

DPL INSURANCE LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED 31 MARCH 2018

DPL INSURANCE LIMITED

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FOR THE YEAR ENDED 31 MARCH 2018

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DPL INSURANCE LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2018

The directors present the annual report of DPL Insurance Limited for the year ended 31 March 2018.

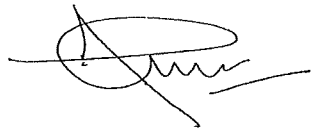
There are certain matters that the shareholders can determine need not be disclosed in the annual report. The shareholders have unanimously agreed, under section 211(3) of the Companies Act 1993, to take advantage of that concession. The shareholders have agreed to limit the annual report to the following:

- Completed and signed financial statements
- Audit Report

Signed for and on behalf of the Board of Directors:



Director



Director

Date: 24 July 2018

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of DPL Insurance Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of DPL Insurance Limited ('the Company') on pages 5 to 43, which comprise the statement of financial position as at 31 March 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 March 2018, and its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Our report is made solely to the Shareholders of DPL Insurance Limited, in accordance with the Companies Act 1993. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than DPL Insurance Limited and the Shareholders of DPL Insurance Limited, for our audit work, for our report or for the opinions we have formed.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor and provider of other assurance services we have no relationship with, or interests in, DPL Insurance Limited. The provision of these other assurance services has not impaired our independence.

Responsibilities of the Directors 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 NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is D I Searle.

A handwritten signature in blue ink that reads 'Staples Rodway'.

STAPLES RODWAY AUCKLAND

Auckland, New Zealand

24 July 2018

DPL INSURANCE LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2018

	Note	2018 \$'000	2017 \$'000
Insurance contract premiums	25	39,719	8,733
Outward reinsurance premium	25	(658)	(531)
Recoveries	25	998	905
Commission income	25	1,471	907
Fair value gain on revaluation of investment properties	15, 25	550	-
Gain on sale of investment properties	25	700	-
Fair value gain on settlement of contingent consideration liability	21, 25	775	-
Other insurance revenue	25	866	694
Insurance revenue		44,422	10,708
Claims expense	25	(28,882)	(5,393)
Increase in policy liabilities	25	(82)	(1,056)
Commission expense	5, 25	(2,126)	(994)
Depreciation and Amortisation Expense	5	(2,767)	(96)
Other expenses	5	(8,763)	(3,248)
Underwriting (loss)/profit		1,802	(79)
Investment income	5, 25	2,393	1,007
Profit before taxation		4,195	928
Taxation	6, 25	(581)	(402)
Profit after taxation		3,614	526

The accompanying notes form part of these financial statements

DPL INSURANCE LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2018

	Note	Share Capital \$'000	Retained Earnings \$'000	Total \$'000
Balance at 1 April 2016		3,450	5,202	8,652
<i>Transactions with shareholders in their capacity as owners</i>				
Capital contributions	7	42,900	-	42,900
<i>Comprehensive income</i>				
Profit for the year		-	526	526
Other Comprehensive Income		-	-	-
Total Comprehensive Income attributable to shareholders		-	526	526
Balance at 31 March 2017		46,350	5,728	52,078
<i>Transactions with shareholders in their capacity as owners</i>				
Capital contributions	7	-	-	-
<i>Comprehensive income</i>				
Profit for the year		-	3,614	3,614
Other Comprehensive Income		-	-	-
Total Comprehensive Income attributable to shareholders		-	3,614	3,614
Balance at 31 March 2018		46,350	9,342	55,692

The accompanying notes form part of these financial statements

DPL INSURANCE LIMITED

STATEMENT OF FINANCIAL POSITION

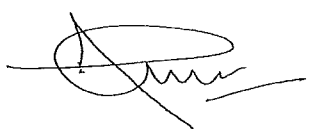
AS AT 31 MARCH 2018

	Note	2018 \$'000	2017 \$'000
ASSETS			
Cash and cash equivalents	10	9,168	55,565
Financial assets at fair value through profit or loss	11	49,749	7,190
Trade receivables	12	4,892	7,027
Other receivables and deferred acquisition costs	13	5,971	2,313
Tax Receivable		455	-
Reverse annuity mortgages	14	9,997	9,222
Investment property	15	5,750	-
Property, plant & equipment	16	1,093	651
Intangible assets	17	38,288	39,044
Total assets		125,363	121,012
LIABILITIES			
Other payables	18	4,547	2,815
Financial liability at fair value through profit or loss	19	226	775
Deferred taxation	20	9,395	9,110
Tax payable		-	513
Life investment contract liabilities	25	7,127	12,847
Insurance contract liabilities	25	48,376	42,874
Total liabilities		69,671	68,934
SHAREHOLDER'S EQUITY			
Share capital	7	46,350	46,350
Retained earnings		9,342	5,728
Total shareholder's equity		55,692	52,078
Total shareholder's equity and liabilities		125,363	121,012

Signed for and on behalf of the Board of Directors:



Director



Director

Dated: 24 July 2018

The accompanying notes form part of these financial statements.

DPL INSURANCE LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2018

	Note	2018 \$'000	2017 \$'000
Cash flows from operating activities			
Receipts from policyholders and customers		47,511	13,595
Interest Received		992	50
Withdrawals and Claims Paid		(32,861)	(10,344)
Other Expenses Paid		(14,916)	(2,922)
Net cash inflow from operating activities	26	<u>726</u>	<u>379</u>
Cash flows from investing activities			
Proceeds from Investment Property		3,500	-
Proceeds from Investments		490	9,106
Proceeds from Reverse annuity mortgages		1,700	1,310
Proceeds from sale of Property, Plant and Equipment		82	10
Purchase of Investment Property		(8,000)	-
Cash invested in term deposits (net movement)		(42,500)	-
Payments for Reverse annuity mortgages		(1,627)	(2,897)
Purchase of Property, Plant and Equipment		(762)	(682)
Purchase of Intangible Assets		(6)	(182)
Acquisition of business and assets	21	-	(34,000)
Net cash outflow from investing activities		<u>(47,123)</u>	<u>(27,335)</u>
Cash flows from financing activities			
Proceeds from issue of shares		-	41,500
Net cash inflow from financing activities		<u>-</u>	<u>41,500</u>
Net movement in cash and cash equivalents		(46,397)	14,544
Cash included with business and assets		-	33,378
Add Opening cash and cash equivalents		<u>55,565</u>	<u>7,643</u>
Closing cash and cash equivalents		<u><u>9,168</u></u>	<u><u>55,565</u></u>
Represented by:			
Bank balances	10	<u>9,168</u>	<u>55,565</u>
Closing cash and cash equivalents		<u><u>9,168</u></u>	<u><u>55,565</u></u>

The accompanying notes form part of these financial statements.

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2018

1. REPORTING ENTITY

DPL Insurance Limited (the "Company") is incorporated and domiciled in New Zealand and registered under the Companies Act 1993.

The Company is an FMC Reporting Entity for the purpose of the Financial Markets Conduct Act 2013.

The Company is a wholly owned subsidiary of Turners Automotive Group Limited (formerly Turners Limited), its parent company.

The financial statements of the Company have been prepared in accordance with the Companies Act 1993, Financial Markets Conduct Act 2013, the Financial Reporting Act 2013 and the Insurance (Prudential Supervision) Act 2010.

The Company is a for profit entity.

The principal activity of the Company is that of a insurer.

The financial statements were authorised for issue by the Directors on 24 July 2018.

2. BASIS OF PREPARATION

2.1 Statement of compliance

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

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of certain assets and liabilities as identified in specific accounting policies.

2.3 Functional and Presentation Currency and Rounding

These financial statements are presented in New Zealand Dollars (\$) which is the Company's functional currency. The financial information presented in New Zealand Dollars has been rounded to the nearest thousand, except when otherwise indicated.

2.4 Use of Estimates and Judgements

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

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future period affected. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in note 4.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and have been applied consistently by the company.

3.1 Adoption of new and revised Standards and Interpretations

New standards and amendments and interpretations to existing standards that came into effect during the current accounting period beginning on 1 April 2017

Disclosure Initiative (Amendments to NZ IAS 7 'Statement of Cash Flows')

Entities are now required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (eg drawdowns and repayments of borrowings) and non cash changes such as acquisitions, disposals, accretion of interest and unrealised exchange differences.

The adoption of Amendments to NZ IAS 7 'Statement of Cash Flows' has only had an impact on disclosure in the Company's financial statements for the year ended 31 March 2018.

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2018

3.2 New standards and amendments and interpretations to existing standards that are not yet effective for the current accounting period beginning on 1 April 2017

The following relevant standards and interpretations have been issued at the reporting date but are not yet effective.

NZ IFRS 9 'Financial Instruments'

NZ IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in NZ IAS 39, 'Financial Instruments: Recognition and Measurement', that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income ('OCI') and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling.

There is now a new expected credit losses model that replaces the incurred loss impairment model used in NZ IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

NZ IFRS 9 also relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39.

The effective date is annual reporting periods beginning on or after 1 January 2018, the 31 March 2019 financial statements.

The indicative impacts of implementing NZ IFRS 9 are as follows:

Classification and measurement of financial instruments:

The Company's financial assets and liabilities include only those measured, at amortised cost, at fair value through profit or loss; and at fair value through other comprehensive income. The Company anticipates that the classification and measurement of its financial assets will remain unchanged under NZ IFRS 9.

Trade and other receivables

With regards to the Company's trade receivables, the Company's incurred credit losses from these financial assets have historically not been material. Consequently the introduction of the expected credit losses impairment model is not expected to have a material impact on the Company's financial statements, given the Company's low exposure to counterparty default risk as a result of the Company's credit risk management processes that are in place.

The Company will adopt NZ IFRS 9 for the accounting period beginning on 1 April 2018.

NZ IFRS 15 'Revenue from Contracts with Customers'

NZ IFRS 15 'Revenue from Contracts with Customers' introduces a five step process for revenue recognition with the core principle being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services. The five step approach is as follows:

- Step 1: Identify the contracts with the customer;
- Step 2: Identify the separate performance obligations;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price; and
- Step 5: Recognise revenue when a performance obligation is satisfied.

NZ IFRS 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple element arrangements.

The effective date is annual reporting periods beginning on or after 1 January 2018, the 31 March 2019 financial statements.

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2018

Under NZ IFRS 15 the Company would recognise revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). A performance obligation may be satisfied at a point in time (typically for promises to transfer goods to a customer) or over time (typically for promises to transfer services to a customer). For a performance obligation satisfied over time, a company would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied.

