Lifetime Income Limited
Annual Report
For the year ended 31 March 2019

LIFETIME INCOME LIMITED
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LIFETIME INCOME LIMITED
Company Directory

Company Number:	5218721
NZ Business Number:	9429041239308
Incorporation Date:	19 May 2014
Nature of Business:	Life Insurance Provider
Issued Capital:	142 Ordinary Shares
Directors:	Diana Crossan Martin Hawes Graeme Robertson Mitchell Timothy Paris Ralph Earle Stewart John Russell Strahl Michael John Cullen James Noel Beale (appointed 11 April 2019)
Registered Office:	Floor 5, 50-64 Customhouse Quay Wellington 6011
Website:	www.lifetimeincome.co.nz
Appointed Actuary:	Charles Hett, MA FIA, FNZSA, AIAA
Bankers:	ANZ Bank New Zealand Limited PO Box 540 Wellington 6140
Solicitors:	DLA Piper New Zealand PO Box 2791 Wellington 6140
Auditors:	PricewaterhouseCoopers PO Box 243 Wellington 6140

The Directors hereby present their Annual Report including Financial Statements of the Company for the year ended 31 March 2019.

The shareholders of the Company have exercised their right under section 211 (3) of the Companies Act 1993 and have unanimously agreed that this Annual Report need not comply with any of paragraphs (a) and (e) to (j) of section 211 (1) of the Act.

For and on behalf of the Board of Directors

Director 24 July 2019

Director 24 July 2019

LIFETIME INCOME LIMITED
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 March 2019

	Note	2019 $	2018 $
Revenue			
Premium revenue from insurance contracts		793,369	239,936
Management fee revenue		272,806	62,130
Investment revenue		128,615	104,540
Other revenue		-	197,308
Total revenue	1	**1,194,790**	**603,914**
Other gains/(losses)			
Unrealised Gains/(Losses) on financial instruments at fair value	7	3,024,029	484,934
Total gains/(losses)		**3,024,029**	**484,934**
Annuity payments to customers and transfers to Lifetime Income Fund		(4,986,569)	(809,882)
Change in policyholder liabilities	4	1,255,500	552,315
Other expenses	2	(586,055)	(339,379)
Net claims and operating expenses		**(4,317,124)**	**(596,946)**
(Loss)/Profit before tax		**(98,305)**	**491,902**
Income tax expense	9	-	-
(Loss)/Profit after tax		**(98,305)**	**491,902**
Other comprehensive income		-	-
Total comprehensive (loss)/profit attributable for the period to parent		**(98,305)**	**491,902**

The Notes to the Financial Statements form part of, and are to be read in conjunction with, these Financial Statements.

LIFETIME INCOME LIMITED
Statement of Changes in Equity
For the year ended 31 March 2019

	Note	Share Capital $	(Accumulated Losses) / Retained Earnings $	Total $
Opening balance as at 1 April 2017		**5,500,000**	**(2,865)**	**5,497,135**
Total comprehensive Loss 2018		-	491,902	491,902
Transactions with owners				
Issue of shares		-	-	-
Dividends paid		-	-	-
Balance 31 March 2018		**5,500,000**	**489,037**	**5,989,037**
Total comprehensive Loss 2019		-	(98,305)	(98,305)
Transactions with owners				
Issue of shares		2,310,000	-	2,310,000
Dividends paid		-	-	-
Balance 31 March 2019		**7,810,000**	**390,732**	**8,200,732**

The 142 ordinary shares (2018: 100 paid shares) all rank equally with one vote attached to each fully paid up share. During the year $2,310,000 in consideration was received for the 42 shares issued to the parent entity, Retirement Income Group Limited (2018: all shares were paid). There is no par value attached to the shares.

LIFETIME INCOME LIMITED

Statement of Financial Position

For the year ended 31 March 2019

	Note	2019 $	2018 $
Assets			
Current Assets			
Cash and cash equivalents		7,052,276	6,327,394
Margin account	20	2,348,672	338,985
Insurance receivables	3	113,541	50,777
Prepayments		172,821	-
Related party receivables	17	60,800	367,944
Taxation		59,998	28,380
Non-current Assets			
Intangible assets	11	45,042	28,750
Financial assets held at fair value through profit or loss	13	24,986,434	29,859,247
Related party receivables	17	-	457
Total assets		**34,839,584**	**37,001,934**
Liabilities			
Current liabilities			
Accounts payable	10	545,065	148,832
Financial liabilities held at fair value through profit or loss	13	-	96,004
Related party payable	10	63,716	-
Non-current Liabilities			
Life insurance contract liabilities	4	15,422,532	16,807,029
Life investment contract liabilities	4	10,607,539	13,961,032
Total liabilities		**26,638,852**	**31,012,897**
Net Assets		**8,200,732**	**5,989,037**
Equity			
Contributed equity		7,810,000	5,500,000
Retained earnings / (Accumulated losses)		390,732	489,037
Total equity		**8,200,732**	**5,989,037**

These financial statements were authorised for issue for and on behalf of the Directors on 24 July 2019.

