total
As at 30 June 2010					
Financial Assets at Fair Value					
Securities					
Equity shares in listed companies		240	-	-	240
Equity unit trusts and managed funds		-	455	-	455
Fixed interest securities		726	30	-	756
Mortgages		-	-	7	7
Loans on policies		-	-	23	23
Property unit trusts and managed funds		12	16	-	28
Derivative financial instruments	14	-	16	-	16
Total Financial assets at fair value		978	517	30	1,525
Financial Liabilities at Fair Value					
Life investment contracts	17	-	884	-	884
Deposited reserves	18	-	-	39	39
Derivative financial liabilities	14	-	6	-	6
Total Financial liabilities at fair value		-	890	39	929

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

	Note	Consolidated At Fair Value through Profit or Loss Held for Trading	Designated on Initial Recognition	At Amortised Cost Loans and Receivables	Other Financial Liabilities	Total	Fair Value
As at 30 June 2010							
Financial Assets							
Cash and cash equivalents	13	-	-	532	-	532	532
Securities	12	-	1,509	-	-	1,509	1,509
Derivative financial instruments	14	16	-	-	-	16	16
Trade and other receivables	16	-	-	43	-	43	43
Total Financial assets		16	1,509	575	-	2,100	2,100
Financial Liabilities							
Life investment contracts	17	-	884	-	-	884	884
Deposited reserves	18	-	39	-	-	39	39
Derivative financial instruments	14	6	-	-	-	6	6
Trade and other payables	20	-	-	-	126	126	126
Total Financial liabilities		6	923	-	126	1,055	1,055
As at 30 June 2009							
Financial Assets							
Cash and cash equivalents	13	-	-	533	-	533	533
Securities	12	-	1,493	-	-	1,493	1,493
Derivative financial instruments	14	44	-	-	-	44	44
Trade and other receivables	16	-	-	44	-	44	44
Total Financial assets		44	1,493	577	-	2,114	2,114
Financial Liabilities							
Life investment contracts	17	-	917	-	-	917	917
Deposited reserves	18	-	39	-	-	39	39
Derivative financial instruments	14	6	-	-	-	6	6
Trade and other payables	20	-	-	-	76	76	76
Total Financial liabilities		6	956	-	76	1,038	1,038

$ millions For the year ended 30 June	Sovereign Assurance Company Limited			
	Consolidated		Parent	
	2010	2009	2010	2009

29. Asset Quality

Impaired Assets

	2010	2009	2010	2009
Balance at beginning of year	5	1	1	1
Additions	1	4	1	-
Deletions	(2)	-	-	-
Amounts written off	(2)	-	-	-
Balance at end of year	2	5	2	1

Recovery of a $4m receivable from the Complete Investor Plan (Super) superannuation scheme (the "scheme") for management fees charged to unit holders was considered to be doubtful during the year ended 30 June 2009. During the year ended 30 June 2010, $2m of the balance owing was written off. The remainder of the balance was largely extinguished by a correction to a historical overstatement of fees. The closing balance of impaired assets reported above relates to agent loans that are under management and overpaid commissions that are subject to external recovery or legal action. The amount of interest income accrued on impaired assets during the year was Nil (30 June 2009 Nil).

Past Due Assets

	2010	2009	2010	2009
Balance at beginning of year	1	1	1	1
Additions	1	-	1	-
Balance at end of year	2	1	2	1

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

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

Cash and Cash Equivalents

The Group's cash holdings are with ASB Bank Limited, which has a Standard and Poor ("S&P") credit rating of AA (30 June 2009 AA), and Citigroup Inc. which has an S&P rating of A (30 June 2009 A).