NZ IFRS 15 applies to all contracts with customers, with some exceptions, amongst a number of contracts the following contracts are excluded from the scope of NZ IFRS 15:

- lease contracts within the scope of NZ IFRS 16 'Leases';
- insurance contracts within the scope of NZ IFRS 4 'Insurance Contracts'; and
- financial instruments and other contractual rights or obligations within the scope of NZ IAS 39 'Financial Instruments: Recognition and Measurement'

As the Company's sources of revenue are from insurance contracts within the scope of NZ IFRS 4 and financial instruments within the scope of NZ IAS 39, the adoption of NZ IFRS 15 is not expected to have an impact on the revenue recognised by the Company.

The Company will adopt NZ IFRS 15 for the accounting period beginning on 1 April 2018.

NZ IFRS 16 Leases (effective date: periods beginning on or after 1 January 2019)

NZ IFRS 16, 'Leases', replaces the current guidance under NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

The standard is effective for accounting periods beginning on or after 1 January 2019. The Company intends to adopt NZ IFRS 16 on its effective date and there is a project plan in place to assess the full impact of the standard.

NZ IFRS 17 Insurance Contracts (effective date: periods beginning on or after 1 January 2021)

NZ IFRS 17, 'Insurance Contracts', will replace NZ IFRS 4, 'Insurance Contracts'. Under the NZ IFRS 17, insurance contract liabilities will be calculated at the present value of future insurance cash flows with a provision for risk. The discount rate applied will reflect current interest rates. If the present value of future cash flows would produce a gain at the time an insurance contract is issued, the model would also require a "contractual service margin" to offset the day 1 gain. The contractual service margin would be amortized over the life of the insurance contract. There would also be a new income statement presentation for insurance contracts, including a revised definition of revenue and additional disclosure requirements. NZ IFRS 17 will also have accommodations for certain specific types of insurance contracts. Short-duration insurance contracts will be permitted to use a simplified unearned premium liability model until a claim is incurred. For some contracts, in which the cash flows are linked to underlying items, the liability value will reflect that linkage.

The Company is yet to assess the impact of NZ IFRS 17. The Company intends to adopt NZ IFRS 17 no later than the financial year beginning 1 April 2021.

3.3 Foreign Currency Transactions

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

3.4 Revenue and Expense Recognition

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

Premium Income and Acquisition Costs

Recurring premiums on life insurance contracts are recognised as revenue when payable by the policyholder. Where policies provide for the payment of amounts of premiums on specific due dates, such premiums are recognised as revenue when due. Unpaid premiums are only recognised as revenue during the days of grace and are not recognised where policies are deemed to have lapsed at reporting date.

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2018

General insurance premiums comprise the total premiums payable for the whole period of cover provided by contracts entered into during the reporting period and are recognised on the date on which the policy commences. Premiums include any adjustments arising in the reporting period for premium receivables written in respect of business written in prior accounting periods. Premiums collected by intermediaries, but not yet received, are assessed based on known sales and are included in written premium.

Unearned premiums are those proportion of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums are calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Under life investment contracts deposits are received from policyholders which are then invested on behalf of the policyholders. No premium income is recognised as revenue. Fees deducted from members' accounts are accounted for as fee income.

Those direct and indirect costs incurred during the financial period arising from the acquiring or renewing of insurance contracts are deferred to the extent that these costs are recoverable out of future premiums from insurance contracts. All other acquisitions costs are recognised as an expense when incurred.

Subsequent to initial recognition, the deferred acquisitions cost asset (DAC) for life insurance contracts is amortised over the expected life of the contracts. DAC for general insurance contracts is amortised over the period in which the revenues are earned.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value, an impairment loss is recognised in profit or loss. DACs are also considered in the liability adequacy test for each reporting period.

DACs are derecognised when the related contracts are either settled or disposed of.

Investment Income

Financial instruments are classified in the manner described in (d). Some are measured by reference to amortised cost, other by reference to fair value.

For financial instruments measured at amortised cost, the effective interest method is used to measure the interest income or expense recognised in profit or loss. For financial instruments measured at fair value, interest income or expense is recognised on an accrual basis.

The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense over the relevant period. The calculation includes all fees paid or received and directly related transaction costs that are an integral part of the effective interest rate. The interest income or expense is allocated over the life of the instrument and is measured for inclusion in profit or loss by applying the effective interest rate to the instruments amortised cost.

Dividend income and unit trust distributions are recorded in the profit or loss when the Company's right to receive the dividend or distribution is established. Realised and unrealised gains and losses from re-measurement of financial instruments at fair value through profit or loss are included in investment income.

Other Revenue

Commission and fee revenue is recognised in profit or loss on the basis of the actual service provided as a proportion of the total services to be provided.

Claims Expense

Claims expense represents claim payments adjusted for the movement in the outstanding claims liability.

General insurance claims expenses are recognised when claims are notified with the exception of claims incurred but not reported for which a provision is estimated. Life insurance contract claims are recognised when a liability has been established. Claims under life investment contracts represent withdrawals of investment deposits and are recognised as a reduction in the life investment contract liabilities.

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2018

Maintenance Expenses

Maintenance costs are the fixed and variable costs of administering policies subsequent to sale and maintaining the company's operations such that they are sufficient to service enforce policies. These include general growth and development costs. Maintenance costs include all operating and management costs other than acquisition and investment management costs. Maintenance costs are recognised in profit or loss on an accrual basis.

Investment Management Expenses

Investment management costs are the fixed and variable costs of managing investment funds. Investment management expenses are recognised in profit or loss as incurred.

Other Expenses

All other expenses are recognised in profit or loss on an accrual basis.

3.5 Financial Assets

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments and available for sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Financial assets are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

Financial assets at fair value through profit or loss

This category has two sub categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges.

The Company's financial assets at fair value through profit or loss comprise investment in unitised funds, fixed interest securities and term deposits.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

The Company's loans and receivables comprise cash and cash equivalents, trade receivables, reverse annuity mortgages and other receivables.

Held to maturity investments

The Company does not have any financial assets classified as held to maturity.

Available for sale financial assets

The Company does not have any financial assets classified as available for sale.

Regular purchases and sales of financial assets are recognised on trade date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held to maturity investments are carried at amortised cost using the effective interest method.

Realised and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the profit or loss in the period in which they arise. Realised and unrealised gains and losses arising from changes in the fair value of securities classified as available for sale are recognised in other comprehensive income, except for foreign exchange movements on monetary assets, which are recognised in profit or loss. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments are included in profit or loss as gains and losses from investment securities. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Company's right to receive payments is established.

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2018

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or Company of financial assets is impaired. A financial asset or a Company of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Company of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a Company of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in economic conditions that correlate with defaults. For the loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised through profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of previously recognised impairment loss is recognised in the through profit or loss.

3.6 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

3.7 Trade and other receivables and reverse annuity mortgages

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Collectability of receivables is reviewed on an ongoing basis. Individual debts which are known to be uncollectible are written off. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered objective evidence of impairment.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed and the reversal is recognised in profit or loss.

Subsequent recoveries of amounts written off are recognised in profit or loss.

3.8 Financial liabilities

Financial liabilities are classified at initial recognition, as financial liabilities at fair value through profit or loss and payables, as appropriate.

Financial liabilities at fair value through profit or loss

This category has two sub categories: financial liabilities held for trading, and those designated at fair value through profit or loss at inception. A financial liability is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges.

The Company's financial liabilities at fair value through profit or loss comprise contingent consideration and life investment contracts.

Payables

The Company's payables comprise trade and other payables.

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2018

3.9 Trade and other payables

These amounts represent unsecured liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. As trade and other payables are usually paid within 30 days, they are carried at face value.

3.10 Contingent consideration

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently re-measured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into account are the probability of meeting each performance target and the discount factor.

3.11 Taxation

Life insurers are subject to a special tax regime. Two tax bases are maintained; the life insurer base where tax is calculated on investment income less expenses plus underwriting income, and the policyholder base which seeks to tax benefits as they accrue to policyholders under the policies in the form of claim, surrender and maturity payments and increments in the value of policies. The life insurer pays tax on the higher of the two bases at the company tax rate of 28%. As the life insurer is taxed as proxy for the policyholder, returns to policyholders are tax exempt.

From 1 July 2010 the taxation basis has changed. Tax will be payable on investment income allocated to policyholders and on shareholder cash flows (investment income, premiums less claims, less expenses). For the first five years of the new tax regime there are concessions which allow certain policies to continue being taxed under the old regime as explained above.

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

Deferred taxation assets arising from temporary differences or income tax losses, are recognised only to the extent that it is probable that a future taxable profit will be available against which the asset can be utilised. Deferred taxation assets are reduced to the extent that it is no longer probable that the related tax asset will be realised. Any reduction is recognised in profit or loss.

3.12 Provision for Impairment

Impairment is assessed initially for financial assets that are known to be individually impaired.

Reverse mortgages are reviewed at each balance date to determine whether there is any objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the loan and prior to the reporting date. The loss event has to have had an impact on the reliable measurement of estimated future cash flows.

If any such indication exists, the asset's recoverable amount is estimated and provision is made for the difference between the carrying amount and the recoverable amount.

The impairment provision is deducted from reverse mortgages in the statement of financial position and the movement in the impairment provisions is recognised in profit or loss. Bad debts are written off against the provision in the year in which they are identified. If in a subsequent period the amount of an impairment loss decreases and the decrease is linked objectively to an event occurring after the impairment loss, the loss is reversed through profit or loss.

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3.13 Insurance Contracts

Insurance contracts are those contracts that transfer significant insurance risk and are accounted for in accordance with the requirements of NZ IFRS 4 Insurance Contracts. The Company issues the following insurance contracts:

- Long-term insurance contracts with fixed and guaranteed terms, these contracts insure events associated with human life (for example, death) over a long duration;
- Temporary life insurance contracts covering death disablement, disability and redundancy risks; and
- Short term motor vehicle contracts covering comprehensive, third party and mechanical breakdown risks.

The liability for life insurance contracts is determined in accordance with Appendix C of NZ IFRS 4 Insurance Contracts and Professional Standard No 20 of the New Zealand Society of Actuaries. In terms of these standards, the liability is determined using the methodology referred to as Margin on Service (MoS). Under MoS the excess premium received over claims and expenses, 'the profit margin', is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder 'the service'. Longer-term lines of business (annuities, funeral plan) are valued using the projection method, and shorter-term life and longer-term life contracts written on yearly renewable premiums, are valued using the accumulation method, as provided for in NZ IFRS 4.