Director

Director

The Notes to the Financial Statements form part of, and are to be read in conjunction with, these Financial Statements.

LIFETIME INCOME LIMITED
Statement of Cash Flows
For the year ended 31 March 2019

	2019 $	2018 $
Cash flows from operating activities		
Insurance premiums received	732,672	200,386
Management fees received	270,739	324,875
Interest received	112,713	101,424
Inflow from sale of investments	9,060,472	809,882
Annuity payments to customers and transfers to Lifetime Income Fund	(5,159,389)	(809,882)
Outflow from collateral provided to support futures and swap contracts	(2,537,142)	(204,977)
Investment linked withdrawal payments to customers	(3,825,593)	-
Payments to suppliers and employees	(470,601)	(256,996)
Tax refunded/(paid)	(31,618)	14,346
Net cash outflows from operating activities	**(1,847,747)**	**179,058**
Cash flows from investing activities		
Outflow from the purchase of intangible assets	(28,750)	(28,750)
Inflow from transfer of policyholder liabilities	-	1,344,203
Outflow from purchase of investments	-	(62,950)
Net cash flows from investing activities	**(28,750)**	**1,252,503**
Cash flows from financing activities		
Related party borrowings	291,379	337,042
Related party repayments/loan	-	(818,581)
Shareholder Capital Issued	2,310,000	-
Net cash flows from/(to) financing activities	**2,601,379**	**(481,539)**
Net increase in cash and cash equivalents	**724,882**	**950,022**
Cash and cash equivalents at beginning of year	6,327,394	5,377,372
Cash and cash equivalents at end of year	**7,052,276**	**6,327,394**
Cash is represented by:		
Cash at bank and in hand	7,052,276	6,327,394
Cash and cash equivalents at end of year	**7,052,276**	**6,327,394**

The Notes to the Financial Statements form part of, and are to be read in conjunction with, these Financial Statements.

LIFETIME INCOME LIMITED
Statement of Cash Flows continued
For the year ended 31 March 2019

	2019 $	2018 $
<u>Operating activities reconciliation</u>		
(Loss)/Profit after tax	**(98,305)**	**491,902**
Add back non-cash items		
Change in policyholder liabilities	(1,255,500)	(552,315)
Unrealised losses/(gains) on financial instruments at fair value	(3,024,029)	(484,934)
Amortisation of intangible assets	12,458	-
Interest on collateral provided to support futures and swaps contracts	(24,102)	(3,116)
Changes in working capital items		
(Increase)/decrease in Margin account	(2,537,142)	(204,977)
(Increase)/decrease in Insurance receivables	(62,764)	(39,550)
(Increase)/decrease in Related party receivables	307,144	-
(Increase)/decrease in Taxation	(31,618)	14,346
(Increase)/decrease in Prepayments	(172,820)	-
(Increase)/decrease in Financial assets held at fair value through profit or loss	8,352,395	809,882
Increase/(decrease) in Accounts payable	396,233	82,382
Increase/(decrease) in Related party loans	63,716	-
Increase/(decrease) in Life investment contract liabilities	(3,482,491)	65,438
Items classified as Financing Activities		
Funding received from related parties	(290,922)	-
Net cash outflow from operating activities	**(1,847,747)**	**179,058**

The Statement of Cash Flows for the year end 31 March 2018 has been restated as the cash deposited into margin accounts to provide collateral to support futures and swaps contracts had previously been included as part of cash and cash equivalents. This cash is held by the brokers and is only available to make margin calls. The cash outflow from collateral provided to support futures and swaps contracts is now classified as part of the cash flows from operating activities. The inflow from sale of investments has also been reclassified from investing to operating activities. These investments were sold to fund annuity payments to customers and transfers to Lifetime Income Fund and are an operating activity in nature.

These classification changes impact the following Statement of Cash Flow line items for the year ended 31 March 2018:

Statement of Cash Flows (extract)	**31 March 2018**	**Adjustment**	**31 March 2018 Restated**
Interest Received	104,540	(3,116)	101,424
Payments to suppliers and employees	(293,717)	36,721	(256,996)
Outflow from collateral provided to support futures and swap contracts	-	(204,977)	(204,977)
Inflow from sale of investments	-	809,882	809,882
Net cash flows to operating activities	**(459,452)**	**638,510**	**179,058**
Inflow from sale of investments	809,882	(809,882)	-
Net cash flows from investing activities	**2,062,385**	**(809,882)**	**1,252,503**
Net increase / (decrease) in cash and cash equivalents	**1,121,394**	**(171,372)**	**950,022**
Foreign exchange (losses) on cash and cash equivalents denominated in foreign currencies	36,721	(36,721)	-
Cash and cash equivalents at beginning of year	5,508,264	(130,892)	5,377,372
Cash and cash equivalents at end of year	**6,666,379**	**(338,985)**	**6,327,394**

The Notes to the Financial Statements form part of, and are to be read in conjunction with, these Financial Statements.