Securities

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

	Consolidated			
	Linked		Non-Linked	
As at 30 June	2010	2009	2010	2009
Rating				
AAA	51	55	555	496
AA+	4	1	-	-
AA	49	15	-	48
AA-	14	10	14	58
A+	4	12	61	98
A	4	1	-	-
Equity securities	180	167	60	27
Managed funds	394	384	89	89
Other securities	-	-	30	32
	700	645	809	848

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

Derivative Financial Instruments

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

Amounts Due from Reinsurers

	Consolidated	
As at 30 June	2010	2009
The S&P credit ratings for the Group's major reinsurers are:		
General Reinsurance Life Australia Limited	AA+	AAA
Assicurazioni Generali S.P.A.	AA-	AA-
RGA Reinsurance Company	AA-	AA-
Swiss Re Life and Health (Australia) Limited	A+	A+
Munich Reinsurance Company of Australasia Limited	AA-	AA-

$ millions *For the year ended 30 June*	Sovereign Assurance Company Limited			
	Consolidated		Parent	
	2010	2009	**2010**	2009
30. Provisions for Impairment Loss				
Specific Provisions				
Balance at beginning of year	**4**	1	**1**	1
Additions	**2**	4	**1**	1
Impaired assets written off or disposed	**(2)**	-	**-**	-
Written back to Income Statement	**(2)**	(1)	**-**	(1)
Balance at end of year	**2**	4	**2**	1
Total Provisions for impairment loss	**2**	4	**2**	1
Total Impairment expense recognised in the Income Statement	**-**	3	**1**	-

An impairment provision of $3m was raised during the year ended 30 June 2009 in relation to a receivable from the Complete Investor Plan (Super) superannuation scheme (the "scheme") for management fees charged on a net basis to unit holders. The provision was increased by $1m during the year ended 30 June 2010, but the actual amount written off was confirmed at the lower figure of $2m, allowing $2m to be written back to the Income Statement. However, it was established during the investigation of the impaired receivable that fees had been overstated by $2m in prior years, and as a result the fee charged to the scheme in the current year were reduced by this amount. The closing balance of Impairment provisions reported above is held against agent loans that are under management and overpaid commissions that are subject to external recovery or legal action.

31. Disaggregated Information

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

	Consolidated		
	Investment Linked Policies	Non-Investment Policies	Total
For the year ended 30 June 2010			
Investments	**877**	**1,180**	**2,057**
Reinsured Life insurance contracts	**-**	**67**	**67**
Other assets	**42**	**77**	**119**
Liabilities other than policy liabilities	**35**	**437**	**472**
Policy liabilities	**884**	**270**	**1,154**
Shareholder's retained earnings	**-**	**165**	**165**
Premium income	**-**	**518**	**518**
Investment income	**71**	**106**	**177**
Claims expense	**-**	**362**	**362**
Commission and management expenses	**17**	**242**	**259**
Investment income allocated to policyholders	**71**	**84**	**155**
Net profit before taxation	**25**	**115**	**140**
Net profit after taxation	**8**	**110**	**118**
For the year ended 30 June 2009			
Investments	881	1,189	2,070
Reinsured Life insurance contracts	-	64	64
Other assets	53	73	126
Liabilities other than policy liabilities	17	367	384
Policy liabilities	917	371	1,288
Shareholders retained earnings	-	144	144
Premium income	-	488	488
Investment income	(78)	(22)	(100)
Claims expense	-	291	291
Commission and management expenses	22	239	261
Investment income allocated to policyholders	(78)	(48)	(126)
Net profit before taxation	7	121	128
Net profit after taxation	11	99	110

32. Risk Management Policies

Introduction

The Group is exposed to risk through its financial assets, Life investment contracts, Reinsurance assets and Life insurance contract liabilities. Risk management policies focus on ensuring cash flows from assets are sufficient to fund obligations arising from insurance and investment contracts. Key components of this relate to insurance risk, credit risk, liquidity risk and market risk.

The Group's risk management strategy is set by the Board of Directors through the Board Audit and Risk Committee. This committee comprises members of the Board and is chaired by an independent member of the Board. Implementation of risk management strategy is the responsibility of the Chief Executive Officer.