General insurance contract liabilities include claims provision and the provision for unearned premium. The outstandings claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling cost and a reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of claims, therefore the ultimate cost of these cannot be known at reporting date and are estimated based on past experience. The liability is not discounted for the time value of money and is derecognised when the obligation to pay the claim expires, is discharged or is cancelled.

The provision for unearned premiums represent the portion of premiums received or receivable that relates to risks that have not yet expired at the reporting date. The provision is recognised when contracts are entered into and premiums are charged, and is brought to account as premium income over the term of the contract in accordance with the pattern of insurance service provided under the contract.

Liability adequacy testing is performed in terms of NZ IFRS 4 in order to test the adequacy of all insurance liabilities recorded in the statement of financial position, net of deferred acquisition costs. Liability adequacy testing is performed at a portfolio level of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

3.14 Life Investment Contracts

Life investment contracts are those contracts with minimal insurance risk and are accounted for in accordance with NZ IAS 18 Revenue and NZ IAS 39 Financial instruments: Recognition and Measurement (refer note 3.3). The life investment contracts are unit-linked and the fair value of a unit linked contract is determined using the current unit values that reflect the fair value of the financial assets backing the contract, multiplied by the number of units attributable of the contract holder.

3.15 Investment Property

Investment Property is held for capital appreciation and comprises of land.

Investment Property is initially recognised at cost and subsequently carried at fair value. The fair value of investment properties is determined by a qualified independent external valuer (refer to Note 15).

Any gains or losses arising from a change in fair value of the investment property is recognised in profit or loss. Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to profit or loss during the period in which they are incurred.

Investment properties are not depreciated for accounting purposes.

3.16 Property, Plant and Equipment

Property, Plant and Equipment are recognised in the statement of financial position at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a diminishing value or straight-line basis to allocate the costs, net of any residual amounts, over their useful lives. The rates for the following asset classes are:

	Diminishing Value	Straight Line
Leasehold Improvements, Furniture and Fittings and Office Equipment	20.0 - 60.0%	3 - 7 years
Computer Equipment	20.0 - 50.0%	2 - 5 years
Motor Vehicles	-	3 - 7 years

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3.17 Intangible Assets

Intangible assets comprise goodwill, acquired separable corporate brands, acquired customer relationships and computer software. Goodwill and corporate brands are indefinite life intangibles subject to annual impairment testing.

Goodwill represents the excess of fair value attributed to investments in subsidiaries over the fair value of the underlying net assets, including intangible assets, at the date of acquisition.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or Companies of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

Corporate brands and customer relationships acquired as part of a business combination are capitalised separately from goodwill as intangible assets if their value can be measured reliably on initial recognition and it is probable that the expected future economic benefits that are attributable to the asset will flow to the Company.

Corporate relationship assets are amortised on the straight line basis over the expected life (3 – 5 years) of the relationship and are recognised in the statement of financial position at cost less accumulated amortisation and impairment losses.

Computer software is recognised in the statement of financial position at cost less accumulated amortisation and impairment losses.

Direct costs associated with the purchase and installation of software licences and the development of software for internal use are capitalised where project success is probable and the capitalisation criteria is met. Cost associated with planning and evaluating computer software and maintaining a system after implementation are expensed. Computer software costs are amortised on a diminishing value basis (rate of 50%) or on a straight-line basis (one to five years).

3.18 Leases in which the Company is lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

3.19 Employee benefits

Wages, salaries and annual leave Liabilities for wages, salaries and annual leave are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Profit sharing and bonus plans

The Company recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Company recognises an accrual where contractually obliged or where there is a practice that has created a constructive obligation.

Superannuation plans

The Company pays contributions to superannuation plans, such as Kiwisaver. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

DPL INSURANCE LIMITED
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3.20 Statement of Cash Flows

The cash flow statement has been prepared using the direct approach modified by netting certain cash flows in order to provide more meaningful disclosure as many of the cash flows are on behalf of the Company's customers rather than those of the Company. These include reverse mortgages and financial assets at fair value through profit or loss.

3.21 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired. Intangible assets not yet available for use are tested for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired.

Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is determined by estimating future cash flows from the use and ultimate disposal of the asset and discounting these to their present value using a pre-tax discount rate that reflects current market rates and the risks specific to the asset. For the purposes of assessing impairment, assets are Companyed at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Impairment losses directly reduce the carrying amount of assets and are recognised in profit or loss.

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

3.22 Contingent Liabilities

The Company is involved in transactions that give rise to contingent liabilities. The Company discloses a contingent liability when it has a possible obligation arising from past events that will be confirmed by the occurrence or non-occurrence of one or more uncertain future events. A contingent liability is disclosed when a present obligation is not recognised because it is not probable that an outflow of resources will be required to settle an obligation, or the amount of the obligation cannot be measured with sufficient reliability.

3.23 Comparatives

Where necessary, comparative information has been reclassified and represented for consistency with current year disclosures.

4. USE OF ESTIMATES AND JUDGEMENTS

In preparing the financial statements in accordance with NZ IFRS, IFRS and applicable reporting standards management has made judgements, estimates and assumptions that affect the application of accounting policies and about the future that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The principal areas of judgement in preparing these financial statements are set out below.

4.1 Liabilities arising from claims made under insurance contracts

Liabilities arising from claims made under insurance contracts are estimated based on the terms of cover provided under an insurance contract.

The estimation of the ultimate liability arising from claims made under insurance contracts is based on a number of actuarial techniques that analyse experience, trends and other relevant factors. The actuarial methodologies used are noted below.

Actuarial Policies and Methods

The actuarial report on life insurance contract liabilities and prudential reserves for the current reporting period was prepared as at 31 March 2018 by Peter Davies, a Fellow of the New Zealand Society of Actuaries.

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Life insurance contract liabilities

The value of life insurance contract liabilities has been determined in accordance with Professional Standard No. 20 of the New Zealand Society of Actuaries. After making appropriate checks, the actuary was satisfied as to the accuracy of the data from which the amount of policy liabilities has been determined.

The key assumptions used in determining policy liabilities are as follows:

(a) Discount Rates

Discount rates used to determine the life insurance contract liabilities are based on an appropriate risk-free rate of return, taking account of the term of the insurance contracts.

Tax was deducted at the rate of 28% on investment earnings net of investment expenses (2017: 28%). The net discount rates assumed were as follows:

	2018	2017
Whole of Life and Endowment Policies (including Funeral Plan)	Treasury risk-free rates*	Treasury risk-free rates*
Quick Cover term life plan	Treasury risk-free rates*	Treasury risk-free rates*
Term Insurance Policies		Not applicable
Caring Plan Funeral Benefit Policies		Not applicable
Annuity Policies	Treasury risk-free rates*	Treasury risk-free rates*
Consumer Credit and Key Person Loan Protection		Not applicable

Cash-flows in year 10:	March 2017: 3.08% per annum net of tax
	March 2018: 2.61% per annum net of tax

(b) Inflation Rates

In determining the future expected rate of return, general inflation was assumed to continue into the future at 2.0% per annum (2017: 2.0%).

(c) Mortality Rates

Rates of mortality were assumed as follows:

For underwritten whole of life, endowment and term insurance policies: NZ97 (2017: NZ97).

For guaranteed issue regular premium funeral plans: NZ97 multiplied by a factor to reflect higher mortality at younger ages.

For annuities and Reverse Mortgages the Directors assumed mortality according to 90% of the NZ12-14 population tables (2017: PA(90) table, reduced by four years). For the Cook Islands Annuity Pension Plan the assumed mortality table is the PA(90) table without adjustment (2017: no change).

(d) Profit Carriers

The policies were divided into major product groups with profit carriers as follows:

Major Product Groups	Carrier
Participating Whole of Life and Endowment Policies	Premiums
Non Participating Whole of Life and Endowment Policies	Premiums
Lump Sum Funeral Benefit Policies (Caring Plan)	Not Applicable
Term Insurance Policies	Premiums
Funeral Plan Policies (Regular premium guaranteed issue)	Claims + Reinsurance
Annuities	Annuity Payments
Consumer Credit / Lifestyle	Not applicable
Motor business	Not applicable
Accidental death and redundancy - Stop gap	Not applicable
Accidental death regular and single premium	Not applicable

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(e) Investment and Maintenance Expenses

The maintenance expense and general growth and development expense allowances assumed for the main classes of business were as follows:

	Cost per policy per annum	
	2018	2017
	\$	\$
Endowments	149	118
Funeral plans	37	29
Term life plans (for loss recognition)	74	59
Consumer credit plans (for loss recognition)	37	29
Annuity plans	149	118

Investment management expenses were assumed to be 1.0% (2017: 1.0%) of policy liabilities.

(f) Inflation and Automatic Indexation of Benefits

Maintenance expenses are assumed to increase 2.0% per annum (2017: 2.0%). Investment management expenses are assumed to remain a constant percentage of funds under management.

(g) Taxation

The assumed future tax rate reflects the corporate tax rate applying in New Zealand with effect from 1 April 2011. The calculations have been carried out on the basis of current life insurance income tax legislation.

(h) Rates of Discontinuance

Rates of discontinuance are assumed to be 5.0% for whole of life, endowment and term insurance business (2017: 5.0%), and nil for annuity pension plan business (2017: nil).

For the DPL Funeral Plan the rates of discontinuance are based on company experience, beginning at 15% in year 1 and reducing ultimately to 8% per annum (2017: no change).

For the Funeral plan (ex-Greenwich) product the rates of discontinuance are based on the pricing assumption for this product, beginning at 10% in year 1, and reducing ultimately to 2% per annum.

For Quick Cover the rates of discontinuance are based on the pricing assumption for this product, beginning at 25% in year 1, and reducing ultimately to 12% per annum.

(i) Surrender Values

The Company's current basis of calculating surrender values is assumed to continue in the future.

(j) Rates of Future Supportable Participating Benefits

Rates of bonus supported by the participating fund are simple annual bonuses of \$2.00 (2017: \$2.00) per \$1,000 of sum assured on endowment policies.

(k) Impact of changes in assumptions

The impact of the change in the discount rate is an increase in policy liabilities of \$121,000 (2017: reduction of \$185,000).

The impact of the revised expense and mortality assumptions is an increase in policy liabilities of \$11,000 (2017: \$32,000).