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These are the Financial Statements of Lifetime Income Limited.

The Company is a for-profit entity incorporated and domiciled in New Zealand, it was incorporated on 19 May 2014. The address of its registered office is Level 5, 50-64 Customhouse Quay, Wellington, New Zealand.

The Company's principal products and services comprise the selling and administration of Life Insurance and Life Investment products. The Company was granted a licence by the Reserve Bank of New Zealand ("RBNZ") on 4 December 2015 to operate as an Insurer subject to the Insurance (Prudential Supervision) Act 2010 ("IPSA"). As a consequence of being a licensed Insurer, the Company is deemed to be an FMC Reporting Entity under the Financial Markets Conduct Act 2013. On 20 September 2017 this license was modified to remove all restrictions on the Company only providing Variable Annuity Business. On 26 March 2019 this license was further modified to increase the factor weight w to 0.3 (2018: 0.1). The factor weight w is applied by the Company when calculating the capital charge for the variable annuity business. An increase in this weighting means the Company receives more credit for its hedging and risk management strategy and as a result can hold less capital.

Basis of preparation

The financial statements are for the Company as a separate legal entity and have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand accounting standards and authoritative notices, as appropriate for for-profit entities. They comply with International Financial Reporting Standards.

These financial statements are prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

Unless otherwise stated, all amounts are expressed in New Zealand Dollars, which is the Company's presentation and functional currency. All amounts are rounded to the nearest New Zealand dollar, except for note 6 Solvency Margin, which is rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

Accounting for Life Insurance Business

The Life Insurance operations of the Company comprise the selling and administration of contracts which are classified as either life insurance contracts or life investment contracts.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if, an insured event could cause an insurer to pay significant benefits in any scenario, excluding scenarios that lack commercial substance. Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as a policyholder's Lifetime Income Fund balance reaching zero. The insured benefit is not linked to the market value of the investment held by the Company, and the financial risks are substantially borne by the Company. Any products that do not meet the definition of a life insurance contract are classified as life investment contracts.

Life investment contracts include investment-linked contracts where the benefit amount is directly linked to the market value of the investments held. The underlying assets are registered in the name of the life insurer. The investment-linked policy owner has no direct access to the specific assets. However, the contractual arrangements are such that the investment-linked policy owner bears the risks and rewards of the investment performance.

The subsequent notes are set out in the following main categories:

a. Insurance Profit
b. Insurance Liabilities
c. Investments
d. Non Financial Assets and Liabilities & Taxation
e. Risk
f. Other Information

a. Insurance Profit

This section provides information about those individual line items in the financial statements that the Directors consider most relevant in the context of the operations of the entity, including:
- other expenses split between acquisition cost and maintenance cost
- premium revenue still owing at balance date
- specific accounting policies where relevant.

1. Revenue

Revenue is categorised and recognised using the methods outlined below.

	2019	2018
Insurance Premium Revenue	$	$
Life insurance premiums	793,369	239,936

Premium revenue is earned on life insurance contracts which the Company provides to the investors in the Lifetime Income Fund. Premiums are calculated and invoiced monthly based on the value of the investor's protected income base. Premiums are recognised as revenue over the duration of the insurance policy, i.e. as the insurance service is provided. Unearned premiums are recognised in the Statement of Financial Position within the policyholder liabilities balance.

	2019	2018
Management Fee Revenue	$	$
Administration Fees	272,806	62,130

Administration fees are earned in respect of the administration and management of the life investment contracts held by the Company, which were assumed as part of the transfer of the investment-linked business from Foundation Life (NZ) Limited in March 2018. Under life investment contracts the Company receives deposits from policyholders which are then invested on behalf of the policyholders. Fees deducted from policyholders' accounts are accounted for as fee revenue and are recognised in profit or loss as the administration and management services are provided over time.

In March 2018 the investment-linked business of Foundation Life (NZ) Limited was transferred to the Company. In consideration for assuming the obligation to administer the policies, Foundation Life (NZ) Limited paid the Company $1,583,101, of which $1,385,793 was in respect of the costs for the Company to manage the portfolio, a profit margin, and a contribution towards the additional regulatory capital required to be held. The Company has included this amount within the profit margins in policyholder liabilities. It will be recognised in profit or loss as part of the change in policyholder liabilities as the services are performed. Services are deemed to be performed in accordance with the expected run-off of the portfolio over its lifetime. The remaining amount of $197,308 received from Foundation Life (NZ) Limited, was as a recovery of expenses incurred by the Company on completing the transfer. This amount has been recognised as other revenue in the 2018 financial year.

