# Partners Life Limited

# Annual Report and Financial Statements for the year ended

# 31 March 2016

Rewarding partnership – for life

# Financial Statements

## For the year ended 31 March 2016

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# Approval of Annual Report

The Board of Directors ("the Board") are pleased to present the annual report, including the financial statements of Partners Life Limited ("the Company") for the year ended 31 March 2016.

For and on behalf of the Board

I S Knowles

Chairman of the Board

4 July 2016

J M G Perry

Chairman of the Audit and Risk Committee

4 July 2016

# Company Directory

## As at 31 March 2016

| | |
|---|---|
| Nature of Business | The provision and administration of life insurance and related products, including trauma insurance, disability insurance, total and permanent disability insurance and major medical insurance. |
| Registered Office | Level 1, 33-45 Hurstmere Road<br>Takapuna<br>Auckland 0740 |
| Company Number | 3072505 |
| IRD Number | 105-332-366 |
| Directors | N E Ballantyne<br>P Chrystall<br>I S Knowles (Chairman)<br>J M G Perry<br>L W Jenkins |
| Auditor | KPMG<br>18 Viaduct Harbour Avenue<br>Auckland |
| Bankers | Westpac New Zealand Limited |
| Solicitors | Chapman Tripp<br>23 Albert Street<br>Auckland |

## Partners Life Limited Statement of Comprehensive Income

| *In thousands of New Zealand Dollars* | Note | For the year ended 31 March 2016 | 2015 |
|---|---|---|---|
| **Premium revenue** | | | |
| Premium revenue | | 138,648 | 101,929 |
| Less: Outward reinsurance expense | | (83,342) | (61,544) |
| **Net premium revenue** | | **55,306** | **40,385** |
| Reinsurance commission revenue | | 62,324 | 70,748 |
| Investment revenue | 9 | 1,738 | 1,569 |
| **Net revenue** | | **119,368** | **112,702** |
| Claims expense | | 57,964 | 44,364 |
| Less: Reinsurance recoveries | | (30,641) | (23,538) |
| **Net claims expense** | | **27,323** | **20,826** |
| Net movement in insurance contract assets and liabilities | 12 | (28,602) | (35,173) |
| Commission and operating expenses | 10 | 109,595 | 108,596 |
| **Total expenses including movement in insurance contracts** | | **108,316** | **94,249** |
| **Profit before income tax** | | **11,052** | **18,453** |
| Income tax expense | 11 | - | - |
| **Total comprehensive income** | 1 | **11,052** | **18,453** |

*The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.*

## Partners Life Limited Statement of Financial Position

| *In thousands of New Zealand Dollars* | Note | As at 31 March<br>2016 | 2015 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | 59,878 | 41,011 |
| Trade and other receivables | 13 | 21,325 | 14,111 |
| Investments | | - | 514 |
| Loans | 14 | 1,005 | 1,336 |
| Insurance contract assets | 12 | 356,106 | 290,469 |
| Property, plant and equipment | 15 | 433 | 400 |
| Intangible assets | 16 | 2,251 | 2,637 |
| **Total Assets** | | **440,998** | **350,478** |
| **Liabilities** | | | |
| Trade and other payables | 17 | 42,552 | 25,444 |
| Insurance contract liabilities - reinsurance | 12 | 170,446 | 148,435 |
| Present value of future tax payable in insurance contract assets and liabilities | 12 | 82,491 | 67,467 |
| **Total Liabilities** | | **295,489** | **241,346** |
| **Net Assets** | | **145,509** | **109,132** |
| **Equity** | | | |
| Contributed capital | 23 | 117,248 | 91,923 |
| Retained earnings | | 28,261 | 17,209 |
| **Total Equity** | | **145,509** | **109,132** |

For and on behalf of the Board who authorised the issue of this report on 4 July 2016.

I S Knowles

Chairman of the Board

J M G Perry

Chairman of the Audit and Risk Committee

*The above Statement of Financial Position should be read in conjunction with the accompanying notes.*

## Partners Life Limited Statement of Changes in Equity

| | | For the year ended 31 March | | |
|---|---|---|---|---|
| *In thousands of New Zealand Dollars* | **Note** | **Contributed capital** | **Retained earnings** | **Total Equity** |
| **Balance at 1 April 2015** | | **91,923** | **17,209** | **109,132** |
| | | | | |
| **Total comprehensive income** | | **-** | **11,052** | **11,052** |
| | | | | |
| **Transactions with owners of the Company** | | | | |
| Shares issued | 23 | 25,000 | - | 25,000 |
| Equity settled share based payments | 23, 24 | 325 | - | 325 |
| **Total transactions with owners of the Company** | | 25,325 | - | 25,325 |
| | | | | |
| **Balance at 31 March 2016** | | **117,248** | **28,261** | **145,509** |

| | | | | |
|---|---|---|---|---|
| **Balance at 1 April 2014** | | **58,515** | **(1,244)** | **57,271** |
| | | | | |
| **Total comprehensive income** | | **-** | **18,453** | **18,453** |
| | | | | |
| **Transactions with owners of the Company** | | | | |
| Shares issued | 23 | 31,330 | - | 31,330 |
| Equity settled share based payments | 23, 24 | 2,078 | - | 2,078 |
| **Total transactions with owners of the Company** | | 33,408 | - | 33,408 |
| | | | | |
| **Balance at 31 March 2015** | | **91,923** | **17,209** | **109,132** |

*The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.*

## Partners Life Limited Statement of Cash Flows

| *In thousands of New Zealand Dollars* | Note | For the year ended 31 March 2016 | 2015 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Premiums received | | 138,931 | 101,844 |
| Reinsurance recoveries received | | 19,990 | 18,896 |
| Reinsurance commission received | | 62,343 | 62,663 |
| Interest received | | 1,532 | 1,580 |
| Reinsurance premiums paid | | (78,107) | (56,862) |
| Claims paid | | (45,105) | (36,382) |
| Commission paid to advisers | | (70,116) | (70,317) |
| Payments to suppliers and employees | | (34,858) | (32,110) |
| Tax refunded / (paid) | | 72 | (2) |
| **Net cash flow from operating activities** | 21 | **(5,318)** | **(10,690)** |
| **Cash flows from investing activities** | | | |
| Net decrease / (increase) in loans to advisers | | 272 | (412) |
| Net decrease in advances to group companies | | (5) | (66) |
| Sale of investments | | 514 | - |
| Acquisition of property, plant and equipment | 15 | (190) | (309) |
| Acquisition of intangible assets, net of disposal | 16 | (1,406) | (1,565) |
| **Net cash flow from investing activities** | | **(815)** | **(2,352)** |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | 23 | 25,000 | 31,330 |
| **Net cash flow from financing activities** | | **25,000** | **31,330** |
| **Net increase in cash and cash equivalents** | | **18,867** | **18,288** |
| Cash and cash equivalents at 1 April | | 41,011 | 22,723 |
| **Cash and cash equivalents at 31 March** | | **59,878** | **41,011** |
| Being: | | | |
| On demand bank deposits | | 8,523 | 9,947 |
| Short term bank deposits | | 51,355 | 31,064 |
| **Cash and cash equivalents at 31 March** | | **59,878** | **41,011** |

*The above Statement of Cash Flows should be read in conjunction with the accompanying notes.*

## 1. Sources of profit

| | | For the year ended 31 March | |
|---|---|---|---|
| *In thousands of New Zealand Dollars* | **Note** | **2016** | **2015** |
| Profits emerging under the MoS methodology were as follows: | | | |
| Planned margins of revenues over expenses | | 12,671 | 7,807 |
| Interest on net insurance contract assets | | 2,927 | 1,783 |
| Experience variances | | (3,027) | (5,915) |
| **Underlying insurance profit** | | **12,571** | **3,675** |
| Investment revenue | 9 | 1,738 | 1,569 |
| Changes to economic assumptions | 7 | (1,557) | 14,709 |
| One-off adjustments | | (1,700) | (1,500) |
| **Total comprehensive income** | | **11,052** | **18,453** |

## 2. Reporting entity

The Company is a profit-oriented company domiciled in New Zealand and registered under the Companies Act 1993. The company is 100% owned by Partners Group Holdings Limited ("PGHL").

The Company is a reporting entity for the purposes of the Companies Act 1993, the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013, and its financial statements comply with these Acts. The Company is a licenced life insurer under the Insurance (Prudential Supervision) Act 2010 ("IPSA") and its financial statements also comply with this Act.

The annual report was authorised for issue by the Board on 4 July 2016.

## 3. Statement of compliance and reporting framework

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"), as a for-profit entity, and comply with International Financial Reporting Standards ('IFRS') and the New Zealand Equivalents to International Financial Reporting Standards (''NZ IFRS'').

## 4. Basis of preparation

The financial statements have been prepared on a going concern basis.

The Company is required to meet certain solvency ratios by the Reserve Bank of New Zealand and the Company's reinsurer, SCOR Global Life SE ("SCOR"). These requirements are described elsewhere (refer note 8) in these financial statements. As at the balance date and as at the date of approval of these financial statements the Company complies with these requirements. The continuing growth of the business means the Company is reliant on both current and future reinsurance capacity as well as future equity capital funding to ensure it continues to meet these solvency requirements. In considering the forecast cash flows of the business over the next 12 months the directors have determined that there is a need to raise further equity capital during that period.

The directors, together with the directors of the Company's sole shareholder, PGHL, have considered such future requirements and are confident of the ability to obtain ongoing reinsurance capacity and the required equity capital.

## 4. Basis of preparation (continued)

At the time of the approval of the financial statements, Blackstone Tactical Opportunities ("Blackstone") has confirmed a $200 million commitment to invest new capital into PGHL from funds managed by it over the next two years. The investment is subject to shareholder and regulatory approvals and relevant commercial conditions. The directors of PGHL are confident all requirements for the investment to proceed will be met.

The financial statements have been prepared on a historical cost basis except for insurance contract assets and liabilities which are stated at actuarially assessed values, and investments and cash and cash equivalents which are stated at fair value.

The Company has adopted all new and revised mandatory standards, amendments and interpretations in the current year. None had a material impact on these financial statements. An amendment to Appendix C of NZIFRS 4 *Insurance Contracts* requires the disclosure of disaggregated information for each life fund which is presented in note 22.

There are a number of standards, amendments and interpretations which have been approved but are not yet effective. The Company expects to adopt these when they become mandatory, and is assessing their impact on the financial statements.

Certain comparative figures have been adjusted to measure or present them on the same basis as the current year. The impact of any reclassification is immaterial.