(l) Crediting Policy Adopted for Future Supportable Participating Benefits

For participating business the Company's policy is to distribute profits arising such that over long periods the returns to policy holders are commensurate with the investment returns achieved on relevant assets, together with other sources of profit arising from this business. In applying the policyholders' share of distributions to provide bonuses, consideration is given to achieving equity between generations of policyholders and equity between the various classes and sizes of policies in force. Assumed future bonus rates included in policyholder liabilities were set such that the present value of policyholder liabilities, allowing for the shareholders' right to participate in distributions, equals the value of assets supporting the business. The supportable future bonus rate on this basis is zero.

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Non-life insurance liabilities

The non-life insurance liabilities have been valued on the basis of their unearned premium. The unearned premium (net of deferred acquisition costs) has been compared to the expected cost of future claims and administration costs to ensure non-life insurance liabilities are sufficient to cover these costs.

4.2 Provision for impairment on financial assets

Provision for impairment on financial assets is determined in accordance with accounting policy 3.12. In applying the policy the company makes judgments as to whether there is any observable data indicating impairment and the estimation of the recoverable amount.

4.3 Impairment of goodwill

The carrying value of goodwill is assessed at least annually to ensure that it is not impaired. Performing this assessment generally requires management to estimate future cash flows to be generated by the related investment or cash-generating unit, which entails making judgements, including the expected rate of growth of revenues, margins expected to be achieved and the appropriate discount rate to apply when valuing future cash flows.

4.4 Impairment of corporate brands

The carrying values of brands are assessed at least annually to ensure that it is not impaired. Performing this assessment generally requires management to estimate future cash flows to be generated by the related investment or a cash-generating unit, which entails making judgements, including the expected rate of growth of revenues, margins expected to be achieved and the appropriate discount rate to apply when valuing future cash flows.

4.5 Business combinations

Management uses valuation techniques to determine the fair values of the various elements of a business combination. Judgement is used in the determination of the fair value of the consideration and the value on intangible assets arising on acquisition (for example corporate brands and customer relationships) The fair value of contingent consideration is dependent on the outcome of many variables that affect future profitability.

4.6 Valuation of investment properties

The fair value of the investment property has been determined by an independent qualified valuer. Note 15 sets out the valuation methodology, key assumptions and sensitivity analysis. The fair value of the investment property is subjective and changes to the assumptions can have a significant impact on profit and the fair value. The fair value measurement for investment property has been categorised as Level 3, as the inputs used as part of the valuation techniques are based on unobservable inputs. These inputs are detailed in Note 15. There were no transfers into or out of Level 3 of the fair value hierarchy during the reporting period.

4.7 Fair value of financial instruments

The fair value of financial instruments that are not quoted in active markets are determined using discounted cash flow models. To the extent practical, models use observable data, however normal volatilities require management to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. The fair value of level 3 instruments are determined by using valuation techniques based on a range of unobservable inputs. The Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances. Investments in equity instruments that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are recognised and subsequently carried at cost.

Specific valuation techniques used to value financial instruments in each level are detailed in notes 15 and 22.

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5. PROFIT AFTER MOVEMENT IN LIFE INSURANCE CONTRACT LIABILITIES, LIFE INVESTMENT CONTRACT LIABILITIES, TAXATION AND COMPREHENSIVE INCOME

	2018	2017
	\$'000	\$'000
a) Revenue		
Interest received	1,997	875
Expenses		
Remuneration of Auditors		
- Fees for audit of the financial statements	109	70
- Fees for audit of the solvency return	5	5
Depreciation	216	48
Amortisation on policies-in-force	1,567	-
Amortisation on agent relationships	593	-
Amortisation on other intangibles	391	48
Provision for impairment	135	16
Directors Fees	60	60
b) <i>Net profit after taxation from insurance activities arose from:</i>		
Life insurance contracts		
Planned margin of revenues over expenses	137	143
Change in valuation assumptions	(11)	(32)
Change in discount rate: Treasury yield curve shift	(120)	164
Difference between actual and assumed experience	2,491	(552)
Life investment contracts		
Difference between actual and assumed experience	294	420
Investment earnings on assets in excess of insurance contract and investment contract liabilities	823	383
Net profit after taxation attributable to insurance activities	3,614	526

The disclosure of the components of operating profit after tax expense are required to be separated between policyholders' and shareholders' interests. We have included only one column, as any policyholder profits are an expense of the Company and not attributable to the Shareholder.

It is not currently possible to identify all experience variances separately for life investment contracts. The difference between actual and assumed experience for life insurance contracts therefore includes some variances relating to life investment contracts.

c) Investment Income		
Equity securities – Australasian & international	398	470
Fixed interest securities – New Zealand	76	96
Property securities – New Zealand and international	75	(14)
	549	552

Included within fixed interest securities is rebate income of \$Nil (2017: \$Nil). Included within total investment income is net realised and unrealised gains on securities at fair value through profit or loss of \$549,000 (2017: \$552,000).

d) Administration fees		
Insurance contracts		
Policy acquisition expenses – commission costs	2,126	754
Deferred acquisition costs	(3,387)	150
Total insurance contract related expenses	(1,261)	904
Life investment contracts		
Investment management expenses	39	69
Total investment contract related expenses	39	69
Total insurance expenses	(1,222)	973

Acquisition costs are those fees charged against the schemes and policies during the first year of operation. Maintenance costs are all other fees charged against the schemes and policies.

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6. TAXATION

Taxation expense/(benefit)	2018	2017
	\$'000	\$'000
Profit before taxation	4,195	928
Income tax using the Company's domestic tax rate 28% (2017: 28%)	1,175	260
Add/(less) expenses not deductible for tax purposes	(594)	142
Taxation expense	581	402
Comprising:		
Current	296	(50)
Deferred	285	452
	581	402
<i>Income tax losses on policyholder base</i>	2018	2017
	\$'000	\$'000
Opening balance	4,487	4,424
Current year loss	194	63
Imputation credits converted to losses	72	-
Closing Balance	4,753	4,487

The policyholder taxation losses are only available to be offset against future policyholder income.

7. SHARE CAPITAL

	2018	2017
	'000	'000
Number of ordinary shares		
Opening balance	46,350	3,450
Shares issued during the year	-	42,900
Total authorised and issued share capital	46,350	46,350
Dollar value of ordinary shares	\$'000	\$'000
Opening balance	46,350	3,450
Shares issued during the year	-	42,900
Total authorised and issued share capital	46,350	46,350

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

There were no dividends declared and paid in 2018 (2017: \$Nil). No dividend has been declared subsequent to 31 March 2018.

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8. EQUITY – DPL INSURANCE LIMITED SOLVENCY CALCULATION

In terms of the Insurance (Prudential Supervision) Act 2010, DPL Insurance Limited must comply with the Solvency Standard for Life Insurance Business 2014 and the Solvency Standard for Non-life Business 2014. DPL Insurance Limited is required to hold minimum solvency capital of \$5.0 million and have a solvency margin of at least \$0.

	2018	2017
	\$'000	\$'000
Actual solvency capital	26,799	21,827
Calculated minimum solvency capital	17,007	12,313
Solvency margin on calculated minimum solvency capital	9,792	9,514
Solvency ratio on calculated minimum solvency capital (times)	1.58	1.77
Overall minimum capital requirement	17,007	12,313
Solvency margin on overall minimum requirement	9,792	9,514
Solvency ratio on overall minimum requirement (times)	1.58	1.77
<i>Non-life insurance</i>		
Actual solvency capital	17,905	14,960
Calculated minimum solvency capital	11,404	9,315
Solvency margin on calculated minimum requirement	6,501	5,645
Solvency ratio	1.57	1.61
<i>Life insurance</i>		
Actual solvency capital	8,894	6,867
Calculated minimum solvency capital	5,603	2,998
Solvency margin on calculated minimum requirement	3,291	3,869
Solvency ratio	1.59	2.29

9. CAPITAL MANAGEMENT

The Company's capital includes share capital and retained earnings. The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders return is also recognised and the Company recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The allocation of capital between its specific business operations and activities is, to a large extent, driven by optimisation of the return on the capital allocated. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation. The Company's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

10. CASH AND CASH EQUIVALENTS

	2018	2017
	\$'000	\$'000
Bank	9,168	55,565

DPL INSURANCE LIMITED
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11. <u>FINANCIAL ASSETS AT FAIR VALUE THROUGH THE PROFIT OR LOSS</u>	2018	2017
	\$'000	\$'000
Term Investments	42,500	-
Investment in unitised funds	7,249	7,190
	<u>49,749</u>	<u>7,190</u>
Investments in unitised funds comprise:		
Cash/deposits	1,142	1,264
Fixed interest securities-New Zealand and overseas	1,350	1,293
New Zealand and international equities	3,056	2,857
New Zealand and overseas property securities	1,701	1,776
	<u>7,249</u>	<u>7,190</u>
Investments with external investment managers		
ANZ Investments	7,249	7,190
	<u>7,249</u>	<u>7,190</u>
Investments in unlisted units represent the investments of the life investment contracts (Refer note 25).		
12. <u>TRADE RECEIVABLES</u>	2018	2017
	\$'000	\$'000
Trade Receivables	4,892	7,027
	<u>4,892</u>	<u>7,027</u>
13. <u>OTHER RECEIVABLES AND DEFERRED EXPENSES</u>	2018	2017
	\$'000	\$'000
Deferred acquisition costs	4,214	1,354
Other receivables and prepayments	1,757	959
	<u>5,971</u>	<u>2,313</u>
14. <u>REVERSE ANNUITY MORTGAGES</u>	2018	2017
	\$'000	\$'000
Reverse Annuity Mortgages (unencumbered)	10,093	9,291
Provision for impairment	(96)	(69)
	<u>9,997</u>	<u>9,222</u>
Movement in provision for impairment		
Opening Balance	69	22
Provisions transferred from other entities	-	34
Impairment charge / (release) through profit or loss	27	13
Closing Balance	<u>96</u>	<u>69</u>

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15. <u>INVESTMENT PROPERTY</u>	2018 \$'000	2017 \$'000
Investment Property	5,750	-
Movement in carrying amounts		
Opening balance	5,200	-
Net change in fair value	550	-
Closing balance	5,750	-

The investment property was valued on 31st March 2018 by a Property Institute of New Zealand registered valuer, Seagers. Seagers, an external independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. Fair values have been determined using a comparable sales approach methodology. The inter-relationship between key unobservable inputs, being comparable sales of similar properties, and fair value measurement is that an increase / (decrease) in comparable sales would increase / (decrease) the fair value of the investment.

The current terms of the lease is 6 years, with two rights of renewal of 3 years each. Rent reviews are carried out at fixed intervals and are based on CPI and market rental rates. As of 31 March 2018, the property was occupied by Turners Group NZ Limited.