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

The following sections describe the risk management framework components:

Insurance Risk

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

Terms and Conditions of Insurance Contracts

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

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

32. Risk Management Policies *(continued)*

Insurance Risk *(continued)*

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

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

Concentrations of insurance risk arise due to:
- Large sums assured on certain individuals. The largest exposures all relate to mortality.
- Geographic concentrations due to employee group schemes. The Group participates in the CBA catastrophe cover reinsurance programme which provides cover of AUD$100m for single event claims in excess of AUD$20m.

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

Credit Risk

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

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

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

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

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

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

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

Liquidity Risk

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

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

Market Risk

Market risk is the risk of an event in the financial markets that results in a fluctuation in earnings or a fluctuation in value.

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

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

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

32. Risk Management Policies *(continued)*

Market Risk *(continued)*

Market risk arises from returns obtained from investing the shareholder's funds held in the Group. Appropriate investment mandates are set by ALCO for the investment of shareholder's funds. As at 30 June 2010, shareholder's funds in the Group were invested 1% (30 June 2009 1%) in growth assets (shares and property) and 99% (30 June 2009 99%) in income assets (cash and fixed interest).

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

The Group's Balance Sheet risk is measured using sensitivity analysis by modelling the change in assets, liabilities, and profit from changes in interest rates and equity values (refer to note 34).

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

Price Risk

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

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

Interest Rate Risk

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

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

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

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

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

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

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

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

Foreign Exchange Risk

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

Foreign currency exposures and risks arise as the Group invests offshore. Foreign currency denominated investments amounted to 55% (30 June 2009 62%) of total investments. The market value of these investments is therefore affected by movements in the New Zealand dollar relative to the currency in which the investment was denominated.

Foreign exchange contracts are used to hedge approximately 75% (30 Jun 2009 81%) of currency risk. All equity fund investments denominated in foreign currency are 50% hedged (30 Jun 2009 50%). All fixed interest fund investments denominated in foreign currency are 100% hedged (30 June 2009 100%). All foreign currency hedging arrangements are economic hedges.

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

32. Risk Management Policies *(continued)*

Equity Risk

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

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

Internal Audit

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

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

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

33. Events After Balance Date

There have been no events after balance date (30 June 2009 Nil).

34. Sensitivity Analysis

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

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

34. Sensitivity Analysis *(continued)*

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

	Sovereign Assurance Company Limited				
	Consolidated				
$ millions	Effect on Assets	Effect on Liabilities		Profit / (Loss) and Equity	
As at 30 June 2010		Gross of Reinsurance	Net of Reinsurance	Gross of Reinsurance	Net of Reinsurance
Result of Change in Assumptions					
Market Risks					
Increase in interest rates of 1%	**(48)**	**(40)**	**(40)**	**(8)**	**(8)**
Decrease in interest rates of 1%	**48**	**40**	**40**	**8**	**8**
Equity values increase by 10%	**47**	**47**	**47**	**-**	**-**
Equity values decrease by 10%	**(47)**	**(47)**	**(47)**	**-**	**-**
Favourable movement in exchange rates of 10%	**27**	**27**	**27**	**-**	**-**
Adverse movement in exchange rates of 10%	**(27)**	**(27)**	**(27)**	**-**	**-**
Insurance Risks					
Increase in expenses of 10%	**-**	**1**	**1**	**(1)**	**(1)**
Improvement in mortality of 10%	**-**	**(1)**	**(1)**	**1**	**1**
Worsening of mortality by 10%	**-**	**1**	**1**	**(1)**	**(1)**
Improvement in morbidity of 10%	**-**	**(3)**	**(3)**	**3**	**3**
Worsening of morbidity by 10%	**-**	**3**	**3**	**(3)**	**(3)**
Improvement in discontinuance rate of 20%	**-**	**(3)**	**(3)**	**3**	**3**
Worsening of discontinuance rate by 20%	**-**	**3**	**3**	**(3)**	**(3)**
As at 30 June 2009					
Result of Change in Assumptions					
Market Risks					
Increase in interest rates of 1%	(58)	(49)	(49)	(9)	(9)
Decrease in interest rates of 1%	58	49	49	9	9
Equity values increase by 10%	47	47	47	-	-
Equity values decrease by 10%	(47)	(47)	(47)	-	-
Favourable movement in exchange rates of 10%	26	26	26	-	-
Adverse movement in exchange rates of 10%	(26)	(26)	(26)	-	-
Insurance Risks					
Increase in expenses of 10%	-	-	-	-	-
Improvement in mortality of 10%	-	2	2	(2)	(2)
Worsening of mortality by 10%	-	(2)	(2)	2	2
Improvement in morbidity of 10%	-	(3)	(3)	3	3
Worsening of morbidity by 10%	-	3	3	(3)	(3)
Improvement in discontinuance rate of 20%	-	(1)	(1)	1	1
Worsening of discontinuance rate by 20%	-	1	1	(1)	(1)