	2019	2018
	$	$
Interest Income	128,615	104,540

Interest earned on financial assets at amortised cost, including cash and cash equivalents is included as investment revenue in the Statement of Profit or Loss and Other Comprehensive Income on an accruals basis applying the effective interest method.

	2019	2018
Other Revenue	$	$
Expense recoveries - Foundation transfer	-	197,308

2. Other expenses

Other expenses are also incurred for the operation of the business in relation to the acquisition and maintenance of life insurance contracts as well as the marketing and fund management costs.

	2019	2018
	$	$
Marketing, Management and Administration Costs	212,090	184,974
Total policy acquisition costs	**212,090**	**184,974**
Maintenance and Investment Management Costs	373,965	154,405
Total maintenance and investment expenses	**373,965**	**154,405**
Total other expenses	**586,055**	**339,379**

Commission and management expenses are categorised into acquisition, investment management or maintenance costs on the basis of a detailed functional analysis of activities carried out by the Company.

Acquisition costs

Acquisition costs are the fixed and variable costs of accepting, issuing and initially recording policies, including initial commission and similar distribution costs. Acquisition costs do not include general growth and development costs that are not specifically related to acquisition activity.

Where overall product profitability of new business written during the year is expected to support the recovery of acquisition costs incurred in that year, these costs are effectively deferred as an element of life insurance contract liabilities and are amortised over the life of the policies written. Unamortised acquisition costs are a component of life insurance contract liabilities. Amortisation of acquisition costs is recognised in profit or loss as a component of the increase/(decrease) in life insurance contract liabilities at the same time as policy margins are released.

Maintenance and investment management expenses

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

3. Insurance receivables

Insurance receivables relate to amounts due to the Company in the ordinary course of business. The carrying value of insurance receivables approximates the fair value as they are settled within a short period.

	2019	2018
	$	$
Outstanding premiums	93,178	32,481
Outstanding Management Fees	20,363	18,296
Total insurance receivables	**113,541**	**50,777**

Insurance receivables past due but not impaired

The Company considers that insurance receivables are past due if no payments have been received when contractually due. At the reporting date the total of the carrying value of past due but not impaired assets held by the Company is $Nil (2018: $Nil). No assets are considered impaired (2018: $Nil).

b. Insurance Liabilities

4. Critical Accounting Estimate: policyholder liabilities

The Company's life insurance liabilities are split between life insurance contracts and life investment contracts. Life insurance contracts are accounted for in accordance with the requirements of NZ IFRS 4 Insurance Contracts. Life investment contracts are accounted for in accordance with NZ IFRS 15 Revenue from Contracts with Customers and NZ IFRS 9 Financial Instruments.

4. Critical Accounting Estimate: policyholder liabilities continued

Life insurance contracts are those contracts that transfer significant insurance risk. Life investment contracts are those contracts with no insurance risk, but which give rise to a financial asset and/or liability under NZ IFRS 9.

A. Life investment contract liabilities
These contracts are designated at inception at fair value and subsequently measured at fair value with any change in value being recognised in profit or loss. Fair value is the current value of units plus investment fluctuation reserves subject to a minimum of current surrender value.

The policyholder liability for life investment contracts is valued using the accumulation method, which is determined as the policy account balance including accrued interest to the balance date, plus investment fluctuation reserves subject to a minimum of the current surrender value.

B. Life insurance contract liabilities
Life Insurance contract liabilities are assessed by the Appointed Actuary on the basis of recognised actuarial methods, with due regard to relevant actuarial principles. That methodology takes into account the risks and uncertainties of the particular classes of life insurance business written.

Actuarial Assumptions and Methods
Life insurance contract liabilities are reviewed by the Appointed Actuary. The Company's actuarial report for the years ended 31 March 2018 and 2019 was prepared by the Appointed Actuary Charles Hett MA, FNZSA, FIA. The actuarial reports indicate that the Appointed Actuary is satisfied as to the accuracy, nature and sufficiency of the data upon which the policy liabilities have been determined.

(a) Disclosure of methods
Policyholder Liabilities consist of life insurance contract liabilities and life investment contract liabilities.

<u>Life insurance contract liabilities</u>
The value of life insurance contract liabilities is calculated using the Margin on Services (MoS) methodology in accordance with New Zealand Society of Actuaries Professional Standard 20, Determination of Life Insurance Policy Liabilities, (PS20).