## 5. Summary of significant accounting policies

### 5.1 Premium revenue

Premiums for insurance contract business are recognised as revenue on an accrual basis. The unearned portion of premium revenue is recognised in the Statement of Financial Position in Trade and other payables and in Insurance contract assets.

### 5.2 Outward reinsurance expense

Premiums ceded to reinsurers under reinsurance contracts are recorded as Outward reinsurance expense and are recognised when they become due and payable in accordance with the terms and conditions of the reinsurance contracts. The prepaid portion of premiums ceded is recognised in the Statement of Financial Position in Trade and other receivables and in Insurance contract liabilities – reinsurance.

### 5.3 Reinsurance commission revenue

Reinsurance commission revenue includes inwards reinsurance commission on issued policies containing reinsured benefits, net of commission repayable as a result of policy discontinuances. It is recognised as revenue on an accrual basis.

### 5.4 Claims expense

Claims expense is recognised when the liability to a policyholder has been established, or when the Company has been notified of a claim event. A provision is made for claims that have not yet been reported. The claims provision for disability income products is calculated as the present value of estimated payments.

### 5.5 Reinsurance recoveries

Reinsurance recoveries are recognised as revenue at the same time the claim expense is recognised if the underlying policy is reinsured. Reinsurance recovery provisions are established for claims that have not yet been reported. The reinsurance recovery provision for disability income products is calculated as the present value of recoverable amounts.

## 5. Summary of significant accounting policies (continued)

### 5.6 Commission and operating expenses

Commission paid to independent advisers, and the Company's operating expenses, have been apportioned between acquisition and maintenance costs which determines the timing of expense recognition.

*Acquisition costs*

Acquisition costs are the costs of acquiring new business, including adviser commission and similar distribution costs related to accepting, issuing and initially recording policies.

Acquisition costs are spread over the period in which insurance services are provided. The expense is recognised as a component of Net movement in insurance contract assets and liabilities in the Statement of Comprehensive Income. Unamortised acquisition costs are a component of insurance contract assets and liabilities in the Statement of Financial Position.

*Maintenance costs*

Maintenance costs are the costs of administering policies subsequent to sale including renewal and as earned commission and all other operating costs of the Company other than acquisition costs.

Maintenance costs are recognised on an accrual basis.

### 5.7 Insurance business

Insurance contracts transfer significant insurance risks from the policyholder to the insurer.

The methodology used to determine the value of life insurance contract assets and liabilities is referred to as Margin on Services ("MoS"), as set out in New Zealand Society of Actuaries Professional Standard No 20: Determination of Life Insurance Policyholder Liabilities ("PS20").

MoS is designed to recognise profits on insurance as services are provided to policyholders and income is received. Profits are deferred and recognised over the life of the insurance policies, whereas losses are recognised immediately as they arise.

Insurance contract assets and liabilities reflect the present value of expected future premiums, claims, taxes and expenses, including profit margins to be released when earned in future periods.

The movement in insurance contract assets and liabilities during the period is recognised in the Statement of Comprehensive Income.

Details of the actuarial assumptions used in the calculation of insurance contract assets and liabilities are set out in Note 7.

### 5.8 Statutory Fund

As a means of protecting the interests of life insurance policyholders, IPSA requires licensed insurers to establish and maintain at least one statutory fund in respect of its life insurance business.

The Company has established one statutory fund for its life insurance business. Medical insurance business and any other items that do not relate to contracts of life insurance are contained within the shareholder fund.

Notes 8 and 22 contain further information on the statutory fund.

## 5. Summary of significant accounting policies (continued)

### 5.9 Taxation

The discounted tax cash flows embedded in the Insurance contract assets and Insurance contract liabilities - reinsurance balances, are netted and disclosed separately in the Statement of Financial Position as Present value of future tax payable in insurance contract assets and liabilities.

The movement in Present value of future tax payable is included in Net movement in insurance contract assets and liabilities reported in the Statement of Comprehensive Income.

### 5.10 Cash and cash equivalents

Cash and cash equivalents comprise on demand deposits at bank and short-term bank deposits subject to an insignificant risk of changes in value.

### 5.11 Intangible assets

Computer software is recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over the period for which benefits are expected to be derived, which is assessed to be three or five years. Cost comprises all directly attributable costs necessary to purchase, create, produce and prepare the asset to be capable of operating in the manner intended by management.

### 5.12 Share-based payments

*Employees*

Equity settled share based payments to employees are measured as the option fair value at grant date.

The option fair value determined at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in equity.

*Advisers*

Equity settled share based payment transactions with advisers (shadow share scheme) provides additional commission payments on a deferred basis subject to persistency criteria for qualifying policies sold and maintained by advisers. The entitlements do not represent an ownership interest in the Company.

The option fair value of shadow shares at grant date is recognised as a commission expense, with a corresponding increase in equity.

## 6. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

*Insurance contract assets and liabilities*

Insurance contract assets and liabilities are valued using actuarial methods that take into account the risks and uncertainties of the particular classes of insurance business written (refer note 7).

The key factors that affect the estimated value of the insurance contract assets and liabilities are:

- The cost of providing benefits and administering the insurance contracts.
- The costs incurred in acquiring the insurance policies (acquisition costs), including adviser commissions, underwriting and policy issue costs.

## 6. Critical accounting judgements and key sources of estimation uncertainty (continued)

*Insurance contract assets and liabilities (continued)*

- Mortality and morbidity experience on life insurance products.
- Discontinuance experience which affects the ability to recover acquisition costs.
- Reinsurance arrangements and timing of future cash flows under these arrangements, which include reinsurance expense, reinsurance recoveries, reinsurance commission revenue.
- Future premium rates.
- Use of tax losses and the ability to generate tax losses in the future.
- Other factors such as regulation, competition, interest rates, and general economic conditions are used in the valuation of insurance contract assets and liabilities.

*Share based payments*

The value of shadow shares issued to advisers, and share options issued to executives, have been calculated using a binomial option pricing model which uses a number of assumptions. An independent opinion was received on the volatility and risk free rate assumptions which were applied in the model. Refer note 24.

## 7. Actuarial methods and assumptions

An actuarial report on insurance contract assets and liabilities, as at 31 March 2016, was prepared by A Gardiner (“the Actuary”), Fellow of the New Zealand Society of Actuaries (“FNZSA”), and signed on 4 July 2016. The report was reviewed by the Appointed Actuary, A Follington, FNZSA, and Fellow of the Institute of Actuaries of Australia (“FIAA”).

The actuarial report indicates that the Actuary was satisfied as to the accuracy of the data upon which the insurance contract assets and liabilities have been determined and the level of additional reserves for claims (net of reinsurance) included within Trade and other payables / Trade and other receivables.

*Methods used in the valuation of insurance contract assets and liabilities*

The Actuary certified that the value of insurance contract assets and liabilities, including reserves for claims, has been determined in accordance with methods and assumptions disclosed in the actuarial report and with PS20.

Insurance contract assets and liabilities were measured as the present value of expected future cash flows plus allowances for the cost of policyholders electing to exercise various options in the future, except for group insurance contract liabilities which were measured on an unexpired premium basis.

The profit carrier, net claims, was used as the basis on which to spread the expected future profit.

The Company implemented a new Actuarial projection model using Prophet during the year. There were no changes to insurance contract assets and liabilities as at 31 March 2015, with any difference in modelling methodology flowing into profit margins. The overall change in profit margins was negligible.

*Actuarial assumptions used in the valuation of insurance contract assets and liabilities*

a) Discount rates

Benefits under the insurance contracts are not contractually linked to the performance of assets held. As a result, the insurance contracts were discounted for the time value of money using risk-free discount rates derived from returns on NZ government bonds as at the valuation date.

## 7. Actuarial methods and assumptions (continued)

The risk-free rates (before tax) applied in the valuation process were monthly forward rates. Equivalent annual rates are:

| | As at 31 March | |
|---|---|---|
| **Years from valuation date** | **2016** | **2015** |
| 1 | 2.05% | 3.26% |
| 5 | 2.76% | 3.26% |
| 10 | 3.79% | 3.59% |
| 15 | 4.27% | 3.78% |
| 20 | 4.54% | 4.03% |

b) Acquisition expenses

Acquisition expense assumptions were based on the actual acquisition expenses incurred for the year ending 31 March 2016. This method is unchanged from the prior year.

c) Maintenance expenses

Maintenance expense assumptions were based on the Company's business plan for the period to 31 March 2020, allowing for new business expected. After this time an assumed inflation rate of 2.25% per annum (31 March 2015: 2.5% per annum) was used. This method is unchanged from the prior year.

d) Taxation

The future rate of taxation is assumed to be 28%, applicable after an initial period of 124 months (31 March 2015: 128 months) during which it was assumed $140 million of tax losses would be utilised (31 March 2015: $140 million).

This initial period was determined by projecting cash flows from business in-force at balance date, together with cash flows from future new business the Company is expecting to write, and considering the probable use of past tax losses available to carry forward.

e) Mortality and morbidity

Assumed mortality and morbidity rates vary by age, sex and smoking habits and have been based on the Company's experience and rates from reinsurer tables. This method is unchanged from the prior year.

f) Lapses

Voluntary discontinuances were assumed to vary according to the age of the life insured and the length of time the policy has been in force, in line with the Company's expected experience taking into account other market information and matters specific to the Company.

The range of lapse rates for each related product group are tabled below.

| **Related product group** | As at 31 March | |
|---|---|---|
| | **2016** | **2015** |
| Life | 7.75% - 15.00% | 7.50% - 16.25% |
| Trauma | 9.25% - 17.25% | 9.25% - 16.75% |
| Total and permanent disability | 9.50% - 15.75% | 9.50% - 14.75% |
| Disability income | 8.25% - 14.50% | 8.50% - 15.00% |
| Medical | 6.75% - 10.75% | 6.50% - 10.75% |

## 7. Actuarial methods and assumptions (continued)

f) Lapses (continued)

The 2015 comparative figures relate to different product groupings. The 2015 figures shown for the Life product group include Trauma and Total and Permanent Disability ("TPD") accelerated benefits, whereas the 2016 figures include these accelerated benefits in the Trauma and TPD product groups respectively. The 2015 figures for the Trauma and TPD product groups include Trauma Standalone only and TPD Standalone only respectively. The product groupings changed in March 2016.

g) Indexation

Indexation of certain benefits (where applicable) was assumed to be 2.25% per annum (31 March 2015: 2.5% per annum), except for the calendar year 2016 where allowance was made for the rate of increase known to be applicable during that year.

h) Inflation

The inflation rate assumption was determined on a basis consistent with the medium to long term Reserve Bank of New Zealand ("RBNZ") inflation target of between 1% and 3%. The rate assumed was 2.25% per annum (31 March 2015: 2.5% per annum).

i) Premium increases

Premium increases have been announced across a range of products, and will take effect at the policies' next anniversary following 1 July 2016. Premium rates are assumed to increase by 1.0% per annum for non-medical policies for the four years following the policies' next anniversary post 1 July 2017 (31 March 2015: 1.0% per annum for the next five years).

