# DPL INSURANCE LIMITED

## ANNUAL REPORT

## FOR THE YEAR ENDED 31 MARCH 2020

**DPL INSURANCE LIMITED**

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**FOR THE YEAR ENDED 31 MARCH 2020**

**DPL INSURANCE LIMITED**

**DIRECTORS' REPORT**

**FOR THE YEAR ENDED 31 MARCH 2020**

The directors present the annual report of DPL Insurance Limited for the year ended 31 March 2020.

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: 5 August 2020*

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# 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 8 to 51, which comprise the statement of financial position as at 31 March 2020, 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 2020, 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 the Company. Our audit work has been undertaken so that we might state to the Shareholders of the Company those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Shareholders of the Company as a body, 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) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* 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 other these other assurance services has not impaired our independence.

In addition to this, principals and employees of our firm deal with Turners Automotive Group Limited (Parent of DPL Insurance Limited) or any of its subsidiaries on normal terms within the ordinary course of trading activities of the business of the Group. This has not impaired our independence.

**Emphasis of Matter – Increased level of inherent uncertainty in the significant accounting estimates and judgments applied by Management in the preparation of these financial statements, arising from the ongoing global pandemic of coronavirus disease 2019**

We draw attention to Note 4 of the financial statements, which describes the impact of the ongoing global pandemic of the novel coronavirus disease 2019 ('COVID-19') and Management's assessment of and responses to, this pandemic on the Company. Since March 2020, the COVID-19 pandemic has lowered overall economic activity and confidence, resulting in significant volatility and instability in financial markets and economic uncertainty. Consequently, there has been an increase in the level of inherent uncertainty in the critical accounting estimates and judgements applied by Management in the preparation of these financial statements, described in Note 4 of the financial statements. As at the date of the signing of these financial statements, all reasonably known and available information with respect to the COVID-19 pandemic has been taken into consideration in the critical accounting estimates and judgements applied by Management, and all reasonably determinable adjustments have been made in preparing these financial statements.

Our opinion is not modified in respect of this matter.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matter | How our audit addressed the key audit matter |
|---|---|
| **Impairment testing of Goodwill and Other Indefinite Life Intangible Assets**<br><br>As disclosed in Note 17 of the Company's financial statements the Company has goodwill of \$11.75m and brand assets of \$21.5m allocated to the Company's cash-generating unit ('CGU'). Goodwill and brand assets were significant to our audit due to the size of the assets and the subjectivity, complexity and uncertainty inherent in the measurement of the recoverable amount of the CGU for the purpose of the required annual impairment test. The measurement of a CGU's recoverable amount includes the assessment and calculation of its 'value in-use'.<br><br>Management has completed the annual impairment test for the CGU as at 31 March 2020. | Our audit procedures among others included:<br><br>▪ Evaluating Management's determination of the Company's CGU based on our understanding of the nature of the Company's business and the economic environment in which the business operates. We also analysed the internal reporting of the Company to assess how the CGU is monitored and reported.<br><br>▪ Evaluating the competence, capabilities, objectivity and expertise of Management's external valuation expert and the appropriateness of the expert's work as audit evidence for the relevant assertions.<br><br>▪ Challenging Management's assumptions and estimates used to determine the recoverable value of the goodwill and brand assets, including those relating to forecasted revenue, cost, |

| Key Audit Matter | How our audit addressed the key audit matter |
| --- | --- |
| Management has engaged an external valuation expert to assist in the annual impairment testing of the CGU.<br><br>This annual impairment test involves complex and subjective estimation and judgement by Management on the future performance of the CGU, discount rates applied to future cash flow forecasts, and future market or economic conditions. | capital expenditure and discount rates, by adjusting for future events and corroborating the key market related assumptions to external data (including the consideration of the impact of the COVID-19 pandemic).<br><br>Procedures included:<br>o Evaluating the logic of the value-in-use calculation supporting Management's annual impairment test and testing the mathematical accuracy of the calculation;<br>o Evaluating Management's process regarding the preparation and review of forecasts;<br>o Comparing forecasts to Board approved forecasts;<br>o Evaluating the historical accuracy of the Company's forecasting to actual historical performance;<br>o Challenging and evaluating the forecast growth assumptions;<br>o Evaluating the inputs to the calculation of the discount rate applied;<br>o Engaging our own internal valuation experts to evaluate the logic of the value-in-use calculation and the inputs to the calculation of the discount rate applied;<br>o Evaluating Management's sensitivity analysis for reasonably possible changes in key assumptions; and<br>o Performing our own sensitivity analyses for reasonably possible changes in key assumptions, the two main assumptions being: the discount rate and forecast growth assumptions.<br>▪ Evaluating the related disclosures about indefinite life intangible assets which are included in Note 17 in the Company's financial statements. |
| **Valuation of Insurance Contract Liabilities**<br><br>As disclosed in Note 24 of the Company's financial statements the Company has insurance contract liabilities of $51.4m. The Company's insurance contract liabilities were significant to our audit due to the size of the liabilities and the subjectivity, complexity and uncertainty inherent in estimating the impact of claims events that have occurred but for which the eventual outcome remains uncertain.<br><br>Management has engaged an external actuarial expert to estimate the Company's insurance contract liabilities as at 31 March 2020. | Our audit procedures among others included:<br>▪ Evaluating the design and operating effectiveness of the key controls over insurance contract origination, ongoing administration, claims management and reporting and the integrity of the related data;<br>▪ Evaluating the competence, capabilities, objectivity and expertise of Management's external actuarial expert and the appropriateness of the expert's work as audit evidence for the relevant assertions;<br>▪ Agreeing and testing the data provided to Management's external actuarial expert to the Company's records;<br>▪ Engaging our own actuarial expert to assist in understanding and evaluating:<br>o the work and findings of the Company's external actuarial expert engaged by Management;<br>o the Company's actuarial methods and assumptions to assist us in challenging the appropriateness of actuarial methods and assumptions used by Management; |

| Key Audit Matter | How our audit addressed the key audit matter |
|---|---|
| | ▪ Assessing the selection of methods and assumptions with a view to identifying Management bias; and<br>▪ Evaluating the related disclosures about insurance contract liabilities, and the risks attached to them which are included in Note 24 in the Company's financial statements. |
| **Valuation of Investment Properties**<br><br>As disclosed in Note 15 of the financial statements the Company has investment properties of $21.6m. Investment properties were significant to our audit due to the size of the asset and the subjectivity, complexity and uncertainty inherent in estimating the fair value of the investment properties.<br><br>Management has engaged external valuers (the Valuers) to determine the fair value of the Company's investment properties as at 31 March 2020. The Valuers performed their work in accordance with the International Valuation Standards and the Australia and New Zealand Valuation and Property Standards, NZ IFRS 13 *Fair Value Measurement* and NZ IAS 40 *Investment Property*.<br><br>Due to the unique nature of the properties the Valuers consider other market information when determining a market value for the properties.<br><br>As described in Note 4.5, the Valuers have considered the impact of the COVID-19 pandemic and disclosed a material valuation uncertainty in the property valuations. Market uncertainty arises when a market is disrupted at the valuation date by current or very recent events such as sudden economic, natural disaster or political crises. Such events create valuation uncertainty, because the only inputs and metrics available for the valuation are likely to relate to the market before the event occurred and the impact of the event on prices will not be known until the market has stabilised.<br><br>The Company has adopted the assessed values determined by the Valuers. | Our audit procedures among others included:<br>▪ Reading the valuation reports for the Company's investment properties as at 31 March 2020;<br>▪ Confirming that the valuation approach for the properties was in accordance with NZ IFRS 13 and NZ IAS 40, and suitable for determining the fair value of the Company's investment properties at 31 March 2020;<br>▪ Evaluating the competence, capabilities, objectivity and expertise of Management's external valuation expert and the appropriateness of the expert's work as audit evidence for the relevant assertions;<br>▪ Agreeing property related data provided by Management to the valuers to the Company's records;<br>▪ Evaluating the selection of valuation methods and assumptions with a view to identifying Management bias;<br>▪ Evaluating the assumptions used by comparing to other comparable properties valued at that date; and<br>▪ Evaluating the related disclosures about the investment properties which are included in in Note 15 of the Company's financial statements. |

## 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 fairly 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.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is N S de Frere.