<u>Margin on services - Projection method</u>
The "Projection method", under Appendix C of NZ IFRS 4, uses expected cash flows (premiums, investment income, redemptions or benefit payments, taxes, expenses and profits) based on best estimate assumptions and a discount rate, to establish the value of policy liabilities. This includes an allowance for planned profits. Profit margins are released over each reporting period in line with the services that have been provided. To the extent that there is a present value loss in relation to policies held by the Company, this loss is recognised immediately. Given the nature of Lifetime Income Limited's guaranteed income liabilities, each of these elements is calculated using a risk neutral simulation approach. Services provided over the life of a contract include the costs of meeting guarantee claims, maintaining policies and managing the assets of Lifetime Income Limited.

(b) Disclosure of assumptions
Actuarial assumptions about future experience are required for calculating policy liabilities. The assumptions used were best estimate assumptions considered by the Appointed Actuary. The key assumptions were:

i. <u>Profit Carriers</u>
Where the policy liability is determined by the projection method, Appendix C of NZ IFRS 4 and actuarial standards require profit to be related to one or more financially measurable indicators of the provision of service (or related income) called "profit carriers". The Protected Income Base is used as a 'profit carrier' for variable annuity business and the amount of the annuity for lifetime annuity business to release profits as services are provided.

ii. <u>Risk Free Interest Rates</u>
In respect of variable annuity products, the risk-free interest rates assumed are based on risk free swap rates as at 31 March 2019 (see table below). Rates are quoted as semi-annual swap rates. Returns can be calibrated against results available from the Treasury and Reserve Bank websites. Treasury provides a market based risk free rate until this is

4. Critical Accounting Estimate: policyholder liabilities continued

ii. Risk Free Interest Rates continued
unavailable and then a blended basis consistent with long term economic expectations. Implied Volatility - where the Milliman MMRS strategies was used, an assumed target volatility of 7.5% was assumed.

Maturity	Yield
1	1.70%
5	1.77%
10	2.15%
15	2.42%
20	2.56%
25	2.63%
30	2.68%

The valuation of the life insurance policyholder liability is very sensitive to changes in the interest rate. The table below shows the impact of a change in interest rate on the Variable Annuity policyholder liability.

Changes in variables	**Movement**	**Increase/decrease in policy liabilities (NZD)**
Discount Rate	Deterioration by 1.75 percent point (net of taxes, fees)	6,682,857
	Increase by 1.75 percent point (net of taxes, fees)	(3,924,265)

iii. Expenses
Expense assumptions for Variable Annuity business were developed in accordance with the business plan (corresponding fee income was as per the product specifications). Maintenance expenses of 0.55% (2018: 0.55%) of account values were included in the valuation.

iv. Tax Rates and Basis
The tax rate for 2019 is 28% for all classes of business (unchanged from 2018) and this has been assumed for future years. There is no utilisation of tax losses assumed in the valuation of policyholder liabilities.

v. Mortality
For variable annuity products, scaled New Zealand Life Tables 2010-2012 non-maori male and female rates extrapolated from age 105 to age 115 were adopted, a further improvement was assumed each projection year. For lifetime annuity business the mortality rates are based on standard tables (New Zealand Life Tables 2012-2014) and these rates are assumed to improve since the effective date of the mortality table.

vi. Lapse Rates – variable annuity business
Base lapse rate of 6% (2018: 6%) was assumed for all policy durations. A dynamic lapse multiplier was assumed scaling all baseline rates depending on the simulated moneyness of the guarantee defined to be equal to the account value / guarantee base. This has the effect of bringing into the lapse assumption an adjustment for behavioural variation depending on the possible investment outcomes over the projection period.

vii. Surrender value
There are no surrender values applying to any VA life insurance policies with lifetime income. There is no surrender value for annuity business and unit linked policies pay the account balance less any surrender penalties.

viii. Reinsurance
There is no reinsurance.

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4. Critical Accounting Estimate: policyholder liabilities continued