**Impact of changes in assumptions between 31 March 2015 and 31 March 2016**

The following table shows the effect on the present value of planned profit margins and insurance contract assets and liabilities as at 31 March 2016 of changes in the actuarial assumptions. The effect is measured only on business in force at 31 March 2015, which remains in force at 31 March 2016.

| **For the year ended 31 March** | **Effect on the Present Value of Future Profit Margins Increase / (Decrease)** | | **Effect on Net Insurance Contract Assets Increase / (Decrease)** | |
|---|---|---|---|---|
| *In thousands of New Zealand Dollars* | **2016** | **2015** | **2016** | **2015** |
| **Assumption category:** | | | | |
| Economic | (933) | 13,600 | 1,557 | 14,709 |
| Lapses | (3,292) | 1,900 | - | - |
| Expenses | (7,268) | (2,700) | - | - |
| Tax | 2,688 | 7,800 | - | - |
| Premium increases | 18,223 | 27,800 | - | - |
| Claims | - | (25,100) | - | - |
| Reinsurance | 3,918 | - | - | - |
| Model changes | - | 200 | | - |
| **Impact of changes in assumptions** | **13,336** | **23,500** | **1,557** | **14,709** |

## 8. Risk management

The financial condition and operating results of the Company are exposed to a number of risks, the primary risks being insurance, credit, liquidity and capital risk.

The Company's primary objective is to manage risks to minimise any potential impact on policyholders and shareholders and comply with the risk management requirements of IPSA.

A risk management strategy has been put in place to identify and control risks, and to put in place processes and procedures to mitigate risks. The Company's appetite for and exposure to risks is regularly monitored by the Board, who also oversees the control framework the Company has put in place in order to manage these risks.

The Board has established an Audit and Risk Committee ("ARC"), chaired by an independent, non-executive director.

The ARC is chartered to monitor and assess the Company's compliance with significant laws and regulations, the identification of key risks and initiation of actions to mitigate these risks in line with the Company's Risk Management Programme. The ARC also monitors the on-going management of these key risks.

The Company has formed an Asset and Liability Management Committee ("ALCO"), which meets on a regular basis to monitor and manage financial risks. The ALCO reports to the Board on a regular basis. A Statement of Investment Policy and Objectives ("SIPO") and Treasury Policy and a Capital Management Policy, both approved by the Board, establish parameters for the operation of ALCO.

**Insurance risk**

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

The Company's objectives in managing insurance risk are:

- To continuously meet internal and external solvency requirements.
- To utilise reinsurance to keep the retained portion of claims in line with the Company's risk appetite.
- To set premium rates, based on expected claims and expenses, that will ensure an appropriate return on capital.
- To maintain strong internal controls with respect to the underwriting of all new insurance business.
- To maintain claims management processes and controls to ensure that all valid claims are paid in a timely and accurate manner.

A number of variables give rise to insurance risk:

- Mortality and morbidity risk: Higher mortality rates and/or an increased incidence and duration of illness is likely to lead to higher claims expense, reducing profit and shareholder's equity.
- Discontinuance risk: The impact of a change in discontinuance rates depends upon the type of contract and duration in force, but generally an increase in the discontinuance rate will reduce profit and shareholder's equity.
- Expense risk: An increase in the level or growth of expenses over assumed levels will reduce profit and shareholder's equity.

## 8. Risk management (continued)

**Insurance risk (continued)**

The table below illustrates the sensitivity of profit and equity (after allowance for reinsurance) to changes in insurance risk variables emerging over the year following the valuation date.

| | | **As at 31 March** | | | |
|---|---|---|---|---|---|
| | | **2016** | | **2015** | |
| *In thousands of New Zealand Dollars* | **Change** | **Profit** | **Equity** | **Profit** | **Equity** |
| Mortality and morbidity | +10% | (3,244) | (3,244) | (2,106) | (2,106) |
| | -10% | 3,047 | 3,047 | 2,085 | 2,085 |
| Discontinuance | +10% | (2,856) | (2,856) | (2,466) | (2,466) |
| | -10% | 3,405 | 3,405 | 2,911 | 2,911 |
| Maintenance expenses | +10% | (504) | (504) | (401) | (401) |
| | -10% | 504 | 504 | 401 | 401 |

*Insurance risk management*

1. Reinsurance

The Company has entered into reinsurance treaties (the “treaties”) with SCOR in respect of all insurance benefits sold, with the exception of medical benefits and group business (the latter being reinsured with a separate counterparty as set out below).

The treaties meet the definition of an insurance contract under NZ IFRS 4 as there is a significant transfer of insurance risk from the Company to SCOR through the reinsurance of an agreed percentage of insurance risks on all reinsured benefits up to automatic acceptance levels.

Further, SCOR bears lapse risk through the treaties. The treaties are designed to limit the Company’s exposure to insurance risk to a level appropriate to its age and capital base.

Reinsurance premiums are paid to SCOR for benefits reinsured. A defined percentage of claims paid on reinsured benefits is recoverable from SCOR.

SCOR pays the Company a commission on the issue of new business covered by the treaties which contributes towards the costs of acquiring new insurance business in order that the Company can continue to write new business and continuously meet solvency standards.

Profits arising on the business reinsured are shared with the Company post experience account balance amortisation.

Treaty terms for new business are agreed annually. If SCOR ceases to take new business under the treaties it remains on risk for policies previously reinsured.

The Company has a new business treaty with SCOR for the next two financial years.

## 8. Risk management (continued)

**Insurance risk (continued)**

Market conditions beyond the Company's control may impact the availability and cost of reinsurance. Accordingly, the Company may be forced to incur additional expenses for reinsurance or may be unable to obtain sufficient reinsurance on acceptable terms from SCOR or alternative reinsurers, in which case the Company would have to accept an increase in its exposure to insurance risk under new business, reduce the amount of new business written or seek alternative arrangements.

The Company has entered into a separate reinsurance treaty with General Reinsurance Life Australia, in respect of group business written by the Company. There are no commissions payable or profit share arrangements under this treaty, its purpose is to limit the claims risk in respect of group business written.

2. Underwriting processes

All new individual business received is subject to underwriting prior to the risk being accepted.

Underwriting decisions are made in accordance with rules and procedures detailed in the Company's underwriting manual.

Such rules and procedures include limits to delegated authorities and signing powers for individual underwriters and limits over which individual cases must be referred to the Company's reinsurers for an underwriting decision.

Underwriting is monitored by the Chief Underwriter to ensure adequate controls are in place over the various processes and the effectiveness of those controls. The Company's reinsurers and Chief Underwriter carry out regular audits to ensure underwriting decisions made are in accordance with rules, limits and the Company's underwriting philosophy.

3. Claims management

Claims management procedures are in place to ensure the timely and accurate payment of all valid claims in accordance with policy conditions.

The Company has established a Claims Review Committee, comprising senior executives, to which claims staff are able to refer claims above their individual limits and any disputed claims for review.

Claims received over specified limits are also referred to the reinsurers for assessment and sign-off.

## 8. Risk management (continued)

**Insurance risk (continued)**

*Concentration of insurance risk*

Exposure to concentration of insurance risk is mitigated through surplus reinsurance provided by SCOR, which limits the Company's exposure to a maximum of $500 thousand per rider per life assured.

The table below illustrates the concentration of insurance risk based on six bands of life sums assured for each life plan.

| | As at 31 March | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| *Sum Assured* | Before reinsurance | After reinsurance | Before reinsurance | After reinsurance |
| $0 - $250,000 | 5.1% | 56.8% | 5.4% | 58.1% |
| $250,001 - $500,000 | 12.5% | 43.2% | 13.0% | 41.9% |
| $500,001 - $1,000,000 | 33.8% | 0.0% | 34.9% | 0.0% |
| $1,000,001 - $2,000,000 | 35.6% | 0.0% | 35.1% | 0.0% |
| $2,000,001 - $5,000,000 | 12.2% | 0.0% | 11.0% | 0.0% |
| Greater than $5,000,000 | 0.8% | 0.0% | 0.6% | 0.0% |
| | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

The Company entered into a Pandemic Aggregate Stop Loss Reinsurance treaty on 13 June 2016 which mitigates the risk of significant losses arising from concentrations of insurance risk due to pandemic events. The treaty took effect on 1 April 2016.

**Credit risk**

Credit risk is the risk of loss arising from the failure of a counterparty to meet their contractual obligations. The Company is exposed to credit risk from the investment of surplus capital, reinsurance arrangements, loans to advisers and trade receivables (amounts due from policyholders and advisers).

The maximum exposure to credit risk at balance date for each class of financial asset is the carrying amount of those assets as indicated in the Statement of Financial Position.

*Credit risk management*

The Company manages credit risk by adopting a conservative investment philosophy and spreading its exposures. The SIPO and Treasury Policy establishes minimum credit ratings and exposure limits for investment counterparties.

Currently, all surplus capital is invested in call and short term deposit facilities, spread across a number of high credit quality registered banks.

Reinsurance credit risk is managed by considering the current and a potential reinsurer's credit quality, as evidenced by their credit rating and balance sheet strength as well as their reputation in the market for paying claims.

## 8. Risk management (continued)

**Credit risk (continued)**

*Credit risk management (continued)*

Loans to advisers are secured against all assets of the borrower, refer note 14. No other collateral exists for any of the investments held by the Company.

Commission recoveries due from advisers are regularly reviewed and provisions are raised where collection is considered doubtful. Amounts due from advisers are disclosed net of provisions in Trade and other receivables.

The Company has a contingent liability arising from an introducer agreement with Advaro Limited (refer note 19).

*Concentration of credit risk*

Concentration of credit risk at balance date is shown in the table below:

| *In thousands of New Zealand Dollars* | **Credit Risk** | **Standard & Poor's Credit Rating** |
|---|---|---|
| **Institution:** | | |
| **As at 31 March 2016** | | |
| Westpac New Zealand Limited | 14,721 | AA- |
| Bank of New Zealand | 15,500 | AA- |
| ANZ Bank New Zealand Limited | 15,000 | AA- |
| ASB Bank Limited | 14,657 | AA- |
| SCOR Global Life SE | 17,397 | AA- |

| *In thousands of New Zealand Dollars* | **Credit Risk** | **Standard & Poor's Credit Rating** |
|---|---|---|
| **Institution:** | | |
| **As at 31 March 2015** | | |
| Westpac New Zealand Limited | 8,011 | AA- |
| Bank of New Zealand | 12,000 | AA- |
| ANZ Bank New Zealand Limited | 13,000 | AA- |
| ASB Bank Limited | 8,000 | AA- |
| SCOR Global Life SE | 10,768 | A+ |
| New Zealand Government | 514 | AA+ |

**Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities.

A reinsurer's insolvency, inability or refusal to make timely payments under the terms of its treaty with the Company could have a materially adverse effect on the Company’s liquidity.