Baker Tilly Staples Rodway

**BAKER TILLY STAPLES RODWAY AUCKLAND**

**Auckland, New Zealand**

5 August 2020

**DPL INSURANCE LIMITED**

**STATEMENT OF COMPREHENSIVE INCOME**

**FOR THE YEAR ENDED 31 MARCH 2020**

| | Note | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| Insurance contract premiums | 24 | 39,277 | 40,416 |
| Outward reinsurance premium | 24 | (587) | (630) |
| Recoveries | 24 | 430 | 416 |
| Commission income | 24 | 1,683 | 1,731 |
| Fair value gain on revaluation of investment properties | 15, 24 | 500 | 900 |
| Gain on sale of investment properties | 24 | - | 2,480 |
| Fair value gain on settlement of contingent consideration liability | 21, 24 | 37 | 29 |
| Other insurance revenue | 24 | 549 | 329 |
| Insurance revenue | | 41,889 | 45,671 |
| | | | |
| Claims expense | 24 | (23,890) | (25,112) |
| Increase in policy liabilities | 24 | (836) | (718) |
| Commission expense | 5, 24 | (2,067) | (2,383) |
| Depreciation and amortisation expense | 5 | (2,784) | (2,746) |
| Other expenses | 5 | (8,859) | (9,390) |
| Underwriting (loss)/profit | | 3,453 | 5,322 |
| Investment income | 24 | 3,262 | 3,255 |
| Profit before taxation | | 6,715 | 8,577 |
| Taxation | 6, 24 | (1,774) | (1,587) |
| Profit after taxation | | 4,941 | 6,990 |

The accompanying notes form part of these financial statements

DPL INSURANCE LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2020

| | Note | Share Capital $'000 | Retained Earnings $'000 | Total $'000 |
|---|---|---|---|---|
| **Balance at 31 March 2018 (audited)** | | 46,350 | 9,342 | 55,692 |
| Change in accounting policy<br>Impact of implementing NZ IFRS 15 | | - | (72) | (72) |
| **Balance 1 April 2018 (restated)** | | 46,350 | 9,270 | 55,620 |
| Total Comprehensive Income attributable to shareholders | | - | 6,990 | 6,990 |
| **Balance at 31 March 2019 (audited)** | | **46,350** | **16,260** | **62,610** |
| Change in accounting policy<br>Impact of implementing NZ IFRS 16 | 26 | - | (51) | (51) |
| **Balance 1 April 2019 (restated)** | | **46,350** | **16,209** | **62,559** |
| Total Comprehensive Income attributable to shareholders | | - | 4,941 | 4,941 |
| Dividends Paid | | - | (5,000) | (5,000) |
| **Balance at 31 March 2020** | | **46,350** | **16,150** | **62,500** |

The accompanying notes form part of these financial statements

**DPL INSURANCE LIMITED**

**STATEMENT OF FINANCIAL POSITION**

**AS AT 31 MARCH 2020**

| | Note | 2020 $'000 | 2019 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 10 | 1,476 | 2,247 |
| Financial assets at fair value through profit or loss | 11 | 61,834 | 62,657 |
| Trade receivables | 12 | 2,656 | 3,802 |
| Other receivables and deferred acquisition costs | 13 | 3,787 | 4,792 |
| Reverse annuity mortgages | 14 | 4,913 | 8,294 |
| Investment properties | 15 | 21,600 | 15,500 |
| Property, plant & equipment | 16 | 632 | 917 |
| Right of Use Asset | 26 | 1,338 | - |
| Intangible assets | 17 | 37,361 | 37,694 |
| **Total assets** | | 135,597 | 135,903 |
| | | | |
| **LIABILITIES** | | | |
| Other payables | 18 | 3,128 | 3,737 |
| Financial liability at fair value through profit or loss | 19 | - | 116 |
| Contract liabilities | | 199 | 147 |
| Deferred taxation | 20 | 7,181 | 8,369 |
| Tax payable | | 2,479 | 1,655 |
| Lease Liability | 26 | 1,618 | - |
| Life investment contract liabilities | 24 | 7,072 | 7,484 |
| Insurance contract liabilities | 24 | 51,420 | 51,785 |
| **Total liabilities** | | 73,097 | 73,293 |
| | | | |
| **SHAREHOLDER'S EQUITY** | | | |
| Share capital | 7 | 46,350 | 46,350 |
| Retained earnings | | 16,150 | 16,260 |
| **Total Shareholder's equity** | | 62,500 | 62,610 |
| | | | |
| **Total shareholder's equity and liabilities** | | 135,597 | 135,903 |

*Signed for and on behalf of the Board of Directors:*

*Director* *Director*

*Dated: 5 August 2020*

The accompanying notes form part of these financial statements.

DPL INSURANCE LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2020

| | Note | 2020<br>$'000 | 2019<br>$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from policyholders and customers | | 43,070 | 48,220 |
| Interest Received | | 1,594 | 1,588 |
| Withdrawals and Claims Paid | | (24,561) | (26,707) |
| Interest Expense on Lease Liabilities | | (91) | - |
| Other Expenses Paid | | (12,112) | (13,617) |
| Tax paid | | (2,117) | (475) |
| **Net cash inflow from operating activities** | 25 | 5,783 | 9,009 |
| **Cash flows from investing activities** | | | |
| Proceeds from Investment Property | | - | 8,600 |
| Proceeds from Investments | | 385 | 384 |
| Proceeds from Reverse annuity mortgages | | 3,959 | 2,596 |
| Proceeds from sale of Property, Plant and Equipment | | 98 | 54 |
| Purchase of Investment Property | | (5,600) | (14,600) |
| Cash invested in term deposits (net movement) | | 362 | (12,500) |
| Purchase of Property, Plant and Equipment | | (67) | (163) |
| Purchase of Intangible Assets | | (442) | (301) |
| **Net cash outflow from investing activities** | | (1,305) | (15,930) |
| **Cash flows from financing activities** | | | |
| Principal elements of lease payments | | (249) | - |
| Dividends Paid | | (5,000) | - |
| **Net cash outflow from financing activities** | | (5,249) | - |
| Net movement in cash and cash equivalents | | (771) | (6,921) |
| Add Opening cash and cash equivalents | | 2,247 | 9,168 |
| **Closing cash and cash equivalents** | | 1,476 | 2,247 |
| Represented by: | | | |
| Bank balances | 10 | 1,476 | 2,247 |
| **Closing cash and cash equivalents** | | 1,476 | 2,247 |

The accompanying notes form part of these financial statements.

## 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, 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 general and life insurer.

The financial statements were authorised for issue by the Directors on 5 August 2020.

## 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 financial statements are described in note 4.

## 3. SIGNIFICANT ACCOUNTING POLICIES

Except as detailed in note 26, 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 2019 that materially impact the Company's financial statements are as follows:

- NZ IFRS 16 'Leases'.

The other standards did not have a material impact on the Company's financial statements and did not require retrospective adjustment.

Refer to note 26 for the impact of implementing the new standard.

**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 2019**

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

*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 amortised 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.

**3.4.1 Insurance contracts**

*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.

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 the 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 and recognised as Financial assets at fair value through profit or loss. 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 contacts 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.

**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.

**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.

### 3.4.2 Financial instruments

**Investment Income**
Financial instruments are classified in the manner described in note 3.5. 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 and 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.

### 3.4.3 Revenue from contracts with customers

**Commission income**

Commissions earned on the sale of third party products is recognised at a point in time when the sale is made. Payment is usually received when the sale is made. Other than those provided by legislation no warranties are provided by the Company. There are no rebates or volume discounts.

### 3.4.4 Other

**Other Revenue**
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.

**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 Instruments

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Financial assets that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Company may make the following irrevocable election/designation at initial recognition of a financial asset:

- the Company may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- the Company may irrevocably designate a financial asset that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period.

For financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the financial asset, or, where appropriate, a shorter period, to the gross carrying amount of the financial asset on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and at FVTOCI.

For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Financial assets measured at amortised cost include cash and cash equivalents, trade receivables, reverse annuity mortgages and other receivables.

(ii) Financial assets at FVTPL
Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL.

- Investments in equity instruments are classified as at FVTPL, unless the Company designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition.
- Financial assets that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, financial assets that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Company has not designated any financial assets as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship. Fair value is determined in the manner described in note 4.6.

Financial assets measured at FVTPL include unitised funds, fixed interest securities and term deposits.

The Company has no financial assets measured at FVTOCI.

Impairment of financial assets
The Company recognises a loss allowance for expected credit losses ("ECL") on financial assets that are measured at amortised cost and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Company recognises lifetime ECL for trade receivables and contract assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(i) Significant increase in credit risk
In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Company compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

The nature of the Company's trade receivables means there is little or no updated credit risk information that is routinely obtained and monitored on an individual instrument until a customer breaches the contractual terms.

Irrespective of the outcome of the above assessment, the Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Company has reasonable and supportable information that demonstrates otherwise.

The Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default
The Company considers that default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets
A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

a) significant financial difficulty of the borrower;
b) a breach of contract, such as a default or past due event (see (ii) above); and
c) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy
The Company writes off a financial asset when there is information indicating that the borrower is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the borrower has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

v) Measurement and recognition of expected credit losses
The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.

As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date. No further advances are allowed against financial assets in default.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive, discounted at the original effective interest rate.

If the Company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Company measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Company recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets
The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss

Financial liabilities
All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL. However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies are measured in accordance with the specific accounting policies set out below.

Financial liabilities at FVTPL
Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and NZ IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss to the extent that they are not part of a designated hedging relationship.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Fair value is determined in the manner described in note 4.6.

Financial liabilities measured at FVTPL include contingent consideration.

Financial liabilities measured subsequently at amortised cost
Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities
The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Company exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Company accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

### 3.6 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 taken into account are the probability of meeting each performance target and the discount factor.

### 3.7 Taxation

Income tax on net profit for the reporting period comprises current and deferred tax. Income tax is recognised in profit or loss except when it relates to items recognised outside profit or loss (equity or other comprehensive income), in which case it is also recognised outside profit or loss.

Current tax
Current income tax is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax
Deferred income tax assets are recognised for all deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred income tax liabilities are recognised when tax deductions have exceeded accounting expenditure for temporary differences and depreciation.

### 3.8 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 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 been recognised 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.

**3.9 Life Investment Contracts**

Life investment contracts are those contracts with minimal insurance risk and are accounted for in accordance with NZ IFRS 15 'Revenue from Contracts with Customers' (refer note 3.4.1) and NZ IFRS 9 'Financial Instruments' (refer note 3.4.2). The life investment contacts are unit-linked and 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 to the contract holder.

**3.10 Investment Property**

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

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.

**3.11 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 and Office Equipment | - | 2 - 7 years |
| Computer Equipment | 50.00% | 2 - 3 years |
| Motor Vehicles | - | 3 - 7 years |

**3.12 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 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 (2 – 10 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 straight-line basis (one to five years).

**3.13 Right of use asset and lease liability**

The Company leases an office. The Rental contract is for a fixed period of 9 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreement does not impose any covenants, but leased asset may not be used as security for borrowing purposes.

Until the 2020 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

A deferred tax asset is raised for the tax impact of the changes in recognised lease related assets and liabilities.

A lease is contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

In the Statement of cash flow, lessees present:
• Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability as part of operating activities;
• Cash paid for the interest portion of a lease liability as either operating activities or financing activities, as permitted by NZ IAS 7 Statement of Cash Flows (the Company has opted to include interest paid as part of operating activities, consistent with its presentation of interest paid on financial liabilities); and
• Cash payments for the principal portion for a lease liability, as part of financing activities. Under NZ IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities.

For the accounting policy applied prior to the adoption of NZ IFRS 16 please refer to note 26.

### 3.14 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.

### 3.15 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.

### 3.16 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 accounted for 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.

### 3.17 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.

### 3.18 Comparatives

Where necessary, comparative information has been reclassified and represented for consistency with current year disclosures. Comparative information has not been impacted by the implementation of NZ IFRS 16.

## 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.

*COVID-19*

The COVID -19 pandemic and responses has reduced the ability of many businesses to operate and reduced the demand for many goods and services resulting in significant volatility and instability in financial markets. The Company experienced significant declines in new business during lockdown level 4 and level 3, however earned annuity income and were profitable during this period. The COVID-19 pandemic and responses continue to effect general activity and confidence levels in the economy. While the scale and duration of these effects remain uncertain, the Company continues to monitor developments and initiate plans to mitigate adverse impacts and maximise opportunities.

These financial statements have been prepared based upon conditions existing as at 31 March 2020 and consider those events occurring subsequent to that date that provide evidence of conditions that existed at the end of the reporting period. As the outbreak of the COVID-19 pandemic occurred before 31 March 2020 its impacts are considered an event that is indicative of conditions that arose prior to reporting period. Accordingly, as at the date of signing these financial statements, all reasonably known and available information with respect to the COVID-19 pandemic has been taken into consideration in the critical accounting estimates and judgements applied by Management and all reasonably determinable adjustments have been made in preparing these financial statements.

When assessing the possible future impact of COVID-19 pandemic on the carrying value of assets and liabilities, the Company reviewed past experience, including the impact of the global financial crisis, on the Company's performance and aligned the forecast and estimates with this experience.

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 2020 by Peter Davies, a Fellow of the New Zealand Society of Actuaries.

*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 (2019: 28%). The net discount rates assumed were as follows:

| | 2020 | 2019 |
|---|---|---|
| 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 | |

* These rates are provided by Treasury as at 31 January, and are then adjusted to 31 March based on the movement in swap rates, as quoted by the Reserve Bank, between January and March. Illustrative forward rates for the respective valuations are as follows:

| | | |
|---|---|---|
| Cash-flows in year 10: | March 2019: | 1.83% per annum net of tax |
| | March 2020: | 1.11% 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 (2019: 2.0%).

(c) *Mortality Rates*

Rates of mortality were assumed as follows:

For underwritten whole of life, endowment and term insurance policies: NZ97 (2019: 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 (2019: 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 (2019: 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)(2018: Net claims and reinsurance) | Gross claims |
| Quick Cover term life plan (2018: Net claims and reinsurance) | Gross claims |
| 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 |

(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 | |
|---|---|---|
| | 2020 | 2019 |
| | $ | $ |
| Endowments | 152 | 149 |
| Funeral plans | 9 | 9 |
| Term life plans (for loss recognition) | 9 | 9 |
| Consumer credit plans (for loss recognition) | 9 | 9 |
| Annuity plans | 152 | 149 |

Investment management expenses were assumed to be 1.0% (2019: 1.0%) of policy liabilities.

(f) *Inflation and Automatic Indexation of Benefits*

Maintenance expenses are assumed to increase 2.0% per annum (2019: 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 (2019: 5.0%), and nil for annuity pension plan business (2019: 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 (2019: no change).
For the Funeral plan (ex-Greenwich) product the rates of discontinuance are based on the pricing assumption for this product, beginning at 40% in year 1, and reducing ultimately to 3% per annum (2019: 40% to 6%).
For Quick Cover the rates of discontinuance are based on the pricing assumption for this product, beginning at 40% in year 1, and reducing ultimately to 10% per annum (2019: no change).

(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 $0.00 (2019: $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 $331,000 (2019: $207,000).

The policy liabilities are not affected by the revised expense assumptions (2019: $11,000).

(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.

*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 3.5. 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 (refer to Note 17).

**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 (refer to Note 17).

**4.5 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. The COVID-19 pandemic is currently having a major impact on the New Zealand economy. Due to the severe market disruption and lack of transactional data, the valuers have included a material valuation uncertainty clause in their valuation reports. This clause highlights that less certainty, and consequently a higher degree of caution, should be attached to the point estimate valuation as a result of the COVID-19 pandemic. This represents a significant estimation uncertainty in relation to the valuation of investment properties.

**4.6 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 (Refer to Notes 11 and 21).

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 company 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 21.

**4.7 Determining lease term**
In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

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

| | | 2020 | 2019 |
|---|---|---|---|
| a) | **Revenue** | **$'000** | **$'000** |
| | Interest received | 2,276 | 2,434 |
| | | | |
| | **Expenses** | | |
| | Remuneration of Auditors | | |
| | - Fees for audit of the financial statements | 120 | 109 |
| | - Fees for audit of the solvency return | 7 | 7 |
| | Depreciation | 442 | 287 |
| | Amortisation on policies-in-force | 1,567 | 1,567 |
| | Amortisation on agent relationships | 557 | 630 |
| | Amortisation on other intangibles | 218 | 261 |
| | Provision for impairment | 246 | 74 |
| | Directors Fees | 35 | 35 |
| | | | |
| b) | ***Net profit after taxation from insurance activities arose from:*** | | |
| | **Life insurance contracts** | | |
| | Planned margin of revenues over expenses | 339 | 164 |
| | Change in discount rate: Treasury yield curve shift | (331) | (207) |
| | Difference between actual and assumed experience | 3,711 | 5,745 |
| | **Life investment contracts** | | |
| | Difference between actual and assumed experience | 240 | 266 |
| | Investment earnings on assets in excess of insurance contract and investment contract liabilities | 982 | 1,022 |
| | **Net profit after taxation attributable to insurance activities** | 4,941 | 6,990 |

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.