Rental income commitments:		
Not later than 1 year	360	-
1-2 years	360	-
2-5 years	1,080	-
5+ years	180	-

16. PROPERTY PLANT AND EQUIPMENT

2018	Computer Equipment \$'000	Motor Vehicles \$'000	Furniture, Fittings, Office Equipment and Leasehold Imp \$'000	Total \$'000
At Cost	268	559	62	889
Accumulated Depreciation	(176)	(44)	(18)	(238)
Opening Carrying Amount	92	515	44	651
Additions	138	151	473	762
Disposals, transfers and translation difference	(6)	(72)	(26)	(104)
Depreciation	(81)	(117)	(18)	(216)
Closing Carrying Amount	143	477	473	1,093
At Cost	226	586	492	1,304
Accumulated Depreciation	(83)	(109)	(19)	(211)
Closing Carrying Amount	143	477	473	1,093

2017	Computer Equipment \$'000	Motor Vehicles \$'000	Furniture, Fittings and Office Equipment \$'000	Total \$'000
At Cost	188	56	14	258
Accumulated Depreciation	(167)	(24)	(4)	(195)
Opening Carrying Amount	21	32	10	63
Additions - business combination	-	466	21	487
Additions	80	88	27	195
Disposals, transfers and translation difference	-	(51)	-	(51)
Depreciation	(9)	(20)	(14)	(43)
Closing Carrying Amount	92	515	44	651
At Cost	268	559	62	889
Accumulated Depreciation	(176)	(44)	(18)	(238)
Closing Carrying Amount	92	515	44	651

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17. <u>INTANGIBLE ASSETS</u>	2018 \$'000	2017 \$'000
Brand		
Opening carrying amount at cost	21,500	-
Addition	-	21,500
Closing carrying amount	21,500	21,500
Goodwill		
Opening carrying amount at cost	11,752	-
Addition	-	11,752
Closing carrying amount	11,752	11,752
Software		
At Cost	961	379
Accumulated Amortisation	(369)	(321)
Opening Carrying Amount	592	58
Additions - business combinations	-	575
Additions	6	7
Disposals, transfers and translation difference	-	-
Amortisation	(390)	(48)
Closing Carrying Amount	208	592
At Cost	967	961
Accumulated Amortisation	(759)	(369)
Closing Carrying Amount	208	592
Corporate relationships		
At Cost	5,200	-
Accumulated Amortisation	-	-
Opening Carrying Amount	5,200	-
Additions - business combinations	-	5,200
Additions	221	-
Disposals, transfers and translation difference	-	-
Amortisation	(593)	-
Closing Carrying Amount	(372)	5,200
At Cost	5,421	5,200
Accumulated Amortisation	(593)	-
Closing Carrying Amount	4,828	5,200
Total intangible assets carrying amount	38,288	39,044

The impairment and amortisation is recognised in other operating expenses in profit or loss.

Impairment testing for cash-generating units (CGU) containing brands and goodwill

The Company is considered a single CGU. Goodwill primarily relates to growth expectations, expected future profitability and the substantial skill and expertise of the work force of the cash generating unit. Management have assessed that there is no foreseeable limit to the period of time over which the goodwill and brand is expected to generate net cash inflows for the CGU, and as such goodwill and brand have been assessed as having an indefinite useful life.

The recoverable amount of the CGU has been determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated long term growth rates stated below. The growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the CGU operates. The key assumptions, long term growth rate and discount rate used in the value-in-use calculations are as follows.

The year 1 forecast cash flows were extrapolated using the following growth rates; year 2 - 23%; year 3 - 3%; year 4 - -15%; year 5 - 1% and a terminal rate of 2% (2017: year 2 - 10%; year 3 - 7.5%, years 4 to 5 - 5% and 2% terminal rate). A pre-tax discount rate of 12.4% (2017: 11.2%) was applied in determining the recoverable amount. The discount rate was established based on weighted average cost of capital taking into account the specific attributes and size of the CGU (2017: weighted average cost of capital taking into account the specific attributes and size of the CGU).

In assessing the impairment of the goodwill and brand value in the Insurance CGU, a sensitivity analysis for reasonably possible changes in key assumptions was performed. This included increasing and reducing the terminal growth rate by 1% (2017: reducing the year 3 - 5 growth rates by 1.5%, increasing and reducing the terminal growth rate by 1%) and increasing and decreasing the discount rate by 1% (2017: increasing and decreasing the discount rate by 1%). These reasonably possible changes in rates did not cause any impairment.

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18. PAYABLES	2018	2017
	\$'000	\$'000
Related party payable (Note 24)	610	254
Other payables and accruals	3,937	2,561
	<u>4,547</u>	<u>2,815</u>

19. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH THE PROFIT OR LOSS

	2018	2017
	\$'000	\$'000
Contingent consideration	226	775

20. DEFERRED TAXATION

The movement on the deferred tax account is as follows:

	2018	2017
	\$'000	\$'000
Opening balance asset/(liability)	(9,110)	134
Deferred tax on brands	-	(8,792)
Charge to profit or loss	(285)	(452)
Closing Balance (asset/liability)	<u>(9,395)</u>	<u>(9,110)</u>

21. ACQUISITION OF BUSINESSES

ACQUISITION OF MOTORPLUS

In August 2017 the Company entered in to an agreement to purchase the assets of Motorplus. The acquisition included corporate relationships and the IP assets. The acquisition was completed on 1st August 2017.

	2018
	\$'000
Fair value of consideration transferred	
Contingent consideration	<u>226</u>
	226
Identified assets acquired	
Intangible asset - corporate relationships	<u>221</u>
Identifiable net assets	221

Contingent consideration

At acquisition date contingent consideration of \$0.2m was recognised. The contingent consideration arrangement requires the Company to make an earn out payment on the first and second anniversaries of the acquisition to Motorplus. The earn out payments are based on the earn out consideration adjusted by the performance percentage. The performance percentage is calculated by comparing the actual annual net written premium to the target annual net written premium included in the sale and purchase agreement.

The potential undiscounted amount of all future payments to Motorplus is between \$0.2m and \$0.4m.

Identified assets acquired

The fair value of corporate relationships was determined using the income approach, discounting future estimated cash flows by a risk adjusted weighted average cost of capital.

Contribution to Company results

The contribution to the company accounts for both the eight month period and the full year had the acquisition occurred on 1 April 2017 is considered insignificant, as DPL Insurance prior to acquiring the assets of Motorplus already had an underwriting agency agreement with them.

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ACQUISITION OF AUTOSURE

In November 2016 the Company entered in to an agreement to purchase part of the Autosure business from Vero Insurance New Zealand Limited. This acquisition included the Autosure brand, corporate relationships and the in-force portfolio of mechanical breakdown, guaranteed asset protection, payment protection, credit contract indemnity and extended warranty insurance contract liabilities. The acquisition was completed on 31 March 2017 being the date on which the transfer of in-force Autosure insurance portfolio received approval from the Reserve Bank of New Zealand. The purchase of Autosure aligns with the Group's strategy of building on organic growth with acquisitions of reputable businesses and brands that build capability and scale in the integrated automotive financial services market.

	2017 \$'000	2017 \$'000
Fair value of consideration transferred		
Cash		34,000
Contingent consideration		<u>775</u>
		34,775
Identified assets acquired and liabilities assumed		
Cash		33,378
Receivables		400
Property, plant and equipment		523
Intangible asset - brand		21,500
Intangible asset - corporate relationships		5,200
Intangible asset - software		400
Trade and other payables		(971)
Deferred tax		(8,792)
Insurance liabilities	(33,315)	
Less: intangible asset- portfolio-in-force	<u>4,700</u>	<u>(28,615)</u>
Identifiable net assets		23,023
Goodwill on acquisition		<u><u>11,752</u></u>
Consideration transferred settled in cash		34,000
Cash received on portfolio transfer		<u>(33,378)</u>
Net cash outflow on acquisition		622
Acquisition costs charged to expenses		<u>446</u>
Net cash paid relating to acquisition		<u><u>1,068</u></u>

Contingent consideration

At acquisition date contingent consideration of \$0.8m was recognised. The contingent consideration arrangement requires the Company to make an earn out payment on the first anniversary of the acquisition, in cash, to Vero Insurance New Zealand Limited. The earn out payment is based on the earn out consideration adjusted by the performance percentage. The performance percentage is calculated by comparing the actual annual gross written premium to the target annual gross written premium included in the sale and purchase agreement.

No contingent payment was made to Vero Insurance New Zealand Limited as the actual annual gross written premium minimum performance percentage did not meet the target included in the sales and purchase agreement.

Identified assets acquired and liabilities assumed

The fair value of corporate relationships was determined using the income approach, discounting future estimated cash flows by a risk adjusted weighted average cost of capital. The fair value of the portfolio-in-force intangible asset represents the difference between the assumed insurance liabilities, measured in accordance with the Company's existing accounting policies, and the fair value of the future claim and administration obligations arising in respect of those contracts. The fair value of the brand has been determined using the income approach and by applying the relief from royalty method. The fair value of all other assets and liabilities was determined using the cost approach.

Goodwill

Goodwill of \$11.8 million is primarily related to growth expectations, expected future profitability, the substantial skill, expertise of the work force and synergies arising from the utilisation of Autosure's repairer network by our existing insurance business and from cross selling on insurance and finance to an extended dealer network and customer base.

Contribution to Company results

As the effective date of the purchase was 31 March 2017, the business made no material net contribution to the Company's financial results. If the acquisition had occurred on 1 April 2016, management estimates that the Company's revenue would have been \$45.0m and the Company's profit before acquisition amortisation would have been \$5.9m

DPL INSURANCE LIMITED
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22. FINANCIAL INSTRUMENTS

a.) Credit risk

Credit risk is the risk that a counterparty will cause a financial loss for the Company by failing to meet its contractual obligations.

Financial instruments which potentially subject the Company to credit risk principally consist of cash and cash equivalents, reverse mortgages, other receivables and financial assets at fair value through profit or loss. There is also credit risk in off-statement of financial position financial instruments, such as loan commitments which represent irrevocable unused portions of authorisations to extend loans. The Company's cash and cash equivalents are placed with high credit quality institutions.

The Company performs credit evaluations on all customers requiring advances. The Company requires collateral or other security to support the financial instruments with credit risk. The Company operates a lending policy with various levels of authority depending on the size of the loan. A lending and credit committee operates and overdue loans are assessed on a regular basis by this body.