*Liquidity risk management*

The Company monitors liquidity risk by forecasting future daily cash requirements and ALCO regularly reviews these projections.

Liquidity risk is managed by maintaining a highly liquid portfolio of assets so that the Company has the ability to meet its financial obligations as they fall due.

## 8. Risk management (continued)

**Liquidity risk (continued)**

*Liquidity risk management (continued)*

The SIPO and Treasury Policy establishes a minimum holding of liquid assets, a maximum overall portfolio duration, and limits the asset classes that may be considered for investment. Term bank deposits are structured so that investments are maturing at regular short term intervals to accommodate future obligations and mitigate cash flow volatility (e.g. higher than expected claims).

*Concentration of liquidity risk*

The table below summarises the undiscounted maturity profile of the Company's contractual financial liabilities at balance date:

| *In thousands of New Zealand Dollars* | **On demand** | **Less than 3 months** | **3 to 12 months** | **Greater than 1 year** |
|---|---|---|---|---|
| **At 31 March 2016** | | | | |
| **Financial liabilities** | | | | |
| Expense creditors and accruals | - | 3,059 | 1,432 | - |
| Employee entitlements (excluding employee leave provisions) | - | - | 3,092 | - |
| Amounts due to group companies | 84 | - | - | - |
| Claim accruals and provisions | - | 20,090 | 2,420 | 5,699 |
| Trade creditors | 64 | 3,962 | - | - |
| **At 31 March 2015** | | | | |
| **Financial liabilities** | | | | |
| Expense creditors and accruals | - | 3,370 | - | - |
| Employee entitlements (excluding employee leave provisions) | - | - | 1,936 | 188 |
| Amounts due to group companies | 84 | - | - | - |
| Claim accruals and provisions | - | 11,825 | 2,109 | 1,416 |
| Trade creditors | 51 | 2,504 | - | - |

Refer note 12 for the estimated timing of net cash inflows from insurance contract assets and liabilities.

**Capital risk**

The primary objectives of the Company in the management of capital is to ensure that;

(i) The Company continuously meets the requirements of the Solvency Standard for Life Insurance Business ("the Solvency Standard") released by the RBNZ as part of IPSA,
(ii) The interests of policyholders and creditors are protected, and
(iii) Shareholder value is created.

The Company is required to retain actual solvency capital of at least $5 million and maintain a positive solvency margin in each fund under the Solvency standard. The Company's reinsurance treaties also impose minimum solvency requirements.

## 8. Risk management (continued)

**Capital risk (continued)**

*Capital risk management*

The Board maintains overall responsibility for the management and monitoring of capital and the determination of the level of "buffer" capital to be held in addition to the capital requirements of the Solvency Standard. A Target Solvency Capital ratio is established under the Capital Management policy for the purpose of monitoring and managing capital. Capital requirements are projected for the next three year period and are subjected to stress testing. ALCO regularly reviews these projections and reports to the Board.

During the years ended 31 March 2016 and 31 March 2015, the Company complied with all externally imposed capital requirements.

The solvency positions of the Company, the statutory fund and the shareholder fund determined under the requirements of the Solvency standard are set out below.

| **As at 31 March 2016**<br>*In thousands of New Zealand Dollars* | **Note** | **Total** | **Statutory Fund** | **Shareholder Fund** |
|---|---|---|---|---|
| Actual solvency capital | | 143,258 | 104,934 | 38,324 |
| Minimum solvency capital | | 117,699 | 94,677 | 23,022 |
| **Solvency margin** | | **25,559** | **10,257** | **15,302** |
| **Solvency ratio** | **25** | **122%** | **111%** | **166%** |

| **As at 31 March 2015**<br>*In thousands of New Zealand Dollars* | **Total** | **Statutory Fund** | **Shareholder Fund** |
|---|---|---|---|
| Actual solvency capital | 106,495 | 69,484 | 37,011 |
| Minimum solvency capital | 86,562 | 66,061 | 20,501 |
| **Solvency margin** | **19,933** | **3,423** | **16,510** |
| **Solvency ratio** | **123%** | **105%** | **181%** |

## 9. Investment revenue

| *In thousands of New Zealand Dollars* | For the year ended 31 March 2016 | 2015 |
|---|---|---|
| Interest on cash and cash equivalents | 1,662 | 1,440 |
| Interest on New Zealand Government Stock | 1 | 30 |
| Interest on loans | 75 | 113 |
| Revaluation of New Zealand Government Stock | - | (14) |
| **Total investment revenue** | **1,738** | **1,569** |

## 10. Commission and operating expenses

| *In thousands of New Zealand Dollars* | Note | For the year ended 31 March 2016 | 2015 |
|---|---|---|---|
| **Acquisition costs** | | | |
| Commission | | 57,066 | 61,885 |
| Equity settled share based payments to advisers | 24 | (399) | 1,571 |
| Other acquisition expenses | | 25,656 | 24,344 |
| **Total acquisition costs** | | 82,323 | 87,800 |
| **Maintenance costs** | | | |
| Commission | | 13,445 | 9,246 |
| Equity settled share based payments to executive staff | 24 | 614 | 507 |
| Other maintenance expenses | | 13,213 | 11,043 |
| **Total maintenance costs** | | 27,272 | 20,796 |
| **Total commission and operating expenses** | | **109,595** | **108,596** |

| *In thousands of New Zealand Dollars* | For the year ended 31 March 2016 | 2015 |
|---|---|---|
| Commission to advisers (including share based payments) | 70,112 | 72,702 |
| Staff expenses | 21,210 | 18,635 |
| Operating lease costs | 784 | 642 |
| Other technology and occupancy expenses | 5,181 | 4,621 |
| Sales and marketing | 5,741 | 6,223 |
| Professional fees | 2,092 | 1,655 |
| Medical expenses | 2,073 | 2,042 |
| Other operating expenses | 2,402 | 2,076 |
| **Total commission and operating expenses** | **109,595** | **108,596** |

There were fees paid and payable to the Company's auditor, KPMG, of $285 thousand for the audit of financial statements (31 March 2015: $267 thousand), $35 thousand for the review of regulatory reporting (31 March 2015: $35 thousand) and nil for accounting advice (31 March 2015: $1 thousand).

## 11. Taxation

| *In thousands of New Zealand Dollars* | For the year ended 31 March 2016 | 2015 |
|---|---|---|
| **Reconciliation of prima facie income tax** | | |
| Profit before income tax | 11,052 | 18,453 |
| Income tax expense at statutory income tax rate of 28% | 3,095 | 5,167 |
| Reduction in income tax expense due to non-assessable net income | (7,881) | (9,657) |
| Income tax effect of changes in temporary differences not recognised | 146 | 782 |
| Income tax effect of net reinsurance items taxed under the financial arrangements regime | (8,155) | (13,685) |
| Income tax effect of current period tax losses not recognised | 12,795 | 17,393 |
| **Income tax expense reported in the Statement of Comprehensive Income** | - | - |

The Company has income tax losses available to carry forward of $280 million (31 March 2015: $234 million).

The availability of income tax losses carried forward is subject to statutory requirements being met, including shareholder continuity rules. Future availability of tax losses could therefore be adversely affected by significant changes in ownership.

The Company has unrecognised deductible temporary differences of $4 million (31 March 2015: $4 million).

The Company has imputation credits available of $21 thousand (31 March 2015: $92 thousand).

## 12. Insurance contract assets and liabilities

| *In thousands of New Zealand Dollars* | **As at 31 March** | |
|---|---|---|
| | **2016** | **2015** |
| **Net insurance contract assets contain the following components:** | | |
| Present value of future policy benefits | (589,599) | (402,544) |
| Present value of future expenses (including reinsurance) | (377,608) | (270,100) |
| Present value of future planned margins of revenues over expenses | (256,649) | (196,241) |
| Present value of future premiums | 1,332,481 | 946,947 |
| Business valued using an accumulation model | (5,456) | (3,495) |
| **Net insurance contract assets** | **103,169** | **74,567** |
| Disclosed as: | | |
| Insurance contract assets | 356,106 | 290,469 |
| Insurance contract liabilities - reinsurance | (170,446) | (148,435) |
| Present value of future tax payable within net insurance contract assets | (82,491) | (67,467) |
| **Net insurance contract assets** | **103,169** | **74,567** |
| **Estimated discounted net cash inflows from net insurance contract assets** | | |
| Less than one year | (15,128) | (12,016) |
| One year to five years | (45,518) | (44,230) |
| Later than five years | 163,815 | 130,813 |
| **Net insurance contract assets future net cash inflows** | **103,169** | **74,567** |

The table above shows the discounted cash flows that comprise the insurance contract assets and liabilities, net of reinsurance and including profit margins.