The Company is not able to reliably 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.

| | | 2020 | 2019 |
|---|---|---|---|
| c) | **Investment Income** | | |
| | Equity securities – Australasian & international | (30) | 382 |
| | Fixed interest securities – New Zealand | 127 | 104 |
| | Property securities – New Zealand and international | (174) | 306 |
| | | (77) | 792 |
| | | | |
| d) | **Administration fees** | | |
| | **Insurance contracts** | | |
| | Policy acquisition expenses – commission costs | 2,067 | 2,382 |
| | Deferred acquisition costs | 701 | 423 |
| | **Total insurance contract related expenses** | 2,768 | 2,805 |
| | | | |
| | **Life investment contracts** | | |
| | Investment management expenses | 42 | 40 |
| | **Total investment contract related expenses** | 42 | 40 |
| | **Total insurance expenses** | 2,810 | 2,845 |

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.

## 6. TAXATION

| **Taxation expense/(benefit)** | **2020** | **2019** |
|---|---|---|
| | **$'000** | **$'000** |
| Profit before taxation | 6,715 | 8,577 |
| | | |
| Income tax using the Company's domestic tax rate 28% (2019: 28%) | 1,879 | 2,402 |
| *Add/(less)* non-assessable income for tax purposes | (106) | (826) |
| Prior year adjustment | 1 | 11 |
| Taxation expense | 1,774 | 1,587 |
| | | |
| Comprising: | | |
| Current | 2,949 | 2,530 |
| Deferred | (1,176) | (954) |
| Prior year adjustment | 1 | 11 |
| | 1,774 | 1,587 |

| *Income tax losses on policyholder base* | **2020** | **2019** |
|---|---|---|
| | **$'000** | **$'000** |
| Opening balance | 4,949 | 4,753 |
| Current year loss | 172 | 126 |
| Imputation credits converted to losses | 59 | 70 |
| Closing Balance | 5,180 | 4,949 |

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

## 7. SHARE CAPITAL

| | **2020** | **2019** |
|---|---|---|
| | **'000** | **'000** |
| **Number of ordinary shares** | | |
| Opening balance | 46,350 | 46,350 |
| Total authorised and issued share capital | 46,350 | 46,350 |
| | | |
| **Dollar value of ordinary shares** | **$'000** | **$'000** |
| Opening balance | 46,350 | 46,350 |
| 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.

A $5m dividend was declared and paid in 2020 (2019: $Nil). There have been no dividends declared subsequent to 31 March 2020.

### 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.

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Actual solvency capital | 32,321 | 33,284 |
| Calculated minimum solvency capital | 16,598 | 16,714 |
| Solvency margin on calculated minimum solvency capital | 15,723 | 16,570 |
| Solvency ratio on calculated minimum solvency capital (times) | 1.95 | 1.99 |
| Overall minimum capital requirement | 16,598 | 16,714 |
| Solvency margin on overall minimum requirement | 15,723 | 16,570 |
| Solvency ratio on overall minimum requirement (times) | 1.95 | 1.99 |
| *Non-life insurance* | | |
| Actual solvency capital | 24,324 | 21,557 |
| Calculated minimum solvency capital | 14,244 | 12,850 |
| Solvency margin on calculated minimum requirement | 10,080 | 8,707 |
| Solvency ratio | 1.71 | 1.68 |
| *Life insurance* | | |
| Actual solvency capital | 7,997 | 11,727 |
| Calculated minimum solvency capital | 2,354 | 3,864 |
| Solvency margin on calculated minimum requirement | 5,643 | 7,863 |
| Solvency ratio | 3.40 | 3.03 |

### 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

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Bank | 1,476 | 2,247 |

## 11. FINANCIAL ASSETS AT FAIR VALUE THROUGH THE PROFIT OR LOSS

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Term Investments | 54,637 | 54,999 |
| Investment in unitised funds | 7,197 | 7,658 |
| | 61,834 | 62,657 |
| **Investments in unitised funds comprise:** | | |
| Cash/deposits | 1,333 | 1,309 |
| Fixed interest securities-New Zealand and overseas | 1,369 | 1,350 |
| New Zealand and international equities | 2,935 | 3,141 |
| New Zealand and overseas property securities | 1,560 | 1,858 |
| | 7,197 | 7,658 |
| **Investments with external investment managers** | | |
| ANZ Investments | 7,197 | 7,658 |
| | 7,197 | 7,658 |

Investments in unlisted units represent the investments of the life investment contracts (Refer note 24).

## 12. TRADE RECEIVABLES

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Trade Receivables | 2,963 | 4,004 |
| Provision for impairment | (307) | (202) |
| | 2,656 | 3,802 |

## 13. OTHER RECEIVABLES AND DEFERRED EXPENSES

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Deferred acquisition costs | 3,267 | 4,015 |
| Other receivables and prepayments | 520 | 777 |
| | 3,787 | 4,792 |

## 14. REVERSE ANNUITY MORTGAGES

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Reverse Annuity Mortgages (unencumbered) | 4,993 | 8,344 |
| Provision for impairment | (80) | (50) |
| | 4,913 | 8,294 |
| Movement in provision for impairment | | |
| Opening Balance | 49 | 96 |
| Impairment charge / (release) through profit or loss | 31 | (47) |
| Closing Balance | 80 | 49 |

## 15. INVESTMENT PROPERTIES

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Investment Properties | 21,600 | 15,500 |
| Movement in carrying amounts | | |
| Opening balance | 15,500 | 5,750 |
| Additions | 5,600 | 14,600 |
| Disposals | - | (5,750) |
| Net change in fair value | 500 | 900 |
| Closing balance | 21,600 | 15,500 |

Investment properties comprise of the following:

| Property | Valuer | Effective date | 2020 $'000 |
|---|---|---|---|
| 160 Roscommon Road, Wiri | Colliers | Mar-20 | 7,700 |
| 9 John Seddon Drive, Porirua | Telfer Young | Mar-20 | 8,100 |
| 2 Walton Street/1 Maunu Road, Whangarei | Telfer Young | Mar-20 | 5,800 |
| Total carrying amounts | | | 21,600 |

**15. INVESTMENT PROPERTIES (CONTINUED)**

The investment properties were valued on 31st March 2020 by Property Institute of New Zealand registered valuers, CIVAS (trading as Colliers International) and Telfer Young (Wellington and Northland). The valuers are external independent valuation companies, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued.

Valuation techniques used to derive level 3 fair value:

160 Roscommon Road

Fair values have been determined using the following methodologies:
i) Contract Capitalisation Approach
ii) Market Capitalisation Approach
iii) Discounted Cash Flow Approach

The current terms of the lease is 10 years, with two rights of renewal of 5 years each as at February 2018. Rent reviews are carried out at fixed intervals and are based on CPI and market rental rates. As of 31 March 2020, the property was occupied by Turners Group NZ Limited.

9 John Seddon Drive

Fair values have been determined using the following methodologies:
i) Income Capitalisation Approach
ii) Discounted Cash Flow Approach

The current terms of the lease for 9 John Seddon Drive, Porirua is 12 years, with three rights of renewal of 6 years each as at November 2018. Rent reviews are carried out at fixed intervals and are based on CPI and market rental rates. As of 31 March 2020, the property was occupied by Turners Group NZ Limited.

2 Walton Street / 1 Maunu Road
Fair values have been determined using the following methodologies:
i) Income Capitalisation Approach
ii) Discounted Cash Flow Approach
iii) Cost Approach

The current terms of the lease for 2 Walton Street / 1 Maunu Road, Whangarei is 12 years, with three rights of renewal of 6 years each as at July 2019. Rent reviews are carried out at fixed intervals and are based on CPI and market rental rates. As of 31 March 2020, the property was occupied by Turners Group NZ Limited.