	2019	2018
Movements in policyholder liabilities	$	$
Net policyholder liabilities at the end of the year	26,030,071	30,768,061
Net policyholder liabilities at the end of the previous year	30,768,061	(173,791)
Net change in policyholder liabilities	**(4,737,990)**	**30,941,852**
Net change in policyholder liabilities as above	(4,737,990)	30,941,852
Assumption of life investment policy liabilities - Foundation	-	31,494,167
Withdrawals recognised as a decrease in life investment contract liabilities	(3,482,490)	-
Net (decrease) in policyholder liabilities as per Statement of Profit or Loss and Other Comprehensive Income	**(1,255,500)**	**(552,315)**
Components of policyholder liabilities		
Life insurance contract liabilities:		
- Value of future profits	1,781,726	106,342
- Value of future policy claims	21,204,823	19,338,156
- Value of future charges for acquisition cost	-	-
- Value of future expenses	2,431,535	848,996
- Value of (balance of) future premiums	(9,995,552)	(3,486,465)
Gross life insurance liabilities at 31 March	**15,422,532**	**16,807,029**
Life investment contract liabilities:		
Value of policy liabilities - Accumulation Method		
- Future policy benefits	10,607,539	13,961,032
Gross life investment contract liabilities at 31 March	**10,607,539**	**13,961,032**
Net policyholder liabilities as per Statement of Financial Position	**26,030,071**	**30,768,061**
Value of policy benefits subject to capital guarantees included in policy liabilities		
- In respect of contracts with discretionary participation features	-	-
- In respect of investment-linked contracts	-	-
- In respect of any other contracts not addressed above, the amount of the current termination values	110,074	-
Total	**110,074**	-
Life insurance and investment contract liabilities future net inflows		
- Under one year	-	-
- Between one and five years	-	-
- Greater than five years	26,030,071	30,768,061
Total	**26,030,071**	**30,768,061**

Liability adequacy test

At each balance date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from assets backing such liabilities, are used. Liabilities are grouped into related product group and each group is tested against the best estimate of future cash flows. If the liability of the related product group is less than the best estimate, the liability is increased with the expense being booked directly through the profit or loss.

5. Statutory Funds

As required by the Insurance (Prudential Supervision) Act 2010 (the "Act"), the Company has established the following statutory funds in respect of its life insurance business:
- Lifetime Income Limited Statutory Fund Number 1 - Lifetime Income Fund;
- Lifetime Income Limited Statutory Fund Number 2 - Foundation Annuity and Unit Linked Business;
- Lifetime Income Limited Statutory Fund Number 3 - Simplicity and Britannia Variable Annuity Product.

The purpose of a statutory fund is to ensure that the funds received and paid out in respect of life insurance policies are separately identifiable as being part of the statutory fund. The assets of the Fund are only available for the life insurance business. In addition, the assets of the Fund enjoy certain protections under the Act which are designed to ensure that the interests of holders of life insurance and life investment policies are given certain priority over the interests of other parties, such as unsecured creditors.

As at 31 March 2019 there are no other restrictions on the use of assets invested for the policyholder benefits relating to life insurance contracts, nor any restrictions on legal titles to assets. Assets relating to life investment contracts are only held for the benefit of these contracts.

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5. Statutory Funds continued

The Statement of Financial Position and Statement of Profit or Loss and Other Comprehensive Income as split by fund, are broken down as follows:

As at 31 March 2019

Statement of Financial Position	**Statutory Fund 1**	**Statutory Fund 2**	**Statutory Fund 3**	**Shareholder Fund**	**Total**
Assets					
Cash and cash equivalents	3,087,504	3,130,181	562,913	271,678	7,052,276
Margin accounts	2,348,672	-	-	-	2,348,672
Insurance receivables	87,406	20,362	5,773	-	113,541
Prepayments	-	126,046	-	46,775	172,821
Related party receivables	30,800	-	-	30,000	60,800
Taxation receivable	17,341	19,338	364	22,955	59,998
Financial assets at fair value through profit or loss	2,495,501	22,490,933	-	-	24,986,434
Intangible assets	-	-	-	45,042	45,042
Interfund balances	60,000	-	140,000	-	200,000
Less Liabilities					
Accounts payable	25,758	400,458	-	118,849	545,065
Related party payables	-	-	-	63,716	63,716
Interfund balances	-	200,000	-	-	200,000
Life insurance contract liabilities	2,626,485	12,650,999	145,048	-	15,422,532
Life investment contract liabilities	-	10,607,539	-	-	10,607,539
Total Equity	**5,474,981**	**1,927,864**	**564,002**	**233,885**	**8,200,732**
Statement of Profit or Loss and Other Comprehensive Income					
Income					
Net premium revenue	758,775	2,230	32,364	-	793,369
Management fee revenue	-	272,806	-	-	272,806
Investment revenue	43,749	59,150	1,289	24,427	128,615
Unrealised Gains/(Losses) on financial instruments at fair value	2,039,947	984,082	-	-	3,024,029
Less Expenses					
Payments and withdrawals to annuity holders	-	4,986,569	-	-	4,986,569
Change in policyholder liabilities	2,480,418	(3,880,965)	145,047	-	(1,255,500)
Operating expenses	193,300	180,268	185	212,302	586,055
Profit/(loss) before tax	**168,753**	**32,396**	**(111,579)**	**(187,875)**	**(98,305)**
Less Income tax expense	-	-	-	-	-
Profit/(loss) after tax	**168,753**	**32,396**	**(111,579)**	**(187,875)**	**(98,305)**
Other comprehensive income	-	-	-	-	-
Total comprehensive income/(expense)	**168,753**	**32,396**	**(111,579)**	**(187,875)**	**(98,305)**
Statement of Movements in Equity					
Opening Share Capital	**4,237,602**	**1,313,897**	**55,100**	**(106,599)**	**5,500,000**
Equity transfer	1,500,000	(220,000)	624,000	(1,904,000)	-
Issue of shares	-	-	-	2,310,000	2,310,000
Closing Share Capital	**5,737,602**	**1,093,897**	**679,100**	**299,401**	**7,810,000**
Opening Retained Earnings	**(431,374)**	**801,571**	**(3,519)**	**122,359**	**489,037**
Total comprehensive income/(expense)	168,753	32,396	(111,579)	(187,875)	(98,305)
Closing Retained Earnings	**(262,621)**	**833,967**	**(115,098)**	**(65,516)**	**390,732**
Total Equity	**5,474,981**	**1,927,864**	**564,002**	**233,885**	**8,200,732**