## 12. Insurance assets and liabilities (continued)

### Reconciliation of movements in insurance contract assets and liabilities

| | For the year ended 31 March | |
|---|---|---|
| *In thousands of New Zealand Dollars* | **2016** | **2015** |
| **Insurance contract assets** | | |
| Opening insurance contract assets | 290,469 | 238,466 |
| Movement recognised in the Statement of Comprehensive Income | 65,637 | 52,003 |
| **Closing insurance contract assets** | **356,106** | **290,469** |
| Expected maturity within 12 months | 29,572 | 23,945 |
| Expected maturity greater than 12 months | 326,534 | 266,524 |
| **Insurance contract assets** | **356,106** | **290,469** |
| **Insurance contract liabilities - reinsurance** | | |
| Opening insurance contract liabilities - reinsurance | (148,435) | (142,353) |
| Movement recognised in the Statement of Comprehensive Income | (22,011) | (6,082) |
| **Closing insurance contract liabilities - reinsurance** | **(170,446)** | **(148,435)** |
| Expected maturity within 12 months | (44,700) | (35,961) |
| Expected maturity greater than 12 months | (125,746) | (112,474) |
| **Insurance contract liabilities - reinsurance** | **(170,446)** | **(148,435)** |
| **Present value of future tax payable within net insurance contract assets** | | |
| Opening present value of future tax payable | (67,467) | (56,719) |
| Movement recognised in the Statement of Comprehensive Income | (15,024) | (10,748) |
| **Closing present value of future tax payable within net insurance contract assets** | **(82,491)** | **(67,467)** |
| Expected maturity within 12 months | - | - |
| Expected maturity greater than 12 months | (82,491) | (67,467) |
| **Present value of future tax payable within net insurance contract assets** | **(82,491)** | **(67,467)** |

**Reconciliation of movements in net insurance contract assets and liabilities**

| | | |
|---|---|---|
| **Net insurance contract assets** | | |
| Opening net insurance contract assets | 74,567 | 39,394 |
| Movement recognised in the Statement of Comprehensive Income | 28,602 | 35,173 |
| **Closing net insurance contract assets** | **103,169** | **74,567** |

## 13. Trade and other receivables

| *In thousands of New Zealand Dollars* | Note | For the year ended 31 March 2016 | 2015 |
|---|---|---|---|
| Sundry debtors and prepayments | | 1,045 | 445 |
| Accrued investment income | | 279 | 74 |
| Amounts due from related parties | 20 | 67 | 62 |
| Reinsurance premiums paid in advance | | 797 | 661 |
| Reinsurance recoverable on accrued claims | | 17,397 | 8,774 |
| Trade receivables: | | | |
| Due from reinsurers | | 3 | 1,994 |
| Due from advisers | | 560 | 943 |
| Due from policy holders | | 1,177 | 1,158 |
| **Trade and other receivables** | | **21,325** | **14,111** |
| Expected maturity within 12 months | | 16,609 | 12,972 |
| Expected maturity greater than 12 months | | 4,716 | 1,139 |
| **Trade and other receivables** | | **21,325** | **14,111** |

Amounts due from advisers are shown net of a $308 thousand (31 March 2015: $1,044 thousand) provision for doubtful debts being management's assessment of amounts due where collection is doubtful. The gross amount of the impaired receivables is $321 thousand (31 March 2015: $1,044 thousand).

## 14. Loans

| *In thousands of New Zealand Dollars* | As at 31 March 2016 | 2015 |
|---|---|---|
| Secured loans to advisers | 1,005 | 1,277 |
| Unsecured loans to advisers | - | 59 |
| **Loans** | **1,005** | **1,336** |
| Expected maturity within 12 months | 590 | 825 |
| Expected maturity greater than 12 months | 415 | 511 |
| **Loans** | **1,005** | **1,336** |

From time to time the Company will enter into loan agreements with advisers. The majority of loans are for a maximum term of three years, with interest charged at market rates. Secured loans are secured against all of the assets of the borrower and most are also subject to personal guarantees.

Loans are shown net of a $59 thousand (31 March 2015: nil) provision for doubtful debts being management's assessment of amounts due where collection is doubtful. The gross amount of the impaired receivables is $78 thousand (31 March 2015: nil).

## 15. Property, Plant and Equipment

| *In thousands of New Zealand Dollars* | Leasehold Improvements | Office furniture and equipment | Computer equipment | Total |
|---|---|---|---|---|
| **Gross carrying value** | | | | |
| Balance at 1 April 2015 | 159 | 287 | 544 | 990 |
| Additions | 26 | 24 | 140 | 190 |
| Disposals and write-offs | - | (1) | (50) | (51) |
| Balance at 31 March 2016 | **185** | **310** | **634** | **1,129** |
| **Accumulated depreciation** | | | | |
| Balance at 1 April 2015 | 9 | 155 | 426 | 590 |
| Depreciation expense | 23 | 59 | 75 | 157 |
| Disposals and write-offs | - | (1) | (50) | (51) |
| Balance at 31 March 2016 | **32** | **213** | **451** | **696** |
| **Net carrying value at 31 March 2016** | **153** | **97** | **183** | **433** |

| *In thousands of New Zealand Dollars* | Leasehold Improvements | Office furniture and equipment | Computer equipment | Total |
|---|---|---|---|---|
| **Gross carrying value** | | | | |
| Balance at 1 April 2014 | - | 227 | 454 | 681 |
| Additions | 159 | 60 | 90 | 309 |
| Balance at 31 March 2015 | **159** | **287** | **544** | **990** |
| **Accumulated depreciation** | | | | |
| Balance at 1 April 2014 | - | 106 | 303 | 409 |
| Depreciation expense | 9 | 49 | 123 | 181 |
| Balance at 31 March 2015 | **9** | **155** | **426** | **590** |
| **Net carrying value at 31 March 2015** | **150** | **132** | **118** | **400** |

## 16. Intangible assets

| In thousands of New Zealand Dollars | Computer Software | Other Intangible Assets | Total |
|---|---|---|---|
| **Gross carrying value** | | | |
| Balance at 1 April 2015 | 8,248 | 192 | 8,440 |
| Additions | 1,406 | 33 | 1,439 |
| Disposals and write-offs | (1,217) | (33) | (1,250) |
| Balance at 31 March 2016 | **8,437** | **192** | **8,629** |
| **Accumulated amortisation and impairment losses** | | | |
| Balance at 1 April 2015 | 5,775 | 28 | 5,803 |
| Amortisation expense | 1,507 | 62 | 1,569 |
| Disposals and write-offs | (994) | - | (994) |
| Balance at 31 March 2016 | **6,288** | **90** | **6,378** |
| **Net carrying value at 31 March 2016** | **2,149** | **102** | **2,251** |

| In thousands of New Zealand Dollars | Computer Software | Other Intangible Assets | Total |
|---|---|---|---|
| **Gross carrying value** | | | |
| Balance at 1 April 2014 | 6,875 | - | 6,875 |
| Additions | 1,373 | 192 | 1,565 |
| Balance at 31 March 2015 | **8,248** | **192** | **8,440** |
| **Accumulated amortisation and impairment losses** | | | |
| Balance at 1 April 2014 | 3,897 | - | 3,897 |
| Amortisation expense | 1,878 | 28 | 1,906 |
| Balance at 31 March 2015 | **5,775** | **28** | **5,803** |
| **Net carrying value at 31 March 2015** | **2,473** | **164** | **2,637** |

## 17. Trade and other payables

| | | As at 31 March | |
|---|---|---|---|
| *In thousands of New Zealand Dollars* | **Note** | **2016** | **2015** |
| Expense creditors and accruals | | 4,672 | 3,370 |
| Employee entitlements | | 4,062 | 2,887 |
| Amounts due to related parties | 20 | 84 | 84 |
| Claim accruals and provisions | | 28,209 | 15,350 |
| Unearned premiums | | 1,499 | 1,198 |
| Trade creditors: | | | |
| Due to advisers | | 2,523 | 2,555 |
| Due to reinsurers | | 1,503 | - |
| **Trade and other payables** | | **42,552** | **25,444** |
| Expected maturity within 12 months | | 36,732 | 23,840 |
| Expected maturity greater than 12 months | | 5,820 | 1,604 |
| **Trade and other payables** | | **42,552** | **25,444** |

## 18. Commitments

*Capital commitments*

The Company has commitments for the purchase of intangible assets and property, plant and equipment at 31 March 2016 of $31 thousand (31 March 2015: $57 thousand).

*Lease commitments*

Operating leases relate to office facilities with lease terms of 4 years and an option to extend for a further 4 years, and office equipment with a lease term of 4 years.

Future minimum rentals payable under non-cancellable operating leases are as follows:

| | As at 31 March | |
|---|---|---|
| *In thousands of New Zealand Dollars* | **2016** | **2015** |
| Less than one year | 864 | 705 |
| Between one and five years | 1,830 | 2,116 |
| **Lease commitments** | **2,694** | **2,821** |

## 19. Contingent Liabilities

The Company has a contingent liability to Advaro Limited of $4 thousand at 31 March 2016 (31 March 2015: nil). The contingent liability arises from an agreement by the Company to compensate Advaro Limited for any bad debt write offs incurred on loans advanced by Advaro Limited to advisers that were introduced by the Company. The contingent liability is a maximum of 5% of the annual weighted average loan value.

## 20. Related parties

*Transactions*

The remuneration of directors and key management personnel (being those persons having authority and responsibility for planning, directing and controlling the activities of the Company) during the year was as follows:

| | | For the year ended 31 March | |
|---|---|---|---|
| *In thousands of New Zealand Dollars* | **Note** | **2016** | **2015** |
| Short-term employee benefits | | 6,735 | 6,225 |
| Share based payment | 24 | 614 | 507 |
| Fees paid to non-executive directors | | 200 | 218 |
| **Total compensation** | | **7,549** | **6,950** |

Details of transactions between the Company and other related parties are disclosed below.

| | | For the year ended 31 March | |
|---|---|---|---|
| | | **2016** | **2015** |
| *In thousands of New Zealand Dollars* | | **Received / (Paid)** | **Received / (Paid)** |
| **PGHL** | | | |
| Equity contribution | 23 | 25,325 | 33,408 |

| | | As at 31 March | |
|---|---|---|---|
| | | **2016** | **2015** |
| *In thousands of New Zealand Dollars* | **Note** | **Receivable / (Payable)** | **Receivable / (Payable)** |
| **Balances with related parties** | | | |
| Partners Group Holdings Limited | 13 | 67 | 62 |
| Unique Solutions and Advice Limited (fellow subsidiary) | 17 | (84) | (84) |

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

| | For the year ended 31 March | |
|---|---|---|
| *In thousands of New Zealand Dollars* | **2016** | **2015** |
| Net profit after tax | 11,052 | 18,453 |
| *Non-cash items and non-operating items:* | | |
| Depreciation | 157 | 181 |
| Amortisation of intangible assets | 1,569 | 1,906 |
| Loss on disposal of intangible assets | 223 | - |
| Equity settled share based payments | 325 | 2,078 |
| Unrealised gain on New Zealand Government Stock | - | 14 |
| Provision for doubtful debts on loans | 59 | - |
| *Movement in insurance contract assets and liabilities:* | | |
| Movement in insurance contract assets | (65,637) | (52,003) |
| Movement in insurance contract liabilities - reinsurance | 22,011 | 6,082 |
| Movement in present value of future tax payable within net insurance contract assets and liabilities | 15,024 | 10,748 |
| *Movements in working capital:* | | |
| Increase in Trade and other receivables | (7,209) | (6,348) |
| Increase in Trade and other payables | 17,108 | 8,199 |
| **Net cash flows from operating activities** | **(5,318)** | **(10,690)** |

## 22. Disaggregated information

NZ IFRS 4 (Appendix C) requires a life insurer to disclose disaggregated information for the Company's statutory and shareholder funds (refer note 5.8). IPSA requires a life insurer to allocate the operating profit or loss of a statutory fund (in accordance with the Insurance (Prudential Supervision) Regulations 2010) and identify any capital payments made to, or distributions from, a statutory fund. The table below presents disaggregated information in compliance with these requirements. There were no distributions made from the statutory fund in the current year (31 March 2015: nil). Solvency information for the Company's statutory and shareholder funds is disclosed in the Capital risk section of note 8.