The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

| 2020 | Valuation Technique | Significant unobservable inputs | Inter-relationship between key unobservable inputs and fair value |
|---|---|---|---|
| 160 Roscommon Road | Contract Capitalisation Approach | Income capitalisation rate - 5% | The higher the capitalisation rate, the lower the fair value |
| | Market Capitalisation Approach | Market capitalisation rate - 5.125% | The higher the capitalisation rate, the lower the fair value |
| | Discounted Cash Flow Approach | Discount rate - 6.75%; Terminal capitalisation rate - 5.375%; Internal rate of return (including capex) - 6.78%; Internal rate of return (excluding capex) - 6.88% | The higher the discount rate and the terminal capitalisation rate, the lower the fair value |
| 9 John Seddon Drive | Income Capitalisation Approach | Income capitalisation rate - 6% | The higher the capitalisation rate, the lower the fair value |
| | Discounted Cash Flow Approach | Discount rate - 7.75%; Terminal yield - 6.25% | The higher the discount rate and the terminal capitalisation rate, the lower the fair value |

## 15. INVESTMENT PROPERTIES (CONTINUED)

| 2020 | Valuation Technique | Significant unobservable inputs | Inter-relationship between key unobservable inputs and fair value |
|---|---|---|---|
| 2 Walton Street / 1 Maunu Road | Income Capitalisation Approach | Income capitalisation rate - 6.25% | The higher the capitalisation rate, the lower the fair value |
| | Discounted Cash Flow Approach | Discount rate - 8.00%; Terminal yield - 7.25% | The higher the discount rate and the terminal capitalisation |
| | Cost Approach | Purchase or Construction value | The higher the replacement or construction cost, the higher the fair value |

No income has been earned and no direct operating expenses, other than council rates, have been incurred on the investment property. There are no restrictions on the disposal or the remittance of proceeds on disposal.

| | 2020 | 2019 |
|---|---|---|
| Rental income commitments: | $'000 | $'000 |
| Not later than 1 year | 1,237 | 863 |
| 1-2 years | 1,262 | 872 |
| 2-5 years | 3,939 | 2,679 |
| 5+ years | 7,004 | 5,220 |
| | 13,442 | 9,634 |

## 16. PROPERTY PLANT AND EQUIPMENT

| 2020 | Computer Equipment | Motor Vehicles | Office Equipment and Leasehold Imp | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| At Cost | 231 | 656 | 501 | 1,388 |
| Accumulated Depreciation | (170) | (199) | (102) | (471) |
| Opening Carrying Amount | 61 | 457 | 399 | 917 |
| | | | | |
| Additions | 4 | 63 | - | 67 |
| Disposals, transfers and translation difference | - | (101) | - | (101) |
| Depreciation | (59) | (110) | (82) | (251) |
| Closing Carrying Amount | 6 | 309 | 317 | 632 |
| | | | | |
| At Cost | 235 | 546 | 501 | 1,282 |
| Accumulated Depreciation | (229) | (237) | (184) | (650) |
| Closing Carrying Amount | 6 | 309 | 317 | 632 |

| 2019 | Computer Equipment | Motor Vehicles | Office Equipment and Leasehold Imp | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| At Cost | 226 | 586 | 492 | 1,304 |
| Accumulated Depreciation | (83) | (109) | (19) | (211) |
| Opening Carrying Amount | 143 | 477 | 473 | 1,093 |
| | | | | |
| Additions | 5 | 150 | 8 | 163 |
| Disposals, transfers and translation difference | - | (54) | - | (54) |
| Depreciation | (87) | (115) | (83) | (285) |
| Closing Carrying Amount | 61 | 457 | 398 | 917 |
| | | | | |
| At Cost | 231 | 656 | 501 | 1,388 |
| Accumulated Depreciation | (170) | (199) | (102) | (471) |
| Closing Carrying Amount | 61 | 457 | 399 | 917 |

## 17. INTANGIBLE ASSETS

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| **Brand** | | |
| Closing carrying amount | 21,500 | 21,500 |
| **Goodwill** | | |
| Closing carrying amount | 11,752 | 11,752 |
| **Software** | | |
| At Cost | 1,268 | 967 |
| Accumulated Amortisation | (1,024) | (759) |
| Opening Carrying Amount | 244 | 208 |
| Additions | 442 | 301 |
| Amortisation | (218) | (265) |
| Closing Carrying Amount | 468 | 244 |
| At Cost | 1,710 | 1,268 |
| Accumulated Amortisation | (1,242) | (1,024) |
| Closing Carrying Amount | 468 | 244 |
| **Corporate relationships** | | |
| At Cost | 5,421 | 5,421 |
| Accumulated Amortisation | (1,223) | (593) |
| Opening Carrying Amount | 4,198 | 4,828 |
| Additions | - | - |
| Amortisation | (557) | (630) |
| Closing Carrying Amount | (557) | (630) |
| At Cost | 5,421 | 5,421 |
| Accumulated Amortisation | (1,780) | (1,223) |
| Closing Carrying Amount | 3,641 | 4,198 |
| Total intangible assets carrying amount | 37,361 | 37,694 |

**Impairment testing for cash-generating unit (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 which the CGU operates. The key assumptions, long term growth rate and discount rate used in the value-in-use calculations are as follows.

Key Assumptions:
Sales, price and operating cost assumptions where based on the Management's best estimate of the range of economic conditions the Company is likely to experience during the forecast period. The forecasts covers a period of a minimum of 5 years or the period required for the Company's profitability to return to pre-COVID 19 levels. Annual capital expenditure, the expected cash costs was based on historical experience and planned expenditure. The forecasts assume that New Zealand will remain at Alert Level 1 or lower and no further restrictions are placed on the business operations during the forecast period.

| | Year 2 | Year 3 | Year 4 | Year 5 |
|---|---|---|---|---|
| 2020 Forecast growth rates (%) - weighted average cost of capital | 24.9 | (8.6) | (8.1) | 3.5 |
| 2019 Forecast growth rates (%) - weighted average cost of capital | 12.7 | 3.2 | 2.5 | 2.5 |

| | 2020 | 2019 |
|---|---|---|
| Long-term growth rate | 1.25% | 1.50% |
| Pre-tax discount rate | 12.80% | 13.10% |

The long term growth rate is the weighted average growth rate used to extrapolate cash flows beyond the forecast period and is based on the current implied inflation rates and does not exceed the long-term average growth rate for the products, industries, or country or countries in which the CGU operates. The discount rate was established by taking into account the specific attributes and size of the CGU.

In assessing the impairment of the goodwill and brand value in the CGU, a sensitivity analysis for reasonably possible changes in key assumptions was performed. This included increasing and reducing the terminal growth rate by 0.25% (2019: +/- 0.5%) and increasing and decreasing the discount rate by 1.10% (2019: 1.00%).

The reasonably possible change in rate did not cause any impairment in the CGU.

## 18. PAYABLES

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Related party payable (Note 23) | 30 | 299 |
| Other payables and accruals | 3,098 | 3,438 |
| | 3,128 | 3,737 |

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

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Contingent consideration | - | 116 |

## 20. DEFERRED TAXATION

| The movement on the deferred tax account is as follows: | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Opening balance asset/(liability) | (8,369) | (9,395) |
| Charge to profit or loss | 1,176 | 954 |
| Transition Adjustment | 12 | 72 |
| Closing Balance (asset/liability) | (7,181) | (8,369) |
| The charge to profit or loss is attributable to the following items: | | |
| Insurance deductible reserves | 681 | 702 |
| Provisions and accruals | 487 | 252 |
| Prior year adjustment | 8 | - |
| | 1,176 | 954 |
| Deferred tax relates to the following: | | |
| Deferred tax assets: | | |
| Lease liability | 410 | - |
| Provisions and accruals | 774 | 411 |
| Total deferred tax asset | 1,183 | 411 |
| Deferred tax liabilities: | | |
| Brand | 6,020 | 6,020 |
| Customer relationships | 1,019 | 1,175 |
| Insurance reserves - policies in force | - | 439 |
| Right of use asset | 375 | - |
| Deferred expenses and accruals | 950 | 1,146 |
| | 8,364 | 8,780 |
| Net deferred tax liabilities | 7,181 | 8,369 |

## 21. 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.

| | 2020<br>$'000 | 2019<br>$'000 |
|---|---|---|
| Northland | - | 186 |
| Auckland | 2,161 | 3,653 |
| Waikato/Bay of Plenty | 912 | 3,177 |
| Wellington | 94 | 86 |
| Rest of North Island | 1,382 | 639 |
| Canterbury | - | - |
| Otago/Southland | 278 | 451 |
| Rest of South Island | 166 | 152 |
| | 4,993 | 8,344 |

**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.

| 2020 $'000 | 0-6 Months | 6-12 Months | 12-24 Months | 24-60 Months | 60+ Months | Total |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Advances from related parties | 30 | - | - | - | - | 30 |
| Other Payables | 3,098 | - | - | - | - | 3,098 |
| Contingent consideration | - | - | - | - | - | - |
| Lease Liability | 128 | 128 | 264 | 835 | 595 | 1,950 |
| | 3,256 | 128 | 264 | 835 | 595 | 5,078 |

| 2019 $'000 | 0-6 Months | 6-12 Months | 12-24 Months | 24-60 Months | 60+ Months | Total |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Advances from related parties | 299 | - | - | - | - | 299 |
| Other Payables | 3,438 | - | - | - | - | 3,438 |
| Contingent consideration | 116 | - | - | - | - | 116 |
| | 3,853 | - | - | - | - | 3,853 |

**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.i.) 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.

**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 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 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.