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5. Statutory Fund continued

As at 31 March 2018

Statement of Financial Position	**Statutory Fund 1**	**Statutory Fund 2**	**Statutory Fund 3**	**Shareholder Fund**	**Total**
Assets					
Cash and cash equivalents	2,764,143	3,293,382	55,028	214,841	6,327,394
Margin accounts	338,985	-	-	-	338,985
Insurance receivables	64,031	18,296	-	(31,550)	50,777
Related party receivables	(19,371)	-	-	387,772	368,401
Taxation receivable	18,512	2,924	3	6,941	28,380
Intangible assets	-	28,750	-	-	28,750
Investments	-	29,859,247	-	-	29,859,247
Interfund balances	1,199,999	-	-	-	1,199,999
Less Liabilities					
Accounts payable	317,999	35,138	3,450	(207,755)	148,832
Interfund balances	-	430,000	-	769,999	1,199,999
Financial assets at fair value through profit or loss	96,004	-	-	--	96,004
Life insurance contract liabilities	146,068	16,660,961	-	-	16,807,029
Life investment contract liabilities	-	13,961,032	-	-	13,961,032
Retained earnings and contributed equity	**3,806,228**	**2,115,468**	**51,581**	**15,760**	**5,989,037**
Statement of Profit or Loss and Other Comprehensive Income					
Income					
Net premium revenue	239,936	-	-	-	239,936
Management fee revenue	-	62,130	-	-	62,130
Other revenue	-	197,308	-	-	197,308
Investment revenue	36,516	10,443	8	57,573	104,540
Unrealised investment revenue	-	521,654	-	--	521,654
Less Expenses					
Payments and withdrawals to annuity holders	-	809,882	-	-	809,882
Change in policyholder liabilities	319,858	(872,173)	-	-	(552,315)
Operating expenses	291,825	52,255	3,527	28,492	376,099
Profit/(loss) before tax	**(335,231)**	**801,571**	**(3,519)**	**29,081**	**491,902**
Less Income tax expense	-	-	-	-	-
Profit/(loss) after tax	**(335,231)**	**801,571**	**(3,519)**	**29,081**	**491,902**
Other comprehensive income	-	-	-	-	-
Total comprehensive income/(expense)	**(335,231)**	**801,571**	**(3,519)**	**29,081**	**491,902**
Statement of Movements in Equity					
Opening Share Capital	**2,179,632**	-	-	**3,320,368**	**5,500,000**
Equity transfer	2,057,970	1,313,897	55,100	(3,426,967)	-
Issue of shares	-	-	-	-	-
Closing Share Capital	**4,237,602**	**1,313,897**	**55,100**	**(106,599)**	**5,500,000**
Opening Retained Earnings	**(96,143)**	-	-	**93,278**	**(2,865)**
Total comprehensive income/(expense)	(335,231)	801,571	(3,519)	29,081	491,902
Closing Retained Earnings	**(431,374)**	**801,571**	**(3,519)**	**122,359**	**489,037**
Total Equity	**3,806,228**	**2,115,468**	**51,581**	**15,760**	**5,989,037**

6. Solvency Margin

Solvency requirements

Separate to policy liabilities recognised in the Statement of Financial Position, the Company maintains sufficient capital to meet solvency requirements. These are amounts required to provide protection against the impact of fluctuations and unexpected adverse circumstances on life insurance companies.

The Company maintains solvency margins for its statutory & shareholder funds, which are calculated as the difference between actual solvency capital and minimum solvency capital as shown below. The methodology and bases for determining the solvency margin are in accordance with the Solvency Standard for Life Insurance Business 2014 and Solvency Standard for Variable Annuity Business 2015 (both incorporating amendments to November 2018), issued by the Reserve Bank of New Zealand. The actual solvency capital exceeds the minimum requirements.