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

Notes to the Financial Statements

For the year ended 30 June 2010

35. Material Foreign Currency Balances

$ millions	Sovereign Assurance Company Limited					
	Consolidated					
As at 30 June 2010	**USD**	**AUD**	**GBP**	**YEN**	**EURO**	**Other**
Financial Assets						
Cash and cash equivalents	**1**	**2**	**-**	**-**	**-**	**1**
Securities	**394**	**229**	**132**	**37**	**256**	**59**
Derivative financial instruments	**13**	**1**	**1**	**-**	**-**	**1**
Financial Liabilities						
Derivative financial instruments	**-**	**-**	**-**	**-**	**(6)**	**-**
Net Foreign currency assets	**408**	**232**	**133**	**37**	**250**	**61**
Derivative financial instruments net notional principal	***305***	***148***	***93***	***21***	***227***	***40***
As at 30 June 2009						
Financial Assets						
Cash and cash equivalents	7	2	2	6	5	1
Securities	326	199	145	255	265	40
Derivative financial instruments	20	-	-	5	17	2
Financial Liabilities						
Derivative financial instruments	-	(3)	-	-	(3)	-
Net Foreign currency assets	353	198	147	266	284	43
Derivative financial instruments net notional principal	*258*	*128*	*108*	*244*	*245*	*36*

36. Concentrations of Credit Exposures by Geographic Region

	Consolidated							
As at 30 June 2010	**New Zealand**	**North America**	**Australia**	**Great Britain**	**Asia**	**Europe**	**Other**	**Total**
Financial Assets								
Cash and cash equivalents	**525**	**-**	**2**	**-**	**-**	**5**	**-**	**532**
Securities	**412**	**223**	**532**	**100**	**7**	**209**	**26**	**1,509**
Derivative financial instruments	**16**	**-**	**-**	**-**	**-**	**-**	**-**	**16**
Trade and other receivables	**35**	**-**	**8**	**-**	**-**	**-**	**-**	**43**
Total Credit exposures by geographic region	**988**	**223**	**542**	**100**	**7**	**214**	**26**	**2,100**
As at 30 June 2009								
Financial Assets								
Cash and cash equivalents	508	-	-	-	25	-	-	533
Securities	271	172	494	114	161	263	18	1,493
Derivative financial instruments	44	-	-	-	-	-	-	44
Trade and other receivables	34	-	7	-	-	3	-	44
Total Credit exposures by geographic region	857	172	501	114	186	266	18	2,114
As at 30 June 2010	Parent							
Financial Assets								
Cash and cash equivalents	**520**	**-**	**2**	**-**	**-**	**5**	**-**	**527**
Securities	**412**	**223**	**532**	**100**	**7**	**209**	**26**	**1,509**
Derivative financial instruments	**16**	**-**	**-**	**-**	**-**	**-**	**-**	**16**
Trade and other receivables	**35**	**-**	**8**	**-**	**-**	**-**	**-**	**43**
Total Credit exposures by geographic region	**983**	**223**	**542**	**100**	**7**	**214**	**26**	**2,095**
As at 30 June 2009								
Financial Assets								
Cash and cash equivalents	498	-	-	-	25	-	-	523
Securities	271	172	494	114	161	263	18	1,493
Derivative financial instruments	44	-	-	-	-	-	-	44
Trade and other receivables	33	-	7	-	-	3	-	43
Total Credit exposures by geographic region	846	172	501	114	186	266	18	2,103