| 2020 ($'000) | Carrying amount | -1% profit | -1% equity | +1% profit | +1% equity |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Reverse mortgages | 4,913 | (49) | (34) | 49 | 34 |

| 2019 ($'000) | Carrying amount | -1% profit | -1% equity | +1% profit | +1% equity |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Reverse mortgages | 8,294 | (83) | (58) | 83 | 58 |

**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:

| 2020<br>$'000 | Carrying Amount | Fair Value |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | 1,476 | 1,476 |
| Trade receivables | 2,656 | 2,656 |
| Other receivables and deferred acquisition costs | 3,787 | 3,787 |
| Reverse mortgages | 4,913 | 6,021 |
| | 12,832 | 13,940 |
| **Financial liabilities** | | |
| Advances from related parties | 30 | 30 |
| Other payables | 3,098 | 3,098 |
| | 3,128 | 3,128 |

| **2019** **$'000** | **Carrying Amount** | **Fair Value** |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | 2,247 | 2,247 |
| Trade receivables | 3,802 | 3,802 |
| Other receivables and deferred acquisition costs | 4,792 | 4,792 |
| Reverse mortgages | 8,294 | 9,332 |
| | 19,135 | 20,173 |
| **Financial liabilities** | | |
| Advances from related parties | 299 | 299 |
| Other payables | 3,438 | 3,438 |
| | 3,737 | 3,737 |

**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:

| **2020** **$'000** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **Financial assets:** | | | | |
| Financial assets at fair value through profit or loss - term investment | 54,637 | - | - | 54,637 |
| Financial assets at fair value through profit or loss - life investment | - | 7,197 | - | 7,197 |
| Investment Property | - | - | 21,600 | 21,600 |
| | 54,637 | 7,197 | 21,600 | 83,434 |
| **Financial liabilities:** | | | | |
| Financial liabilities at fair value through profit or loss | - | - | - | - |

| **2019** **$'000** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **Financial assets:** | | | | |
| Financial assets at fair value through profit or loss - term investment | 54,999 | - | - | 54,999 |
| Financial assets at fair value through profit or loss - life investment | - | 7,658 | - | 7,658 |
| Investment Property | - | - | 15,500 | 15,500 |
| | 54,999 | 7,658 | 15,500 | 78,157 |
| **Financial liabilities:** | | | | |
| Financial liabilities at fair value through profit or loss | - | - | 116 | 116 |

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

Term investments are recognised at fair value based on quoted bid 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 properties were determined by independent registered valuers using a number of methodologies (refer note 15).

This is a level 3 fair value measurement and the key unobservable assumption used in determining the consideration is detailed in Note 15.

The movement in this fair value hierarchy level 3 asset is disclosed in Note 15.

For all investment properties, an increase/decrease in the discount rate of 0.25%, decreases/increases the fair value by $0.1m

*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.

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.

The Year 2 earn out was $81,167 (2019: $90,066). This resulted in a release of $37,426 to the profit and loss (2019: $28,528).

## 22. 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 it's 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.

## 23. RELATED PARTY BALANCES AND TRANSACTIONS

| Related Party | Relationship |
|---|---|
| Turners Automotive Group Limited | Parent |
| Turners Group NZ Limited | Common controlled entity |
| Turners Property Holdings Limited | Common controlled entity |
| Turners Finance Limited | Common controlled entity |
| Buy Right Cars (2016) Limited | Common controlled entity |
| EC Credit Control (NZ) Limited | Common controlled entity |
| EC Credit Control (Aust) Pty Limited | Common controlled entity |
| Oxford Finance Limited | Common controlled entity |

| | 2020 | 2019 |
|---|---|---|
| a) Related party balances | $'000 | $'000 |
| *Payable / (Receivable) as follows:* | | |
| Turners Automotive Group Limited | 30 | 299 |
| | | |
| Balances within Trade Receivables and Other Receivables | | |
| Buy Right Cars (2016) Limited | (127) | (56) |
| EC Credit Control (NZ) Limited | - | (2) |
| Oxford Finance Limited | (16) | (15) |
| Turners Finance Limited | (566) | (268) |
| | | |
| Balances within Other Payables | | |
| Buy Right Cars (2016) Limited | - | 25 |
| EC Credit Control (NZ) Limited | - | - |
| Oxford Finance Limited | - | 7 |

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.

b) Related Party Transactions

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

Buy Right Cars (2016) Limited earned rebates of $89,009 (2019: $99,874) in relation to the sale of insurance policies.

EC Credit Control (NZ) Limited earned commission of $7,778 (2019: $12,598) in relation to the collection of motor vehicle related recoveries.

Oxford Finance Limited paid a claims handling fee of $143,473 (2019: $31,585) in relation to the processing of payment waiver claims.

Turners Finance Limited, Buy Right Cars (2016) Limited and Oxford Finance sold insurance policies and the related party balances reflect the amount due at year end on these sales.

The Company acquired 1 investment property during the year from Turners Property Holdings Limited totalling $5.6m (2019: $14.6m).

The Company leased investment properties to Turners Group NZ Limited located at 160 Roscommon Road, Wiri, 9 John Seddon Drive, Porirua and 2-16 Walton Street, Whangarei. The Company received rental income during the year totalling $986,166 (2019: $710,796).

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 2020 and 31 March 2019 was as follows;

| | Short-term benefits $'000 | Other long-term benefits $'000 | Share-based payments $'000 | Total $'000 |
|---|---|---|---|---|
| Year ended 31 March 2020 | 334 | 9 | 0 | 343 |
| Year ended 31 March 2019 | 293 | 8 | 27 | 328 |

## 24. INSURANCE RELATED DISCLOSURES

| a.) Policyholder liabilities | 2020<br>$'000 | 2019<br>$'000 |
|---|---|---|
| **Insurance contract liabilities** | | |
| Opening insurance contract liabilities | 51,785 | 48,376 |
| Increase in insurance contract liabilities | 1,032 | 4,519 |
| Amortisation intangible asset - policies in force | (1,566) | (1,566) |
| Decrease / (Increase) in deferred acquisition costs | 169 | 456 |
| Closing insurance contract liabilities | 51,420 | 51,785 |
| | | |
| *Policyholder liabilities contain the following components:* | | |
| Future policy benefits | 55,586 | 57,964 |
| Future expenses | 6,475 | 6,283 |
| Future profit margins | 5,880 | 5,250 |
| Balance of future premiums | (22,541) | (21,058) |
| Re-insurance | 6,286 | 5,348 |
| Life deferred acquisition costs | (266) | (435) |
| Intangible asset - policies in force | - | (1,567) |
| | 51,420 | 51,785 |
| | | |
| Life insurance contracts with a discretionary participation feature – the amount of the liabilities that relates to guarantees | 221 | 262 |
| Other contracts with a fixed or guaranteed termination value – current termination value | 7,175 | 6,577 |
| | | |
| **Life investment contracts at fair value through profit or loss** | | |
| Opening life investment contract liabilities at fair value through profit or loss | 7,484 | 7,127 |
| Increase in life investment contract liabilities recognised in profit or loss | (260) | 607 |
| Contributions | 1,529 | 1,611 |
| Withdrawals | (1,441) | (1,595) |
| Activity, plan and establishment fees | (240) | (266) |
| | | |
| Closing life investment contract liabilities held by the life insurance business | 7,072 | 7,484 |
| | | |
| Expected to be realised in more than 12 months | 7,072 | 7,484 |

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.

**b.) Policyholder liabilities**

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| Annuities | 1,280 | 1,245 |
| Endowment | 232 | 279 |
| Whole of life, provision for bonuses and future margins | 4,504 | 3,651 |
| Consumer credit protection & key person loan protection | 5,669 | 5,093 |
| Accidental death/redundancy | 7 | 7 |
| Term Life | 53 | 65 |
| General | 36,718 | 38,236 |
| Claims provision | 3,223 | 3,644 |
| Saving plans | 7,072 | 7,484 |
| Deferred acquisition costs - life | (266) | (435) |
| | 58,492 | 59,269 |

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 provision**

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| Gross claims | 118 | 113 |
| IBNR provision | 2,473 | 3,020 |
| | 2,591 | 3,133 |

**c.) ii.) Reconciliation of movement in general outstanding claims provision**

| | 2020 | 2019 |
|---|---|---|
| | $'000 | $'000 |
| Opening Balance | 3,133 | 3,518 |
| Movement | 20,277 | 23,012 |
| Payments | (20,819) | (23,397) |
| Outstanding Claims Liability | 2,591 | 3,133 |

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 2019 and 2020 reporting periods.