Risk gradings categorise exposures according to the degree of risk of financial loss faced and focus management on the attendant risks. Risk grades are used to determine where impairment allowances may be required. The current risk grading framework consists of three grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. They are as follows:

- neither past due nor impaired - compliance with all terms, good security value, and no adverse events affecting the borrower.
- past due but not impaired – non-compliance with all terms and concerns over future events that may effect the borrower.
- past due and impaired - non-compliance with terms, evidence of impairment of security held and adverse event affecting the borrower.

The Company implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for reverse mortgages are mortgages over residential property.

Maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position which is net of any provision for impairment.

With respect to credit risk on commitments, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

The credit risk exposure below does not take into account the fair value of any collateral, in the event of counterparties failing to meet their contractual obligation.

For life investment linked contracts the investments credit risk is appropriate for each particular product and the risk is borne by the policy holder. There is no significant risk assumed by the Company.

a.) i.) Concentrations of credit risk

Concentrations of credit risk exist if a number of counterparties are involved in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The Company manages, limits and controls concentrations of credit risk, in particular, to individual counterparties and geographic location. The Company lends only to owners of property.

Such risks are monitored on an ongoing basis and subject to an annual or more frequent review, when considered necessary.

Geographic concentrations of reverse mortgages

The following table breaks down the Company's main credit exposure at their carrying amounts, as categorised by the geographic regions of our counterparties.

	2018 \$'000	2017 \$'000
Northland	169	549
Auckland	5,382	5,449
Waikato/Bay of Plenty	3,126	1,137
Wellington	78	143
Rest of North Island	579	742
Canterbury	208	449
Otago/Southland	291	532
Rest of South Island	260	290
	<u>10,093</u>	<u>9,291</u>

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b.) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds at short notice to meet obligations from its financial liabilities.

The Company maintains sufficient funds to meet its commitments based on historical and forecasted cash flow requirements. Management actively manages the lending and borrowing portfolios to ensure the net exposure to liquidity risk is minimised. The exposure is reviewed on an ongoing basis from daily procedures to monthly reporting as part of the Company's liquidity management process. The management process includes:

- day to day funding, managed by monitoring future cash flows to ensure that requirements can be met

Monitoring and reporting take the form of cashflow measurement and projections, these include:

- day to day funding requirements;
- on a weekly basis, projecting the requirements for each of the next 4 weeks;
- on a monthly basis, projecting the requirements for each of the next 12 months

The weekly projections are reported to the Board. The Company also monitors the level of undrawn lending commitments.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

2018 \$'000	0-6 Months	6-12 Months	12-24 Months	24-60 Months	60+ Months	Total
Financial liabilities						
Advances from related parties	610	-	-	-	-	610
Other Payables	3,937	-	-	-	-	3,937
	4,547	-	-	-	-	4,547

2017 \$'000	0-6 Months	6-12 Months	12-24 Months	24-60 Months	60+ Months	Total
Financial liabilities						
Advances from related parties	254	-	-	-	-	254
Other Payables	2,561	-	-	-	-	2,561
	2,815	-	-	-	-	2,815

c.) Market risk

Market risk is the risk of an event in the financial markets that results in a fluctuation in earnings or a fluctuation in value. Market risk arises from the mismatch between assets and liabilities. The Company is exposed to diverse financial instruments including interest rates, equities, and foreign currencies.

c.1.) Life insurance business

For the life insurance business, financial assets at fair value through profit or loss are held for investment linked policies where market risk is transferred to the policy holder. The Company earns fees on investment linked policies that are based on the amount of assets invested, it may receive lower fees should markets fall. Asset allocation for investment linked policies is decided by the Policy Holder. This risk is not considered significant.

Interest rate risk also arises on risk contracts where negative policy liabilities are valued at current risk free interest rates. There would not be any significant impact on profit or loss for interest rate changes refer sensitivity analysis below.

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c.ii.) Interest rate risk for financing activities

For the financing activities of the Company, the main market risk is interest rate risk.

Interest rate risk is the risk of loss to the Company arising from adverse changes in interest rates. The Company is exposed to the interest rate risk in respect of borrowings from and lending to customers. Interest rates are managed by assessing the demand for funds, for new lending, repayments and maintaining an adequate liquidity buffer. Rates are either fixed or variable for both lending and borrowing over the term of the contract. The Company does not enter into any futures, swaps or option contracts. Changes to interest rates can impact on the Company's financial results by affecting the spread earned on the interest-earning assets and the cost of interest-bearing liabilities.

Interest rate risk is measured by management and the Board of Directors when establishing fixed and variable rates of interest. When approving interest rates for individual loan advances interest rate risk is either measured by management and/or Board of Directors in accordance with the approved lending policy. Exposure to interest rates is monitored by the Board of Directors on a monthly basis.

Reserves mortgages are carried at amortised cost. Interest rates on advances are fixed or variable throughout the life of the advances. Advances are secured over the assets to which they relate.

The following table summarises the sensitivity of the Company's finance assets and financial liabilities to interest rate risk. The analysis shows the annualised impact on profit before tax and equity of a +/- 1% movement in interest rates. The equity impact takes into account tax effect of the profit impacts.

2018 (\$'000)	Carrying amount	-1% profit	-1% equity	+1% profit	+1% equity
Financial assets					
Reverse mortgages	9,997	(100)	(70)	100	70
2017 (\$'000)	Carrying amount	-1% profit	-1% equity	+1% profit	+1% equity
Financial assets					
Reverse mortgages	9,222	(92)	(65)	92	65

d.) Fair value of financial assets and liabilities not carried at fair value

Except for reverse mortgages and borrowings, the carrying value of all financial assets and liabilities not carried at fair value approximates their fair values as they are either short term in nature or rate insensitive.

The fair value of reverse mortgages and borrowings is determined using discounted cash flows, the discount rates used are the current market rates for similar products.

The table below summarises the carrying amounts and fair values of those financial assets and financial liabilities not presented on the Company's statement of financial position at their fair value:

2018 \$'000	Carrying Amount	Fair Value
Financial assets		
Cash and cash equivalents	9,168	9,168
Trade Receivables	4,892	4,892
Other receivables and prepayments	5,971	5,971
Reverse mortgages	9,997	11,866
	<u>30,028</u>	<u>31,897</u>
Financial liabilities		
Advances from related parties	610	610
Other Payables	3,937	3,937
	<u>4,547</u>	<u>4,547</u>

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2017 \$'000	Carrying Amount	Fair Value
Financial assets		
Cash and cash equivalents	55,565	55,565
Trade Receivables	7,027	7,027
Other receivables and prepayments	2,313	2,313
Reverse mortgages	9,222	10,828
	<u>74,127</u>	<u>75,733</u>
Financial liabilities		
Advances from related parties	254	254
Other Payables	2,561	2,561
	<u>2,815</u>	<u>2,815</u>

e.) Fair value financial assets

The fair value of financial assets carried at fair value are determined as follows:

- Level 1: The fair value is calculated using quoted prices in active markets.
- Level 2 : The fair value is estimated using inputs other than quoted prices in level 1 that are observable for the assets, either directly (as prices) or indirectly (derived from prices).
- Level 3: The fair value is estimated using inputs for the assets that are not based on observable market data.

The fair value of financial assets carried at fair value as well as the methods used to calculate fair value are summarised in the table below:

2018 \$'000	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at fair value through profit or loss - term investment	42,500	-	-	42,500
Financial assets at fair value through profit or loss - life investment	-	7,249	-	7,249
Investment Property	-	-	5,750	5,750
	<u>42,500</u>	<u>7,249</u>	<u>5,750</u>	<u>55,499</u>

Financial liabilities:

Financial liabilities at fair value through profit or loss	-	-	226	226
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2017 \$'000	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets at fair value through profit or loss - life investment	-	7,190	-	7,190

Financial liabilities:

Financial liabilities at fair value through profit or loss	-	-	775	775
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Financial assets at fair value through profit or loss - term investment

Term investments are recognised at fair value based on quoted big market price.

Financial assets at fair value through profit or loss - life investment

The financial assets in this category back life investment contract liabilities and are investments in managed funds. The fair value of the investments in the managed funds are determined by reference to published exit prices, being the redemption price established by the based on market price quoted by the fund manager, ANZ Investments Limited (refer note 11).

Investment Property

The fair value of investment property was determined by an independent registered valuer using the comparable sales approach methodology (refer note 15)

This is a level 3 fair value measurement and the key unobservable assumption used in determining the consideration is the probable sales price. A change in price of +/- 5% would increase / (decrease) the total fair value and profit or loss by \$0.3m / (\$0.3m).

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Financial liability at fair value through profit or loss – contingent consideration

The fair value of the contingent consideration was determined using estimates of the expected pay out discounted at current borrowing rates.

These financial liabilities are exposed to interest rate risk as disclosed above.

At acquisition date contingent consideration of \$0.2m was recognised and subsequently re-measured at the reporting date.

The fair value estimate, at acquisition date, of the contingent consideration was determined by discounting the probability adjusted earn out consideration of \$ 0.2m by 4.81%.

This is a level 3 fair value measurement and the key unobservable assumptions used in determining the probability adjusted earn out consideration was the probability of achieving the performance target established in the sales and purchase agreement.

Future development may require further revisions to the contingent consideration.

23. INSURANCE RISK MANAGEMENT

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The Company purchases reinsurance as part of its risk mitigation programme. Retention limits for the excess-of-loss reinsurance vary by product line.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts.

24. RELATED PARTY BALANCES AND TRANSACTIONS

Related Party

Turners Automotive Group Limited (formerly Turners Limited)
 Turners Group NZ Limited
 Turners Property Holdings Limited
 Turners Finance Limited
 Buy Right Cars (2016) Limited
 EC Credit Control (NZ) Limited
 Dorchester Capital Limited
 Dorchester RAMS Limited
 Oxford Finance Limited
 Dorchester Finance Limited (subsequently amalgamated into Oxford Finance Limited)
 Southern Finance Limited (subsequently amalgamated into Oxford Finance Limited)
 Dorchester Oxford Limited (subsequently amalgamated into Oxford Finance Limited)
 Dorchester Life Trustees Limited

Relationship

Parent
 Common controlled entity
 Common controlled entity
 Common controlled entity
 Common controlled entity
 Common controlled entity
 Common controlled entity
 Common controlled entity
 Common controlled entity
 Common controlled entity
 Common controlled entity
 Common controlled entity

	2018	2017
	\$'000	\$'000
a) <u>Related party balances</u>		
<i>Payable / (Receivable) as follows:</i>		
Turners Automotive Group Limited	610	254
Balances within Trade Receivables and Other Receivables		
Buy Right Cars (2016) Limited	(98)	-
EC Credit Control (NZ) Limited	(26)	(98)
Oxford Finance Limited	(12)	-
Southern Finance Limited	(3)	-
Turners Finance Limited	(222)	-
Balances within Other Payables		
Buy Right Cars (2016) Limited	38	24
EC Credit Control (NZ) Limited	6	18
Oxford Finance Limited	15	15

All related party loans are repayable on demand and bear no interest. No related party debts have been forgiven or written off during the year.