36. Concentrations of Credit Exposures by Geographic Region *(continued)*

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

37. Maturity Analysis of Financial Liabilities

	Sovereign Assurance Company Limited						
	Consolidated						
$ millions	0 -1 Month	1 - 3 Months	3 - 12 Months	1 - 5 Years	Later than 5 Years	Total	Carrying Value
As at 30 June 2010							
Life investment contracts	**589**	**4**	**17**	**131**	**303**	**1,044**	**884**
Derivative financial instruments	**534**	**376**	**-**	**-**	**-**	**910**	**6**
Deposited reserves	**-**	**-**	**1**	**4**	***33***	***38***	***39***
Trade and other payables	**112**	**2**	**-**	**1**	**-**	**115**	**126**
Total Financial liabilities	**1,235**	**382**	**18**	**136**	**336**	**2,107**	**1,055**
Simultaneous inflows on derivative financial instruments	***519***	***381***	**-**	**-**	**-**	***900***	**6**
As at 30 June 2009							
Life investment contracts	650	3	15	109	277	1,054	917
Derivative financial instruments	486	675	-	-	-	1,161	6
Deposited reserves	-	-	2	7	30	39	39
Trade and other payables	74	1	-	1	-	76	76
Total Financial liabilities	1,210	679	17	117	307	2,330	1,038
Simultaneous inflows on derivative financial instruments	*497*	*702*	-	-	-	*1,199*	*6*

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

38. Concentration of Credit Exposures by Individual Counterparty

	Consolidated			
Balance date credit exposures as at 30 June	**Number of Banks**		**Number of Non-banks**	
	2010	2009	**2010**	2009
Percentage of Shareholder's Equity				
5 - 9	**-**	-	**1**	2
90 - 94	**1**	-	**-**	-
95 - 99	**-**	1	**-**	-

$ millions

Balance date credit exposures as at 30 June	**Total Exposure to Banks**		**Total Exposure to Non-banks**	
	2010	2009	**2010**	2009
Percentage of Shareholder's Equity				
5 - 9	**-**	-	**28**	73
90 - 94	**570**	-	**-**	-
95 - 99	**-**	578	**-**	-

Only counterparties with balance date exposures exceeding 5% of Shareholder's equity are disclosed. Government exposures are excluded. Equity securities and managed funds investing in equity securities have been excluded as the Group is only exposed to price risk on these instruments, not credit risk. Refer to Note 31 for details on how the Group manages price risk.

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

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
188 Quay Street
Private Bag 92162
Auckland 1142
New Zealand
Telephone +64 9 355 8000
Facsimile +64 9 355 8001
www.pwc.com/nz

Auditors' Report

To the shareholder of Sovereign Assurance Company Limited

We have audited the financial statements on pages 1 to 40. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 30 June 2010 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 6 to 14.

This report is made solely to the Company's shareholder, in accordance with Section 205 (1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the Company's shareholder those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholder, for our audit work, for this report or for the opinion we have formed.

Directors' Responsibilities

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 30 June 2010 and their financial performance and cash flows for the year ended on that date.

Auditors' Responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

(a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and

(b) whether the accounting policies are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the Company or any of its subsidiaries other than in our capacity as auditors.

PRICEWATERHOUSECOOPERS

Auditors' Report

Sovereign Assurance Company Limited

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

(a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and

(b) the financial statements on pages 1 to 40:

- (i) comply with generally accepted accounting practice in New Zealand;
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of the Company and Group as at 30 June 2010 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 19 October 2010 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants | Auckland