**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 2020** | **Statutory** | **Shareholder** | **Total** |
|---|---|---|---|
| | **$'000** | **$'000** | **$'000** |
| Insurance contract premiums | 6,447 | 32,830 | 39,277 |
| Outward reinsurance premium | (587) | - | (587) |
| Recoveries | 419 | 11 | 430 |
| Other insurance revenue | 404 | 1,865 | 2,269 |
| Insurance revenue | 6,683 | 34,706 | 41,389 |
| Claims expense | (2,529) | (21,361) | (23,890) |
| Increase in policy liabilities | (836) | - | (836) |
| Commission expense | (598) | (1,469) | (2,067) |
| Other expenses | (1,747) | (9,896) | (11,643) |
| Underwriting (loss)/profit | 973 | 1,980 | 2,953 |
| Investment income | 751 | 2,511 | 3,262 |
| Fair value gain on revaluation of investment properties | - | 500 | 500 |
| Profit before taxation | 1,724 | 4,991 | 6,715 |
| Taxation | (455) | (1,319) | (1,774) |
| Profit after taxation | 1,269 | 3,672 | 4,941 |

| **Statement of financial position as 31 March 2020** | **Statutory** | **Shareholder** | **Total** |
|---|---|---|---|
| | **$'000** | **$'000** | **$'000** |
| **Assets** | | | |
| Investments backing insurance policy liabilities | 27,557 | 70,679 | 98,236 |
| Other assets | - | 37,361 | 37,361 |
| Total assets | 27,557 | 108,040 | 135,597 |
| **Liabilities** | | | |
| Life investment contract liabilities | 7,072 | - | 7,072 |
| Insurance contract liabilities | 12,111 | 39,309 | 51,420 |
| Deferred taxation | - | 7,181 | 7,181 |
| Other liabilities | 378 | 7,046 | 7,424 |
| Total liabilities | 19,561 | 53,536 | 73,097 |
| | | | |
| **Solvency** | | | |
| Actual Solvency capital | 7,997 | 24,324 | 32,321 |
| Minimum solvency capital | 2,354 | 14,244 | 16,598 |
| Solvency Margin | 5,643 | 10,080 | 15,723 |

| **Statement of income for the year ended 31 March 2019** | **Statutory** | **Shareholder** | **Total** |
|---|---|---|---|
| | **$'000** | **$'000** | **$'000** |
| Insurance contract premiums | 7,598 | 32,818 | 40,416 |
| Outward reinsurance premium | (630) | - | (630) |
| Recoveries | 324 | 92 | 416 |
| Other insurance revenue | 270 | 1,819 | 2,089 |
| Insurance revenue | 7,562 | 34,729 | 42,291 |
| Claims expense | (1,537) | (23,575) | (25,112) |
| Increase in policy liabilities | (718) | - | (718) |
| Commission expense | (1,226) | (1,157) | (2,383) |
| Other expenses | (1,819) | (10,317) | (12,136) |
| Underwriting (loss)/profit | 2,262 | (320) | 1,942 |
| Investment income | 1,216 | 2,039 | 3,255 |
| Fair value gain on revaluation of investment properties | - | 900 | 900 |
| Gain on sale of investment properties | - | 2,480 | 2,480 |
| Profit before taxation | 3,478 | 5,099 | 8,577 |
| Taxation | (644) | (943) | (1,587) |
| Profit after taxation | 2,834 | 4,156 | 6,990 |

| Statement of financial position as 31 March 2019 | Statutory | Shareholder | Total |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| **Assets** | | | |
| Investments backing insurance policy liabilities | 29,845 | 68,364 | 98,209 |
| Other assets | - | 37,694 | 37,694 |
| Total assets | 29,845 | 106,058 | 135,903 |
| **Liabilities** | | | |
| Life investment contract liabilities | 7,484 | - | 7,484 |
| Insurance contract liabilities | 10,416 | 41,369 | 51,785 |
| Deferred taxation | - | 8,369 | 8,369 |
| Other liabilities | 218 | 5,437 | 5,655 |
| Total liabilities | 18,118 | 55,175 | 73,293 |
| **Solvency** | | | |
| Actual Solvency capital | 11,727 | 21,558 | 33,285 |
| Minimum solvency capital | 3,864 | 12,850 | 16,714 |
| Solvency Margin | 7,863 | 8,708 | 16,571 |

**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.

| 2020 ($'000) | Investment Linked | Non-Investment Linked | Total |
|---|---|---|---|
| Premium income | - | 38,690 | 38,690 |
| Investment income | (77) | 3,839 | 3,762 |
| Claims expense | - | (23,890) | (23,890) |
| Other operating revenue | - | 2,702 | 2,702 |
| Other operating expenses | (73) | (14,737) | (14,810) |
| Investment revenues allocated to policyholders | 261 | - | 261 |
| Net profit before taxation | 111 | 6,604 | 6,715 |
| Net profit after taxation | 80 | 4,861 | 4,941 |
| | | | |
| Policy liabilities | 7,072 | 51,420 | 58,492 |
| Investment assets | 7,197 | 91,039 | 98,236 |
| Other assets | - | 37,361 | 37,361 |
| Other liabilities | - | 14,605 | 14,605 |
| Retained earnings | 1,250 | 14,900 | 16,150 |

| 2019 ($'000) | Investment Linked | Non-Investment Linked | Total |
|---|---|---|---|
| Premium income | - | 39,786 | 39,786 |
| Investment income | 792 | 5,901 | 6,693 |
| Claims expense | - | (25,112) | (25,112) |
| Other operating revenue | - | 2,449 | 2,449 |
| Other operating expenses | (69) | (14,559) | (14,628) |
| Investment revenues allocated to policyholders | (611) | - | (611) |
| Net profit before taxation | 112 | 8,465 | 8,577 |
| Net profit after taxation | 81 | 6,909 | 6,990 |
| | | | |
| Policy liabilities | 7,484 | 51,785 | 59,269 |
| Investment assets | 7,658 | 90,551 | 98,209 |
| Other assets | - | 37,694 | 37,694 |
| Other liabilities | - | 14,024 | 14,024 |
| Retained earnings | 1,170 | 15,090 | 16,260 |

**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 21. 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. |

*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.

| Variable | Impact of movement in underlying variable |
|---|---|
| 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 |

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

**As at 31 March 2020 – Result of change in assumptions**

| $'000 | Effect on Policy Liability | Effect on Future Profit Margins |
|---|---|---|
| **Market risks** | | |
| Increase in interest rates of 1% | (238) | (48) |
| Decrease in interest rates of 1% | 265 | 52 |
| **Insurance risks** | | |
| Increase in expenses of 10% | 1 | (28) |
| Decrease in expenses of 10% | (1) | 28 |
| Increase in mortality by 10% | (5) | (241) |
| Decrease in mortality by 10% | 6 | 265 |
| Worsening of discontinuance rate by 10% | - | 76 |
| Improvement in discontinuance rate by 10% | - | (86) |

**As at 31 March 2019 – Result of change in assumptions**

| $'000 | Effect on Policy Liability | Effect on Future Profit Margins |
|---|---|---|
| **Market risks** | | |
| Increase in interest rates of 1% | (224) | (48) |
| Decrease in interest rates of 1% | 249 | 52 |
| **Insurance risks** | | |
| Increase in expenses of 10% | 1 | (28) |
| Decrease in expenses of 10% | (1) | 28 |
| Increase in mortality by 10% | (4) | (242) |
| Decrease in mortality by 10% | 5 | 266 |
| Worsening of discontinuance rate by 10% | - | 76 |
| Improvement in discontinuance rate by 10% | - | (86) |

**25. RECONCILIATION OF PROFIT AFTER TAXATION TO CASHFLOWS FROM OPERATING ACTIVITIES**

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Profit after taxation | 4,941 | 6,990 |
| *Add/(less)* non-cash items: | | |
| Non-cash movement in reverse mortgages | (604) | (846) |
| Net unrealised (gains)/losses on investments | 76 | (792) |
| Policyholder liabilities | (2,433) | 2,253 |
| Provision for impairment | (26) | 47 |
| Depreciation and Amortisation Expense | 2,784 | 2,746 |
| Fair value gain on investment property | (500) | (900) |
| *Add/(less)* movements in working capital items: | | |
| Receivables | 748 | 199 |
| Other payables | 781 | (707) |
| *Add/(less)* Working Capital items treated as investing activities | (4) | (3) |
| *Add* Working Capital items treated as financing activities | 20 | 22 |
| **Net cash outflow from operating activities** | 5,783 | 9,009 |

**26. CHANGE IN ACCOUNTING POLICY**

This note explains the impact of the adoption of NZ IFRS 16 Leases on the Company's financial statements and discloses the new accounting policies that have been applied from 1 April 2019 in the note below.