| *In thousands of New Zealand Dollars* | **Statutory Fund** | **Shareholder Fund** | **Total** |
|---|---|---|---|
| **For the year ended 31 March 2016** | | | |
| Premium revenue | 113,693 | 24,955 | 138,648 |
| Investment revenue | 1,255 | 483 | 1,738 |
| Claims expense | 41,841 | 16,123 | 57,964 |
| Commission and other operating expenses | 95,024 | 14,571 | 109,595 |
| Profit / (loss) before tax | 14,577 | (3,525) | 11,052 |
| Profit / (loss) after tax | 14,577 | (3,525) | 11,052 |
| Capital payments made to funds | 20,873 | 4,452 | 25,325 |
| **As at 31 March 2016** | | | |
| Investment assets | 32,598 | 27,280 | 59,878 |
| Insurance contract assets | 331,070 | 25,036 | 356,106 |
| Other assets | 19,669 | 5,345 | 25,014 |
| Insurance contract liabilities - reinsurance | 170,446 | - | 170,446 |
| Other liabilities | 107,957 | 17,086 | 125,043 |
| Retained profits / (losses) directly attributable to shareholders | 57,636 | (29,375) | 28,261 |
| Contributed capital | 47,298 | 69,950 | 117,248 |

| *In thousands of New Zealand Dollars* | **Statutory Fund** | **Shareholder Fund** | **Total** |
|---|---|---|---|
| **For the year ended 31 March 2015** | | | |
| Premium revenue | 83,961 | 17,968 | 101,929 |
| Investment revenue | 414 | 1,155 | 1,569 |
| Claims expense | 33,989 | 10,375 | 44,364 |
| Commission and other operating expenses | 95,919 | 12,677 | 108,596 |
| Profit before tax | 18,195 | 258 | 18,453 |
| Profit after tax | 18,195 | 258 | 18,453 |
| Capital payments made to funds | 18,400 | 15,008 | 33,408 |
| **As at 31 March 2015** | | | |
| Investment assets | 15,423 | 26,102 | 41,525 |
| Insurance contract assets | 268,227 | 22,242 | 290,469 |
| Other assets | 13,154 | 5,330 | 18,484 |
| Insurance contract liabilities - reinsurance | 148,435 | - | 148,435 |
| Other liabilities | 78,885 | 14,026 | 92,911 |
| Retained profits / (losses) directly attributable to shareholders | 43,059 | (25,850) | 17,209 |
| Contributed capital | 26,425 | 65,498 | 91,923 |

## 23. Contributed capital

| | For the year ended 31 March | | | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | In thousands of shares | | In thousands of New Zealand dollars | |
| **Ordinary capital** | | | | |
| Balance at 1 April | 85,230 | 53,900 | 91,923 | 58,515 |
| Shares issued | 25,000 | 31,330 | 25,000 | 31,330 |
| Equity settled share based payments to executive staff | - | - | 724 | 507 |
| Equity settled share based payments to advisers | - | - | (399) | 1,571 |
| **Total contributed capital** | **110,230** | **85,230** | **117,248** | **91,923** |

All shares have equal voting rights, share equally in dividends and surplus on winding up, and have no par value.

## 24. Share-based payments

***Shadow share scheme with advisers***

The Company has a shadow share scheme for eligible independent financial advisers which is designed to encourage advisers to write high quality business to enable the Company to maintain strong persistency over a number of years. The entitlements carry no voting rights as they do not represent an ownership interest in the Company. Entitlements earned are equal to the notional gain in the value of shares in PGHL between the allocation date and the date when the entitlement is paid. The entitlements will be settled in cash.

The number of shadow shares granted is calculated in accordance with scheme rules and includes performance factors such as: production net of lapses, issued annual premium and persistency levels.

PGHL, through a Deed of Agreement with the Company, has undertaken to bear the liability to advisers arising under the scheme. PGHL will utilise the proceeds of new shares issued to discharge the liability. The Company has no obligation to reimburse or repay PGHL. The Company has recognised a commission expense with respect to the share based payment obligation of ($399 thousand) for the year ended 31 March 2016 (31 March 2015: $1,571 thousand), together with an equivalent contribution to equity from PGHL.

The grant information for shadow share based payment arrangements in existence for the year ended 31 March 2016 was as follows:

| **Shadow shares tranches** | **Number in thousands of shares** | **Grant date** | **Exercise price** | **Option fair value at grant date** |
|---|---|---|---|---|
| Tranche 1 | 952 | 31/03/2012 | $2.25 | $0.94 |
| Tranche 2 | 1,423 | 31/03/2013 | $3.00 | $0.97 |
| Tranche 3 | 1,349 | 31/03/2014 | $3.75 | $1.30 |
| Tranche 4 | 885 | 31/03/2015 | $4.00 | $1.32 |
| Shadow shares granted | 4,609 | | | |

## 24. Share-based payments (continued)

***Shadow share scheme with advisers (continued)***

*Movements in shadow shares during the year*

The following table reconciles the shadow shares outstanding at the beginning and end of the year:

| | For the year ended 31 March | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| **Movements in shadow shares during the year** | **Number in thousands of shares** | **Weighted average exercise price** | **Number in thousands of shares** | **Weighted average exercise price** |
| Balance at beginning of year | 4,609 | $3.26 | 3,724 | $3.08 |
| Granted during the year | - | - | 885 | $4.00 |
| Balance at end of year | 4,609 | $3.26 | 4,609 | $3.26 |
| Weighted average remaining term | 18 months | | 18 months | |

## 24. Share-based payments (continued)

***Shadow share scheme with advisers (continued)***

*Value of shadow shares granted*

The option fair value of shadow shares granted were valued using the binomial option pricing model, which utilises the same underlying theoretical framework as the Black-Scholes option pricing model, but allows for adjustment to the end "payoff" to reflect conditional outcomes applicable to the scheme at balance date.

The inputs used in the option fair value at grant date were as follows:

| Inputs into the model at grant date | Tranche 1 | Tranche 2 | Tranche 3 | Tranche 4 |
|---|---|---|---|---|
| Grant date share price of PGHL | $2.25 | $3.00 | $3.75 | $4.00 |
| Exercise price | $2.25 | $3.00 | $3.75 | $4.00 |
| Expected volatility | 50% | 50% | 50% | 45% |
| Time to maturity | 3 years | 3 years | 3 years | 3 years |
| Dividend yield | 0% | 0% | 0% | 0% |
| Risk-free interest rate | 3.00% | 2.57% | 4.08% | 3.16% |

## 24. Share-based payments (continued)

***Shadow share scheme with advisers (continued)***

The exercise price is based on the value of the shares of PGHL, as determined by the Board, at grant date.

The expected volatility is the expected volatility of the PGHL share price. The volatility assumption has been determined by considering comparable share price volatilities of Australasian and international insurance companies. The Company's maturity and regulatory environment has also been considered.

At balance date, tranche 1 of the shadow shares has vested and has an intrinsic value of $1,326 thousand (31 March 2015: nil) which is a liability of PHGL. PGHL settled the liability for tranche 1 on 3 June 2016.

***Executive long term incentive plan***

The executive long term incentive plan is designed to incentivise and retain key executives and to encourage a focus on long term results and the Company's strategic plan.

Shares in PGHL were issued to key executives in July 2012, at an issue price of $2.25, funded by an interest free loan from PGHL. Shares issued to key executives are held on trust by PGH Shareplan Trustee Limited. The shares for which service conditions and performance targets are met will be transferred to the executives on repayment of the loan. Any shares which are not transferred will be put back to PGHL at the issue price in repayment of the loan.

The vesting conditions comprise completion of a defined period of service, growing the share price of PGHL to a defined level and an equity raising hurdle.

The vesting criteria have been met for 683 thousand of the share entitlements and these shares are to be held in escrow until 31 July 2016. The vesting criteria for the remaining 342 thousand share entitlements will be reassessed on 31 July 2016.

*Movements in executive long term entitlements during the year*

There were no executive long term entitlements granted or exercised during the year or comparative period. The 342 thousand share entitlements outstanding at 31 March 2016 had an exercise price of $2.25 and a remaining maturity term of 4 months (31 March 2015: 4 months).

## 24. Share-based payments (continued)

***Executive long term incentive plan (continued)***

*Value of executive long term entitlements granted*

The option fair value of  entitlements granted were valued using the binomial option pricing model, which utilises the same underlying theoretical framework as the Black-Scholes option pricing model, but allows for adjustment to the end "payoff" to reflect conditional outcomes applicable to the plan at balance date.

The value of each entitlement at grant date was $0.60. Performance terms were subsequently modified in a prior year. The weighted average value of each entitlement at modification date was $0.64.

The inputs used in the measurement of the option value of executive long term entitlements granted were as follows:

| **Inputs into the model at grant date** | |
|---|---|
| Grant date share price of PGHL | $2.25 |
| Exercise price | $2.25 |
| Expected volatility | 50% |
| Time to maturity | 3 years |
| Dividend yield | 0% |
| Risk-free interest rate | 2.63% |

The exercise price is based on the value of the shares of PGHL as determined by the Board at grant date.

The expected volatility is the expected volatility of the PGHL share price. The volatility assumption has been determined by considering comparable share price volatilities of Australasian and international insurance companies. The Company’s maturity and regulatory environment has also been considered.

## 24. Share-based payments (continued)

***Executive share option plan***

The Executive share option plan is designed to retain targeted senior executives and align the incentives of the participants with the interests of the PGHL shareholders. Invited participants are issued with options to subscribe for ordinary shares in PGHL under the rules of the plan.

The plan rules contain a performance hurdle in respect of the PGHL future share price on a defined date. If the performance hurdle is met, the participants have the right to exercise their options to purchase ordinary shares in PGHL at a defined exercise price. Participants also have the option to select a net settlement alternative whereby they will be issued a number of shares which reflects the difference between the exercise price and the value of PGHL shares at the time the options are exercisable, for nil consideration.

The vesting conditions comprise the achievement of performance hurdles set by the Board, and the participant remaining employed by the Company at the exercise date.