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b) Related Party Transactions

During the year, Turners Automotive Group Limited paid certain expenses on behalf of the Company. These have been recharged in its entirety.

The Company charged administration fees of \$0 (2017: \$20,556) to Dorchester Capital Limited and \$0 (2017: \$24,444) to Dorchester RAMS Limited for administering Reverse Annuity Mortgages products on behalf of these companies.

Buy Right Cars (2016) Limited earned rebates of \$198,536 (2017: \$0) in relation to the sale of insurance policies.

EC Credit Control (NZ) Limited earned commission of \$75,261 (2017: \$55,568) in relation to the collection of motor vehicle related recoveries.

Oxford Finance Limited earned incentives of \$5,900 (2017: \$27,337) in relation to the sale of insurance policies.

Southern Finance Limited and Turners Finance Limited sold insurance policies and the related party balances reflect the amount due at year end on these sales.

The Company acquired 2 investment properties during the year from Turners Property Holdings Limited totalling \$8m (2017: \$0).

The Company leased investment properties to Turners Group NZ Limited located at 133 Roscommon Road, Wiri and 12 Curries Road, Christchurch. The Company received rental income during the year totalling \$283,561 (2017: \$0).

c) Key management personnel compensation

The key management personnel are the Directors of the Company and the Group General Manager. Compensation of key management personnel for the years ended 31 March 2018 and 31 March 2017 was as follows;

	Short-term benefits \$'000	Other long-term benefits \$'000	Share-based payments \$'000	Total \$'000
Year ended 31 March 2018	310	8	28	346
Year ended 31 March 2017	305	7	-	312

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25. INSURANCE RELATED DISCLOSURES

a.) Policyholder liabilities	2018	2017
	\$'000	\$'000
Insurance contract liabilities		
Opening insurance contract liabilities	42,874	12,688
Increase in insurance contract liabilities	8,142	3,310
Amortisation intangible asset - policies in force	(1,567)	-
Increase in deferred acquisition costs	(1,073)	(1,739)
Autosure acquisition insurance liabilities less policies in force	-	28,615
Closing insurance contract liabilities	<u>48,376</u>	<u>42,874</u>

Policyholder liabilities contain the following components:

Future policy benefits	58,792	17,589
Future expenses	6,578	611
Future profit margins	2,810	1,403
Balance of future premiums	(18,633)	(3,606)
Re-insurance	4,774	1
Autosure acquisition insurance liabilities	-	33,315
Life deferred acquisition costs	(2,812)	(1,739)
Intangible asset - policies in force	(3,133)	(4,700)
	<u>48,376</u>	<u>42,874</u>

Life insurance contracts with a discretionary participation feature – the amount of the liabilities that relates to guarantees	250	398
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Other contracts with a fixed or guaranteed termination value – current termination value	6,610	2,241
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Life investment contracts at fair value through profit or loss

Opening life investment contract liabilities at fair value through profit or loss	12,847	15,629
Increase in life investment contract liabilities recognised in profit or loss	340	283
Contributions	1,754	2,306
Withdrawals	(7,519)	(4,951)
Activity, plan and establishment fees	(295)	(420)

Closing life investment contract liabilities held by the life insurance business	<u>7,127</u>	<u>12,847</u>
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Expected to be realised in more than 12 months	<u>7,127</u>	<u>12,847</u>
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The benefits offered under the Company's unit-linked investment contracts are based on the returns of selected equities and debt securities. This investment mix is unique, and it cannot be associated to an individual benchmark index with a sufficiently high correlation.

All financial liabilities at fair value through profit and loss are designated by the Company to be in this measurement category.

The liabilities originated from unit-linked contracts are measured in reference to their respective underlying assets of these contracts. Changes in the credit risk of the underlying assets do not impact the measurement of the unit-linked liabilities. The maturity value of these financial liabilities is determined by the fair value of the linked assets, at maturity date.

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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b.) Policyholder liabilities	2018	2017
	\$'000	\$'000
Annuities	1,403	1,352
Endowment	266	398
Whole of life	3,772	2,167
Provision for bonuses and future margins	1,336	1,413
Consumer credit protection & key person loan protection	4,948	5,789
Accidental death/redundancy	8	9
Term Life	72	72
General	35,605	32,047
Claims provision	4,305	675
Superlife policies	7,127	7,062
Deferred acquisition costs - life	(3,339)	(1,048)
Superannuation Funds:		
Super Bond Retirement Plan (closed)	-	5,785
	<u>55,503</u>	<u>55,721</u>

The policy liabilities in respect of annuities, endowment, whole of life, term life and super life have been established in accordance with the policy conditions and maintained at a level equivalent to obligations due to policy holders as maturity or partial benefits.

The super life fund has been established by DPL Insurance Limited in accordance with the policy conditions and is maintained at a level equal to the obligations due to super life policyholders as maturity or partial benefits.

c.) i.) General outstanding claims liability	2018	2017
	\$'000	\$'000
Central estimate of present value of expected future payments	3,303	498
Risk margin	214	57
Outstanding Claims Liability	<u>3,517</u>	<u>555</u>
c.) ii.) Reconciliation of movement in general outstanding claims liability	2018	2017
	\$'000	\$'000
Opening Balance	555	693
Movement	26,645	4,415
Payments	(23,683)	(4,553)
Outstanding Claims Liability	<u>3,517</u>	<u>555</u>

The outstanding claims liability includes, in addition to the central estimate of the present value of expected future payments, a risk margin that relates to the inherent uncertainty in the central estimate of the present value of the expected future payments.

Risk margins are determined on a basis that reflects the insurer's business. Regard is given to the robustness of the valuation models, the reliability and volume of available data, past experience of the insurer and the industry and the characteristics of the classes of business written.

d.) Liability adequacy test

The liability adequacy test is an assessment of whether the carrying amount of the unearned premium liability is adequate and is conducted at each reporting date. If current estimates of the expected future cash flows relating to future claims arising from the rights and obligations under current insurance contracts, plus an additional risk margin to reflect the inherent uncertainty in the central estimate, exceed the unearned premium liability then the unearned premium liability is deemed to be deficient.

No deficiency was identified in the 2017 and 2018 reporting periods.

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2018

e.i.) Disaggregated information

DPL Insurance Limited has one statutory life fund. The disaggregated income statement and balance sheet between the statutory and shareholder funds is as follows:

Statement of income for the year ended 31 March 2018	Statutory \$'000	Shareholder \$'000	Total \$'000
Insurance contract premiums	6,375	33,344	39,719
Outward reinsurance premium	(543)	(115)	(658)
Recoveries	443	555	998
Other insurance revenue	860	2,252	3,112
Insurance revenue	7,135	36,036	43,171
Claims expense	(2,216)	(26,666)	(28,882)
Increase in policy liabilities	(82)	-	(82)
Commission expense	(1,022)	(1,104)	(2,126)
Other expenses	(2,644)	(8,885)	(11,529)
Underwriting (loss)/profit	1,171	(619)	552
Investment income	979	1,414	2,393
Fair value gain on revaluation of investment properties	-	550	550
Gain on sale of investment properties	-	700	700
Profit before taxation	2,150	2,045	4,195
Taxation	(298)	(283)	(581)
Profit after taxation	1,852	1,762	3,614

Statement of financial position as 31 March 2018	Statutory \$'000	Shareholder \$'000	Total \$'000
Assets			
Investments backing insurance policy liabilities	25,787	61,288	87,075
Other assets	-	38,288	38,288
Total assets	25,787	99,576	125,363
Liabilities			
Life investment contract liabilities	7,127	-	7,127
Insurance contract liabilities	9,254	39,122	48,376
Deferred taxation	-	9,395	9,395
Other liabilities	512	4,261	4,773
Total liabilities	16,893	52,778	69,671
Solvency			
Actual Solvency capital	8,894	17,905	26,799
Minimum solvency capital	5,603	11,404	17,007
Solvency Margin	3,291	6,501	9,792

Statement of income for the year ended 31 March 2017	Statutory \$'000	Shareholder \$'000	Total \$'000
Insurance contract premiums	2,418	6,315	8,733
Outward reinsurance premium	(351)	(180)	(531)
Recoveries	353	552	905
Other insurance revenue	690	911	1,601
Insurance revenue	3,110	7,598	10,708
Claims expense	(978)	(4,415)	(5,393)
Increase in policy liabilities	(1,056)	-	(1,056)
Commission expense	(687)	(307)	(994)
Other expenses	(907)	(2,437)	(3,344)
Underwriting (loss)/profit	(518)	439	(79)
Investment income	956	51	1,007
Profit before taxation	438	490	928
Taxation	(123)	(279)	(402)
Profit after taxation	315	211	526

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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Statement of financial position as 31 March 2017	Statutory \$'000	Shareholder \$'000	Total \$'000
Assets			
Investments backing insurance policy liabilities	25,049	56,920	81,969
Other assets	175	38,869	39,044
Total assets	25,224	95,789	121,013
Liabilities			
Life investment contract liabilities	12,847	-	12,847
Insurance contract liabilities	5,104	37,770	42,874
Deferred taxation	-	9,110	9,110
Other liabilities	231	3,872	4,103
Total liabilities	18,182	50,752	68,934
Solvency			
Actual Solvency capital	6,867	14,960	21,827
Minimum solvency capital	2,998	9,315	12,313
Solvency Margin	3,869	5,645	9,514

e.ii.) Disaggregated information

The business undertaken and policies accepted by DPL Insurance Limited are a combination of investment linked and non-investment linked. Investment linked business is business for which the life insurer issues a contract where the benefit amount is directly linked to the market value of the investments held in the particular investment linked fund. Non-investment linked business is insurance business other than investment linked business.