The Company has adopted NZ IFRS 16 retrospectively from 1 April 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 April 2019.

Adjustments recognised on adoption of NZ IFRS 16

On adoption of NZ IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of NZ IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate of 5.54% as of 1 April 2019.

| | $'000 |
|---|---|
| Operating lease commitments disclosed as at 31 March 2019 | 2,199 |
| Discounted using the incremental borrowing rate | 1,776 |
| Lease liability recognised as at 1 April 2019 | 1,776 |

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 March 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

| | 2020 $'000 | 2019 $'000 |
|---|---|---|
| Properties | 1,338 | 1,529 |

The change in accounting policy affected the following items in the balance sheet on 1 April 2019:

| | 1 April 2019 $'000 |
|---|---|
| Right-of-use assets | 1,529 |
| Lease Liabilities | 1,776 |
| Other Payables | (178) |
| Deferred Tax | (19) |
| Retained Earnings | (51) |

*Practical expedients applied*

In applying NZ IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases; and
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying NZ IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

Impact of adoption of NZ IFRS 16 in the Statement of Financial Position as at 1 April 2019;

| | 31-Mar-19 As originally presented $'000 | 1-Apr-19 NZ IFRS 16 adjustments $'000 | 1-Apr-19 restated $'000 |
|---|---|---|---|
| ASSETS | | | |
| Cash and cash equivalents | 2,247 | - | 2,247 |
| Financial assets at fair value through profit or loss | 62,657 | - | 62,657 |
| Trade receivables | 3,802 | - | 3,802 |
| Other receivables and deferred acquisition costs | 4,792 | - | 4,792 |
| Right of Use Asset | - | 1,529 | 1,529 |
| Reverse annuity mortgages | 8,294 | - | 8,294 |
| Investment properties | 15,500 | - | 15,500 |
| Property, plant & equipment | 917 | - | 917 |
| Intangible assets | 37,694 | - | 37,694 |
| Total assets | 135,903 | 1,529 | 137,432 |
| LIABILITIES | | | |
| Other payables | 3,737 | (178) | 3,559 |
| Financial liability at fair value through profit or loss | 116 | - | 116 |
| Contract liabilities | 147 | - | 147 |
| Deferred taxation | 8,369 | (19) | 8,350 |
| Tax payable | 1,655 | | 1,655 |
| Lease Liability | - | 1,776 | 1,776 |
| Life investment contract liabilities | 7,484 | - | 7,484 |
| Insurance contract liabilities | 51,785 | - | 51,785 |
| Total liabilities | 73,293 | 1,579 | 74,872 |
| SHAREHOLDER'S EQUITY | | | |
| Share capital | 46,350 | - | 46,350 |
| Retained earnings | 16,260 | (50) | 16,210 |
| Total shareholder's equity | 62,610 | (50) | 62,560 |
| Total shareholder's equity and liabilities | 135,903 | 1,529 | 137,432 |

Presentation of the Statement of comprehensive income for the year ended 31 March 2020 as of NZ IFRS 16 had not been adopted:

| | 31-Mar-20 reported with adopting NZ IFRS 16 $'000 | Year ended 31-Mar-20 NZ IFRS 16 adjustments $'000 | 31-Mar-20 reported without adopting NZ IFRS 16 $'000 |
|---|---|---|---|
| Insurance contract premiums | 39,277 | - | 39,277 |
| Outward reinsurance premium | (587) | - | (587) |
| Recoveries | 430 | - | 430 |
| Commission income | 1,683 | - | 1,683 |
| Fair value gain on revaluation of investment properties | 500 | - | 500 |
| Gain on sale of investment properties | - | - | - |
| Fair value gain on settlement of contingent consideration liability | 37 | - | 37 |
| Other insurance revenue | 549 | - | 549 |
| Insurance revenue | 41,889 | - | 41,889 |
| Claims expense | (23,890) | - | (23,890) |
| Increase in policy liabilities | (836) | - | (836) |
| Commission expense | (2,067) | - | (2,067) |
| Depreciation and Amortisation Expense | (2,784) | 192 | (2,592) |
| Other expenses | (8,859) | (136) | (8,995) |
| Underwriting (loss)/profit | 3,453 | 56 | 3,509 |
| Investment income | 3,262 | - | 3,262 |
| Profit before taxation | 6,715 | 56 | 6,771 |
| Taxation | (1,774) | (16) | (1,790) |
| Profit after taxation | 4,941 | 40 | 4,981 |

Presentation of the Statement of financial position as at 31 March 2020 as of NZ IFRS 16 had not been adopted:

| | 31-Mar-20 reported with adopting NZ IFRS 16 $'000 | Year ended 31-Mar-20 NZ IFRS 16 adjustments $'000 | 31-Mar-20 reported without adopting NZ IFRS 16 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 1,476 | - | 1,476 |
| Financial assets at fair value through profit or loss | 61,834 | - | 61,834 |
| Trade receivables | 2,656 | - | 2,656 |
| Other receivables and deferred acquisition costs | 3,787 | - | 3,787 |
| Right of Use Asset | 1,338 | (1,338) | - |
| Reverse annuity mortgages | 4,913 | - | 4,913 |
| Investment properties | 21,600 | - | 21,600 |
| Property, plant & equipment | 632 | - | 632 |
| Intangible assets | 37,361 | - | 37,361 |
| **Total assets** | 135,597 | (1,338) | 134,259 |
| | | | |
| **LIABILITIES** | | | |
| Other payables | 3,128 | 155 | 3,283 |
| Financial liability at fair value through profit or loss | - | - | - |
| Contract liabilities | 199 | - | 199 |
| Deferred taxation | 7,181 | 35 | 7,216 |
| Tax payable | 2,479 | - | 2,479 |
| Lease Liability | 1,618 | (1,618) | - |
| Life investment contract liabilities | 7,072 | - | 7,072 |
| Insurance contract liabilities | 51,420 | - | 51,420 |
| **Total liabilities** | 73,097 | (1,428) | 71,669 |
| | | | |
| **SHAREHOLDER'S EQUITY** | | | |
| Share capital | 46,350 | - | 46,350 |
| Retained earnings | 16,150 | 90 | 16,240 |
| **Total shareholder's equity** | 62,500 | 90 | 62,590 |
| | | | |
| **Total shareholder's equity and liabilities** | 135,597 | (1,338) | 134,259 |

Until the 2020 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

NZ IFRS 16 substantially carries forward the lessor accounting requirements of the predecessor standard, NZ IAS 17. Accordingly, under NZ IFRS 16 a lessor continues to classify its leases as operating leases or finance leases subject to whether the lease transfers to the lessee substantially all of the risks and rewards incidental to ownership of the underlying asset, and accounts for each type of lease in a manner consistent with the current approach under NZ IAS 17.

The Company has entered into leases on their investment properties. The Company has determined that it retains all significant risks and rewards of ownership of these properties and has thus classified these leases as operating leases.

## 27. COMMITMENTS AND CONTINGENT LIABILITIES

**Future lease commitments:**

The Company leases premises under a non cancellable operating lease agreement. The lease term is for 9 years and commenced 1st April 2018.

**Contingent Liabilities:**

The Company has no contingent liabilities at reporting date (2019: Nil).

## 28. SUBSEQUENT EVENTS AFTER BALANCE DATE

2020
No significant events have occurred after balance date.

2019
On the 27th May 2019, a $5m dividend was paid to Turners Automotive Group Limited. No other significant events have occurred after balance date.

## 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 'Positive' by A.M. Best. The rating was issued by A.M. Best on the 19 July 2019.

Davies Financial and Actuarial Limited

23rd July 2020

To: The Directors
DPL Insurance Limited

From: Peter Davies
Appointed Actuary

**Re: DPL Insurance Limited: Report as at 31st March 2020 under Sections 77 and 78 of the Insurance (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 2020. "Actuarial information" includes the following:

   - policy liabilities;
   - solvency calculations in terms of the RBNZ Solvency Standards;
   - 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.

Level 1, Building 1, 61 Constellation Drive, Mairangi Bay 0632 Telephone (09) 489-3551 e-mail: pdavies@actuary.co.nz
P.O. Box 35-258, Browns Bay, Auckland 0753 home page: www.actuary.co.nz

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 standards for Life and Non-Life Insurers respectively as at 31st March 2020.

   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. The Statutory Fund includes the Company's life insurance business, and the Shareholder Fund includes the Company's non-life insurance business. These projections indicate that both Funds, and the Company as a whole, are currently solvent, and expected to meet the RBNZ minimum solvency requirements at all times over this period.

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

Yours sincerely

Peter

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

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