The grant information for executive option share based payment arrangements in existence as at 31 March 2016 was as follows:

| Executive share option tranches | Number in thousands of options | Grant date | Exercise price | Option fair value at grant date |
|---|---|---|---|---|
| Tranche 1 | 1,190 | 18/10/2013 | $3.00 | $0.79 |
| Tranche 2 | 45 | 31/07/2014 | $3.00 | $1.27 |
| Tranche 3 | 310 | 17/09/2015 | $3.25 | $0.97 |

## 24. Share-based payments (continued)

***Executive share option plan (continued)***

*Movements in executive share options during the year*

The following table reconciles the executive share options outstanding at the beginning and end of the year:

| | For the year ended 31 March | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| **Movements in executive share options during the year** | **Number in thousands of options** | **Weighted average exercise price** | **Number in thousands of options** | **Weighted average exercise price** |
| Balance at beginning of year | 1,190 | $3.00 | 1,190 | $3.00 |
| Granted during the year | 310 | $3.25 | 45 | $3.00 |
| Forfeited during the year | (45) | $3.00 | (45) | $3.00 |
| Balance at end of year | 1,455 | $3.05 | 1,190 | $3.00 |
| Weighted average remaining term | 8 months | | 16 months | |

## 24. Share-based payments (continued)

***Executive share option plan (continued)***

*Value of executive share options granted*

The options granted were valued using the binomial option pricing model, which utilises the same underlying theoretical framework as the Black-Scholes option pricing model, but allows for adjustment to the end "payoff" to reflect conditional outcomes applicable to the plan at balance date.

The inputs used in the measurement of the option value at grant date were as follows:

| **Inputs into the model at grant date** | **Tranche 1** | **Tranche 2** | **Tranche 3** |
|---|---|---|---|
| Grant date share price of PGHL | $3.00 | $3.75 | $3.25 |
| Exercise price | $3.00 | $3.00 | $3.25 |
| Expected volatility | 50% | 50% | 45% |
| Time to maturity | 2.75 years | 2 years | 3 years |
| Dividend yield | 0% | 0% | 0% |
| Risk-free interest rate | 3.33% | 3.89% | 2.63% |

The exercise price is based on the value of the shares of PGHL at grant date.

The expected volatility is the expected volatility of the PGHL share price. The volatility assumption has been determined by considering comparable share price volatilities of Australasian and international insurance companies. The Company’s maturity and regulatory environment has also been considered.

***Senior employee share acquisition plan***

The senior employee share acquisition plan is designed to incentivise and retain key executives. 99 thousand shares in PGHL were issued to key executives in September 2015 at an issue price of $3.25, which was the price for a PGHL ordinary share issue occurring at that time. Shares issued to key executives are held on trust by PGH Shareplan Trustee Limited. The shares for which the defined period of service conditions are met will fully vest to the executives. The remaining term to maturity is 24 months.

## 25. Events after reporting date

On 28 May 2016 PGHL entered into a subscription agreement with investment vehicles of Blackstone for a $200 million investment of new capital into PGHL, to be paid in three tranches over the next two years. The investment will result in Blackstone holding a significant minority position in PGHL, once all three tranches are invested. The investment is subject to shareholder and regulatory approvals and relevant commercial conditions.

On 13 June 2016 the Company entered into a Pandemic Aggregate Stop Loss Reinsurance (“PASLR”) treaty, covering the period 1 April 2016 to 31 March 2018. The solvency margin and ratio in note 8 does not include the benefit of the PASLR. If the benefit of the PALSR was included then solvency margin would increase to $32 million and the solvency ratio to 129%.

## CORPORATE GOVERNANCE STATEMENT

The Board recognises the importance of good corporate governance, particularly its role in protecting the interests of all stakeholders and delivering improved performance.

Directors are appointed by PGHL. In turn, directors of PGHL are elected by the shareholders of PGHL.

### Responsibilities of the Board

The Board is responsible for establishing, monitoring and updating the Company's corporate governance framework, and is committed to carrying out this role in accordance with best practice and all applicable laws and regulations.

The Board has the dual responsibilities of controlling and monitoring the operations of the Company on behalf of the shareholders of PGHL, and the protection of the Company's policyholders. The Board's performance is reviewed annually.

A Board Charter sets out the Board's role and responsibilities and regulates Board procedures.

Specific responsibilities of the Board include:

- Ensuring the Company continuously meets the requirements for licensed insurers set by the RBNZ.
- Setting strategic goals and establishing business plans, as well as monitoring performance against those goals and plans.
- Monitoring the performance of the Managing Director and the senior management team.
- Setting delegated levels of authority for the Managing Director and senior management team.
- Overseeing the financial position of the Company, including capital management and approving and monitoring capital expenditure.
- Ensuring all appropriate policies, controls, systems and procedures are in place to manage business risks and to ensure compliance with all regulatory, prudential and ethical standards.
- Approving annual and half yearly accounts and other regulatory reporting (such as solvency returns).
- Identifying risks and initiating action to mitigate and manage risks in line with the Company's Risk Management Programme and reporting any material changes in that programme to the RBNZ as required.
- Maintaining the highest business standards and ethical behaviour.
- Reviewing and approving remuneration policy and incentive programmes for employees.
- Completing fit and proper assessments for all directors and relevant officers (Managing Director, Chief Financial Officer and Appointed Actuary) in accordance with the Company Fit and Proper Person Policy and the RBNZ fit and proper requirements.

**CORPORATE GOVERNANCE STATEMENT (continued)**

**Structure of the Board**

The Board comprises one executive director and four non-executive directors.

The Board's collective experience includes a balance of insurance, management, financial, investment, administrative and market expertise appropriate for the requirements of the business.

All directors are certified under the RBNZ fit and proper requirements, in line with the Company's Fit and Proper Person Policy.

Over half of the directors are independent (as defined in the RBNZ Governance Guidelines for Licensed Insurers), as noted in the table below which sets out the qualifications and experience of each director.

| DIRECTOR | ROLE | BIOGRAPHY |
|---|---|---|
| **Naomi Ballantyne** | Managing Director | Naomi was a founding employee of Sovereign and helped lead its corporate culture during her time there.<br><br>Naomi founded Club Life in 2001 and continued to lead the company for five years after she sold the company to ING (NZ) Ltd in 2004, during which time ING Life experienced rapid growth to become the second largest life insurance company in New Zealand by new business market share.<br><br>Naomi left ING Life in September 2009 to build a new, nationwide advisory business called US Advice. US Advice was acquired by PGHL in August 2011 to become the base for the group's adviser services arm. |
| **Sam Knowles** | Chairman and Non-Executive Director (Independent) | Sam has had a successful career in the Australian and New Zealand financial sector with more than 20 years of experience at senior management level. Sam was Chief Executive Officer of Kiwibank from July 2000 to October 2010, Chief Executive Officer of At Work Insurance Limited from March 1999 to June 2000 and has held a number of other senior management roles in the banking industry.<br><br>Sam is currently Chairman of Adminis Limited, Umajin Limited and OnBrand Limited and is also a director of Trustpower Limited, Synlait Milk Limited and Rangatira Limited.<br><br>Sam holds a Bachelor of Science from Waikato University and a Master of Science from the University of Canterbury. |

**CORPORATE GOVERNANCE STATEMENT (continued)**

| DIRECTOR | ROLE | BIOGRAPHY |
|---|---|---|
| **Joanna Perry** | ARC Chairman and Non-Executive Director (Independent) | Joanna is Chairman of the IFRS Advisory Council. She also holds governance positions with Genesis Energy Limited (Deputy Chairman), Trade Me Group Limited, Kiwi Property Group Limited, Sport New Zealand and Rowing New Zealand.<br><br>Joanna was previously a partner at KPMG, a member of the Securities Commission, Chair of the Financial Reporting Standards Board and a member of the Australian Accounting Standards Board.<br><br>Joanna was awarded Membership of the New Zealand Order of Merit in 2010 for services to accounting. She holds a Master of Arts, Economics, from Cambridge University, qualified as a member of the Institute of Chartered Accountants in England and Wales and is a member of the New Zealand Institute of Chartered Accountants. |
| **Paul Chrystall** | Non-Executive Director | Paul is the Managing Director of the private equity firm Maui Capital Limited. As part of this role he sits on the boards of various Maui Capital investments.<br><br>Before co-founding Maui Capital in 2008, Paul was Head of Private Equity at Goldman Sachs JB Were (New Zealand) where he founded and managed the Hauraki Private Equity Funds. Prior to his career in private equity, Paul held a number of senior positions across diversified industries in New Zealand and the United Kingdom. In these positions he focused on finance management, restructure and turn around, mergers and acquisitions, valuation and investment, performance management and investment strategy.<br><br>Paul holds a Bachelor of Commerce from the University of Auckland. |

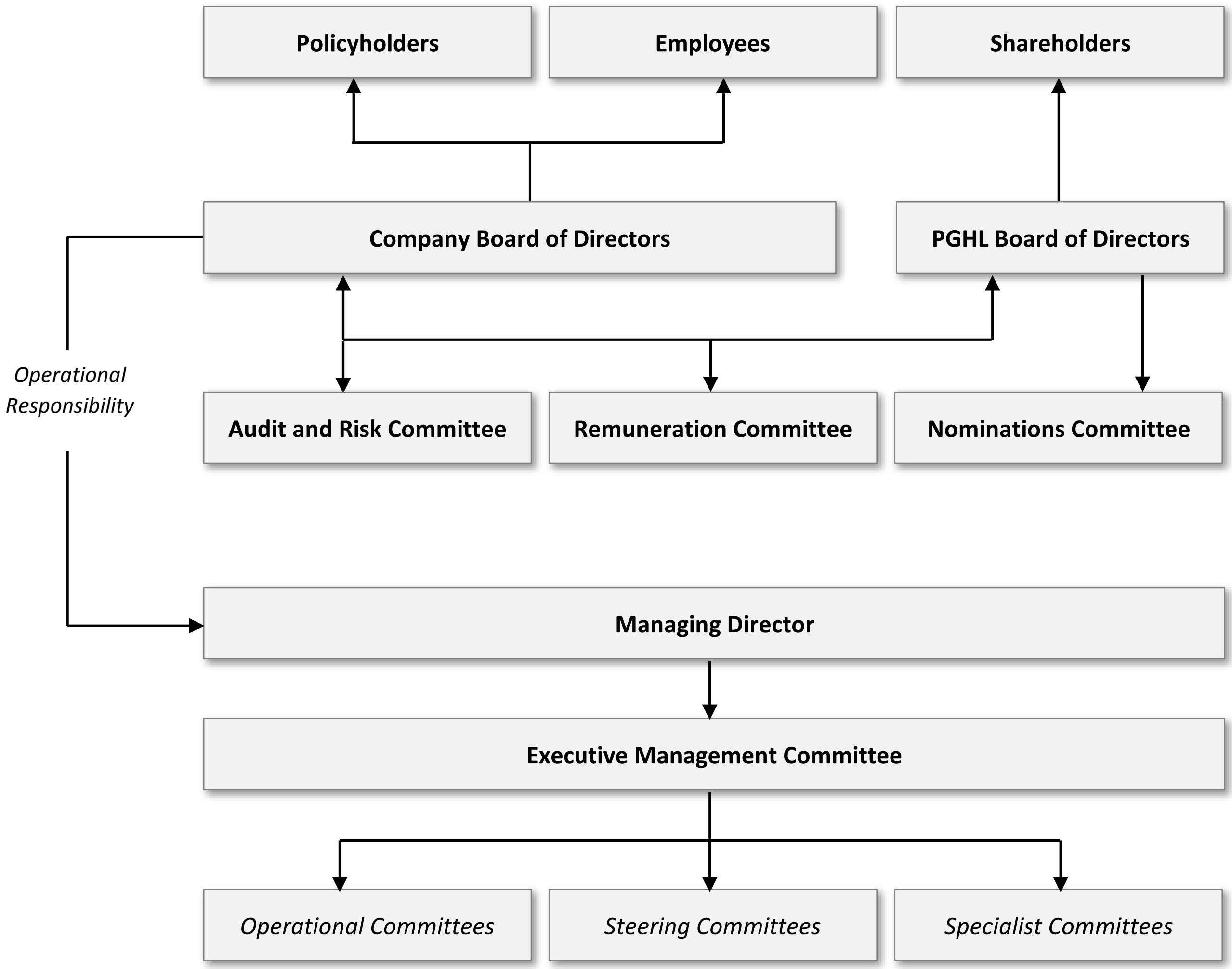
**CORPORATE GOVERNANCE STATEMENT (continued)**