	Investment Linked	Non- Investment Linked	Total
2018 (\$'000)			
Premium income	-	39,061	39,061
Investment income	549	1,844	2,393
Claims expense	-	(28,882)	(28,882)
Other operating revenue	-	5,360	5,360
Other operating expenses	(99)	(13,298)	(13,397)
Investment revenues allocated to policyholders	(340)	-	(340)
Net profit before taxation	110	4,085	4,195
Net profit after taxation	79	3,535	3,614
Policy liabilities	7,127	48,376	55,503
Investment assets	7,249	67,414	74,663
Other assets	-	50,699	50,699
Other liabilities	-	14,168	14,168
Retained earnings	1,089	8,253	9,342
2017 (\$'000)			
Premium income	-	8,202	8,202
Investment income	552	455	1,007
Claims expense	-	(5,393)	(5,393)
Other operating revenue	-	2,506	2,506
Other operating expenses	(126)	(4,985)	(5,111)
Investment revenues allocated to policyholders	(283)	-	(283)
Net profit before taxation	143	785	928
Net profit after taxation	103	423	526
Policy liabilities	12,847	42,874	55,721
Investment assets	12,766	59,377	72,143
Other assets	-	48,870	48,870
Other liabilities	-	13,213	13,213
Retained earnings	1,010	4,718	5,728

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2018

f.) Insurance risk

The insurance business of the Company involves a number of financial and non-financial risks. The financial risks are covered in Note 22. Key objectives in managing insurance risk are:

- (i) To ensure sound business practices are in place for underwriting risks and claims management;
- (ii) To achieve a target return on capital that is invested in order to take on insurance risk; and
- (iii) To ensure solvency and capital requirements are met.

Life insurance

The life insurance business of the Company involves a number of non-financial risks concerned with the pricing, acceptance and management of the mortality, and longevity risks accepted from policyholders. These risks are controlled through the use of underwriting procedures and adequate premium rates and policy charges, all of which are approved by the Actuary. Tight controls are also maintained over claims management practices to ensure the correct and timely payment of insurance claims.

Terms and conditions of life insurance contracts

The nature of the terms of the insurance contracts written by the Company is such that certain external variables can be identified on which related cashflows for claim payments depend. The tables below provide an overview of the key variables upon which the amount of related cashflows are dependent.

Type of contract	Details of the contract workings	Nature of compensation for claims	Key variables affecting cash flows
Non-participating life insurance contracts with fixed and guaranteed terms	Benefits paid on death or maturity are fixed and guaranteed and not at the discretion of the issuer	Benefits, defined by the insurance contract, are determined by the contract and are not directly affected by the performance of underlying assets or the performance of the contracts as whole.	Mortality, lapses, expenses and market earnings on assets backing the liabilities.
Life insurance contracts with discretionary participating benefits (endowment and whole of life)	These policies include a clearly defined initial guaranteed sum assured which is payable on death. The guaranteed amount is a multiple of the amount that is increased throughout the duration of the policy by the addition of regular bonuses annually which, once added, are not removed. Regular bonuses are also added retrospectively.	Benefits arising from the discretionary participation feature are based on the performance of a specified pool of contracts or a specified type of contract.	Mortality, lapses, expenses and market earnings on assets backing the liabilities.
Life Annuity Contracts	These policies provide guaranteed regular payments to the life assured.	The amount of the payment is set at inception of the policy.	Longevity, expenses and market earnings on assets backing the liabilities.

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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Non-life insurance

The risk management activities include prudent underwriting, pricing, and management of risk, together with claims management, reserving and investment management. The objective of these disciplines is to enhance the financial performance of the insurance operations and to ensure sound business practices are in place for underwriting risks and claims management.

Claims

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

Insurance risk may arise through the reassessment of the incidence of claims, the trend of future claims and the effect of unforeseen diseases or epidemics. Insurance risk is controlled by ensuring underwriting standards adequately identify potential risk, retaining the right to amend premiums on risk policies where appropriate. The experience of the Company's life insurance business is reviewed regularly.

Concentration of insurance risk

The Company aims to maintain a portfolio of policyholders with a broad spread of insurance risk types, ages, sexes, occupation classes and geographic locations. The Company uses reinsurance to limit the insurance risk exposure for any one individual.

Sensitivity analysis

The liabilities included in the reported results are calculated using certain assumptions about key variables as disclosed above. Sensitivity analysis is conducted to assess the impact of actual experience being different to that assumed in the calculation of liabilities. Movements in any variable will impact the profit and net assets of the Company. The tables below describe how a change in actual experience relative to that expected will effect next financial year's expected shareholder profit.

<u>Variable</u>	<u>Impact of movement in underlying variable</u>
Expense risk	An increase in the level or inflationary growth of expenses over assumed levels will decrease profit and shareholders equity
Interest rate risk	Depending on the profile of the investment portfolio, the investment income of the Company will decrease as interest rates decrease. This may be offset to an extent by changes in the market value of fixed interest investments. The impact on profit and shareholder equity depends on the relative profiles of assets and liabilities, to the extent that these are not matched
Mortality rates	For insurance contracts providing death benefits, greater mortality rates would lead to higher levels of claims, increasing associated claims cost and therefore reducing profit and shareholder equity
Discontinuance	The impact of discontinuance rate assumption depends on a range of factors including the type of contract, the surrender value basis (where applicable) and the duration in force. For example, an increase in discontinuance rates at earlier durations of life insurance contracts usually has a negative effect on profit and shareholder equity. However, due to the interplay between the factors, there is not always an adverse outcome from an increase in discontinuance rates
Market Risk	For benefits which are not contractually linked to the underlying assets, the Company is exposed to Market Risk

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2018

The table below illustrates how changes in key assumptions would impact the reported profit and liabilities of the Company

As at 31 March 2018 – Result of change in assumptions

	<u>Effect on Policy Liability</u>	<u>Effect on Future Profit</u> <u>Margins</u>
\$'000		
Market risks		
Increase in interest rates of 1%	(217)	(50)
Decrease in interest rates of 1%	241	55
Insurance risks		
Increase in expenses of 10%	1	(30)
Decrease in expenses of 10%	(1)	30
Increase in mortality by 10%	(4)	(253)
Decrease in mortality by 10%	5	278
Worsening of discontinuance rate by 10%	-	77
Improvement in discontinuance rate by 10%	-	(87)

As at 31 March 2017 – Result of change in assumptions

	<u>Effect on Policy Liability</u>	<u>Effect on Future Profit</u> <u>Margins</u>
\$'000		
Market risks		
Increase in interest rates of 1%	(211)	(53)
Decrease in interest rates of 1%	234	57
Insurance risks		
Increase in expenses of 10%	1	(33)
Decrease in expenses of 10%	(1)	33
Increase in mortality by 10%	(4)	(268)
Decrease in mortality by 10%	4	294
Worsening of discontinuance rate by 10%	-	80
Improvement in discontinuance rate by 10%	-	(90)

DPL INSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2018

26. RECONCILIATION OF PROFIT AFTER TAXATION TO CASHFLOWS FROM OPERATING ACTIVITIES

	2018 \$'000	2017 \$'000
Profit after taxation	3,614	526
Add/(less) non-cash items:		
Non-cash movement in reverse mortgages	(865)	(825)
Net unrealised (gains)/losses on investments	(549)	(552)
Policyholder liabilities	3,981	1,988
Provision for impairment	(27)	16
Depreciation and Amortisation Expense	2,766	96
Add/(less) movements in working capital items:		
Receivables	(3,658)	(1,533)
Other payables	(4,580)	620
Add Working Capital items treated as investing activities	(3)	(3)
Add Working Capital items treated as financing activities	47	46
Net cash outflow from operating activities	726	379

27. COMMITMENTS AND CONTINGENT LIABILITIES

	2018 \$'000	2017 \$'000
Operating lease commitments:		
Not later than 1 year	243	-
1-2 years	250	-
2-5 years	791	-
5+ years	1,159	-

The Company leases premises under a non cancellable operating lease agreement. The lease term is for 9 years.

Contingent Liabilities:

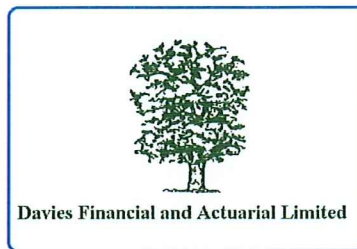
DPL Insurance Limited (DPL) and Vero Insurance New Zealand Limited (Vero) have agreed to an expert determination to decide the appropriate level of insurance reserves to be transferred to DPL Insurance for the acquisition of the Autosure business. Both parties are seeking a payment. The directors consider that on balance of probabilities DPL is likely to receive a payment. Pending the outcome of the determination, DPL may be required to make a payment to Vero. At the date of this report the timing and amount of any payment could not be reliably estimated.

28. SUBSEQUENT EVENTS AFTER BALANCE DATE

On the 1st May 2018, an investment property was acquired from Turners Property Holdings Limited for \$6.7m. No other significant events have occurred after balance date (2017: Nil).

29. FINANCIAL STRENGTH RATING

DPL Insurance Limited has been issued a Financial Strength Rating of B+ (Good) and an Issuer Credit Rating of bbb- (Good), with the outlook assigned to both ratings as 'Stable' by A.M. Best. The rating was reaffirmed by A.M. Best on the 29 June 2018.



26th June 2018

To: The Directors
DPL Insurance Limited

From: Peter Davies
Appointed Actuary

**Re: DPL Insurance Limited: Report as at 31st March 2018
under Sections 77 and 78 of the Life Assurance
(Prudential Supervision) Act 2010**

You have asked me to prepare this report in terms of the above sections of the Act, and I would like to comment further as follows:

1. I have reviewed the actuarial information included in the audited accounts for DPL Insurance Limited as at 31st March 2018. "Actuarial information" includes the following:
 - policy liabilities;
 - solvency calculations in terms of the RBNZ Solvency Standard;
 - balance sheet and other information allowed for in the calculation of the company's solvency position; and
 - disclosures regarding the methodology and assumptions used for calculating policy liabilities, and other disclosures.
2. No limitations have been placed on my work.

3. I am independent with respect to DPL Insurance Limited as defined under professional standard ISA (NZ) 620 of the External Reporting Board.
4. I have been provided with all information that I have requested in order to carry out this review.
5. In my view the actuarial information contained in the financial statements has been appropriately included, and the actuarial information used in the preparation of the financial statements has been appropriately used.
6. DPL Insurance Limited exceeded the minimum capital requirement of the RBNZ solvency standard for Life Insurers as at 31st March 2018.

I have prepared a set of projections of the Company's Statutory and Shareholder funds for the next four years, based on current valuation assumptions and on management business plans and projected expense levels. These projections indicate that both funds, and the Company as a whole, are expected to meet the RBNZ solvency requirements at all times over this period.

I would be very happy to answer any queries concerning this report.

Yours sincerely



Peter Davies B.Bus.Sc., FIA, FNZSA
Appointed Actuary