| DIRECTOR | ROLE | BIOGRAPHY |
|---|---|---|
| **Lance Jenkins** | Non-Executive Director (Independent) | Lance Jenkins is a partner and executive director of Waterman Capital. He has over 20 years of financial markets experience having worked in New York, Sydney and Auckland. During that time he held senior roles with Goldman Sachs JBWere in New York and more latterly as CEO and Managing Director of Goldman Sachs JBWere New Zealand.<br><br>Prior to joining Waterman, Lance was Head of Cash Equities for the Commonwealth Bank of Australia, based in Sydney. He was previously a non-executive director of Spicers Portfolio Management Limited. Lance holds an MBA from New York University (Stern) and an LLB and BCA from Victoria University of Wellington. |

**CORPORATE GOVERNANCE STATEMENT (continued)**

**Corporate Governance Structure**

The corporate governance structure of PGHL and the Company is set out as follows:




The Board has approved the delegation of certain responsibilities to the Managing Director and the senior management team via a formal Delegation of Authority policy.

The senior management team are responsible for the implementation of strategies approved by the Board, providing recommendations to the Board on business strategies, the management of business risk and the overall day-to-day management of the Company.

The Board undertakes an annual strategic planning process and approves the annual budget prepared by management based on the strategic direction set by the Board.

The Board monitors the actual performance of the company against budget on a regular basis.

Evaluations of the Managing Director and the senior management team are based on set criteria, including the overall performance of the business, the achievement of key performance measurements, the accomplishment of strategic goals and other non-quantitative objectives agreed at the beginning of each financial year, such as the delivery of specific projects.

**CORPORATE GOVERNANCE STATEMENT (continued)**

The Company has Directors’ and Officers’ Liability insurance to cover risks arising out of acts or omissions of directors and employees whilst acting in such a capacity. This cover does not extend to dishonest, fraudulent, malicious or wilful acts or omissions.

Deeds of Indemnity have been given to directors and certain senior managers in relation to potential liabilities and costs they may incur for acts or omissions in their capacity as directors and senior managers.

The Board has established a number of sub-committees to assist it in discharging its responsibilities. Each committee has its own charter. Committees can advise and make recommendations but final decision making rests with the Board.

**Ethical Conduct**

The Board maintains a high standard of ethical conduct and the Managing Director is charged with the responsibility of ensuring these high standards are maintained by all staff throughout the organisation.

**Audit and Risk Committee (“ARC”)**

The ARC is chaired by an independent, non-executive director and has a different Chairman to the Board.

The members of the ARC are Joanna Perry (chair), Paul Chrystall, Lance Jenkins and Richard Coon (director of PGHL). All Board members receive the papers of, and are welcome to attend any meeting of, the ARC.

The primary responsibilities of the ARC are:

- Review and make recommendations to the Board on the accounting policies of the Company, the effect of any changes in accounting policies and related reporting issues.
- Independently review the external financial reporting and other regulatory reporting (such as solvency returns) that require Board approval and make recommendations to the Board relating to the approval of these documents and associated attestations.
- Review annually the performance and independence of the external auditor and make recommendations, for the approval of shareholders, to the Board for the appointment of the external auditor and the quantum of their fees.
- Review and agree the annual audit plan with the external auditor.
- Discuss with the external auditor any audit issues encountered in the course of their duties and ensure any significant findings and recommendations made by the external auditor are acted on appropriately by management.
- Review annually the performance and independence of the Appointed Actuary and make recommendations to the Board for the appointment of the Appointed Actuary and the quantum of their fees.
- Discuss with the Appointed Actuary any issues encountered in the course of their duties and ensure any significant findings and recommendations made by the Appointed Actuary are acted on appropriately by management.

**CORPORATE GOVERNANCE STATEMENT (continued)**

**Audit and Risk Committee (continued)**

- Review any related party transactions.
- Consider and review with management and the external auditor the adequacy of the Company's internal controls and risk management programme.
- Monitor and assess the Company's compliance with significant laws and regulations.

**Remuneration Committee**

The purpose of the Remuneration Committee is to oversee the Company's human resource policies and the remuneration of directors and senior executives.

It is chaired by an independent, non-executive director and has a different Chairman to the Board.

The primary responsibilities of the Remuneration Committee are:

- Implement a formal and transparent process for the regular review of director remuneration and make recommendations with respect to director remuneration to the Board (subject to shareholder approval where appropriate).
- Recommend to the Board the remuneration of the Managing Director and their direct reports.
- Recommend to the Board performance objectives for the Managing Director and their direct reports, and review the level of achievement against these objectives.
- Review the Company's remuneration framework including components of remuneration, the rules and principles for short and long term incentive plans and performance review and annual remuneration review principles.
- Consider such other matters relating to remuneration and human resources as may be referred to the Committee by the Board.

**CORPORATE GOVERNANCE STATEMENT (continued)**

**Nominations Committee**

The Nominations Committee has the role of identifying suitable prospective directors for shareholder selection and preparing those directors for their role within the Company.

The primary responsibilities of the Nominations Committee are:

- Provide assurance and make recommendations to the Board as to the Board's size, composition, diversity and desirable expertise appropriate for the discharge of its responsibilities and duties in accordance with the law and with the strategic direction of the Company.
- Review the criteria for the selection of directors and recommend to the Board any necessary alterations to that criteria to ensure the Company has a formal and transparent process for the selection and appointment of new directors.
- Develop and implement a plan for identifying and assessing director competencies.
- Where there is a vacancy or pending vacancy, recommend appropriate candidates to the Board based on the approved criteria and process for consideration.
- Implement adequate succession plans for key roles such as Chairman and the Chairs of the various Board committees, in order that the effective composition, size and expertise of the Board is maintained.
- Monitor and report to the Board on director independence.
- Undertake a review of the Committee's effectiveness and report on the actions of that review to the Board.

**Policies**

The following policies have been approved by the Board:

- Risk Management Programme.
- Capital Management.
- Statement of Investment Policy and Objectives, and Treasury Policy.
- Fit and Proper Persons.
- Conflicts of Interest.
- Health and Safety.
- Privacy.
- Whistle Blower.
- Financial Model Risk.
- Crisis Management.
- Delegations of Authority.
- Code of Conduct.
- Policy Governance Framework.

# Independent auditor's report

## To the shareholder of Partners Life Limited

We have audited the accompanying financial statements of Partners Life Limited ("the company") on pages 4 to 42. The financial statements comprise the statement of financial position as at 31 March 2016, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

### *Directors' responsibility for the financial statements*

The directors are responsible on behalf of the company for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

### *Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

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

KPMG

Our firm has also provided other services to the company in relation to regulatory reporting. Subject to certain restrictions, partners and employees of our firm may also deal with the company on normal terms within the ordinary course of trading activities of the business of the company. These matters have not impaired our independence as auditor of the company. The firm has no other relationship with, or interest in, the company.

***Opinion***

In our opinion, the financial statements on pages 4 to 42 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the financial position of Partners Life Limited as at 31 March 2016 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

KPMG

7 July 2016
Auckland

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7th July 2016

The Directors
Partners Life Limited
AUCKLAND

**Report under Section 78 of the Insurance (Prudential Supervision) Act 2010**
**Review of *actuarial information* for Partners Life Limited as at 31 March 2016**

a) This report has been prepared by Adam Follington; FIAA, FNZSA, Appointed Actuary for the purpose of Section 78 of Insurance (Prudential Supervision) Act 2010 ("IPSA"). It has been included in the Partners Life Limited ("PLL") financial statements.

b) The report provides information to the Directors of PLL (and management) regarding a review of the actuarial information (Section 77 of IPSA) contained in the PLL financial statements as at 31 March 2016 and provides an opinion as to its appropriateness. This report has not been prepared with any other additional purposes in mind.

c) My review of the actuarial information included the following:

   - Review of the "Report on the Valuation of Policy Liabilities, 31 March 2016" prepared by the company Actuary, Anton Gardiner. This report included the following actuarial information:
     i. Insurance contract assets (policy liabilities before reinsurance);
     ii. Insurance contract liabilities – reinsurance (policy liabilities in respect of reinsurance);
     iii. Present value of future tax payable in insurance contract assets and liabilities.

   - Review of the calculations determining the solvency position of the company, statutory fund and shareholder fund.

d) I act as Appointed Actuary for PLL under a contract for services with Deloitte. I hold no financial interests in PLL.

e) There were no restrictions or limitations placed on my work or on my report. I obtained all the information I required.

f) In my opinion and from an actuarial perspective:

   - The actuarial information contained in the PLL financial statements as at 31 March 2016 has been appropriately included in those financial statements; and
   - The actuarial information used in the preparation of the PLL financial statements as at 31 March 2016 has been appropriately used in those financial statements.

g) In my opinion and from an actuarial perspective PLL has maintained a solvency margin as at 31 March 2016 that complies with the Solvency Standard for Life Insurance Business issued by the Reserve Bank of New Zealand. This has been maintained at both an overall company level and for the statutory fund.

Adam Follington

Adam Follington; FNZSA FIAA
Appointed Actuary
Partners Life Limited