As at 31 March 2019

		Statutory Fund 1 $000	Statutory Fund 2 $000	Statutory Fund 3 $000	Shareholder Fund $000	Total $000
Equity		5,475	1,928	564	234	8,201
Deductions from Capital		-	-	-	(75)	(75)
Actual solvency capital	(A)	5,475	1,928	564	159	8,126
Minimum solvency capital	(B)	4,766	837	435	1	6,039
Solvency Margin	**(A)-(B)**	**709**	**1,091**	**129**	**158**	**2,087**
Solvency Ratio	**(A)/(B)**	**115%**	**230%**	**130%**	**13588%**	**135%**

As at 31 March 2018

		Statutory Fund 1 $000	Statutory Fund 2 $000	Statutory Fund 3 $000	Shareholder Fund $000	Total $000
Equity		3,806	2,115	52	16	5,989
Deductions from Capital		-	(29)	-	-	(29)
Actual solvency capital	(A)	3,806	2,086	52	16	5,960
Minimum solvency capital	(B)	3,798	1,897	47	130	5,872
Solvency Margin	**(A)-(B)**	**8**	**189**	**5**	**(114)**	**88**
Solvency Ratio	**(A)/(B)**	**100%**	**110%**	**111%**	**12%**	**102%**

c. Investments

This section provides further information about the investments held by the Company, outlining the return received and the categorisations of these assets, including:
- a breakdown of the investment revenue streams
- specific accounting policies where relevant
- disaggregated information for those instruments considered to be most significant in the context of the Company's operations.

7. Other gains/(losses)

Unrealised Investment Movements

	2019	2018
	$	$
Unrealised gains/(losses) on fair value through profit or loss investments	984,082	521,654
Unrealised gains/(losses) on foreign exchange futures and interest rate derivatives	2,039,947	(36,720)
Total unrealised gains/(losses) on financial instruments at fair value	**3,024,029**	**484,934**

8. Financial Instruments by Category

The Company adopted NZ IFRS 9, 'Financial instruments', on 1 April 2018. This new standard addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss.

Classification
The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income. The transition to NZ IFRS 9 has not resulted in any significant changes in the classification of the Company's financial instruments.

Financial assets are recognised initially at fair value. After initial recognition, financial assets are measured at fair value or amortised cost, determined based on both (a) the Company's business model for managing the financial assets; and (b) the contractual cash flow characteristics of the financial asset.

The Company has determined that financial assets held meet the solely payments of principal and interest criterion and are in a held-to-collect business model backing life insurance and life investment contracts. Such assets are designated as either amortised cost or at fair value through profit of loss. All financial liabilities are valued at amortised cost.

Regular purchases and sales of financial assets are recognised into their categories on the trade-data- the data on which the company commits to purchase or sell the asset

8. Financial Instruments by Category

The analysis of financial assets and liabilities into their categories is set out in the table below:

As at 31 March 2019	Financial assets amortised cost (2018: Loans and receivables)	Financial assets fair value through profit or loss	Financial liabilities amortised cost	Total
	$	$	$	$
Cash and cash equivalents	7,052,276	-	-	7,052,276
Margin account	2,348,672	-	-	2,348,672
Insurance receivables	113,541	-	-	113,541
Related party receivables	60,800	-	-	60,800
Financial assets held at fair value through profit or loss	-	24,986,434	-	24,986,434
Trade and other payables	-	-	(545,065)	(545,065)
Related party payable			(63,716)	(63,716)
Total	**9,575,289**	**24,986,434**	**(608,781)**	**33,952,942**
As at 31 March 2018	$	$	$	$
Cash and cash equivalents	6,327,394	-	-	6,327,394
Margin account	338,985	-	-	338,985
Insurance receivables	50,777	-	-	50,777
Related party receivables	368,401	-	-	368,401
Financial assets held at fair value through profit or loss	-	29,859,247	-	29,859,247
Trade and other payables	-	-	(148,832)	(148,832)
Related party payable				
Total	**7,085,557**	**29,859,247**	**(148,832)**	**36,795,972**

Impairment
NZ IFRS 9 replaces the 'incurred loss' model in NZ IAS 39 with an 'expected credit loss' (ECL) model. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised. The new impairment model applies to the Company in relation to financial assets classified at amortised cost, being the Company's related party receivables.

For the current period, the Company has applied the standard's simplified approach and has calculated ECLs for related party receivables that are exposed to credit losses based on a lifetime of expected credit losses. To measure the expected credit losses and related party receivables that are exposed to credit losses have been grouped based on shared credit risk characteristics and the days past due. Based on the Company's assessment no impairment provisions have been recognised.

d. Non-financial Assets and Liabilities and Taxation

This section provides further information about those non-financial assets, liabilities and taxation position that the Directors consider significant for an understanding of the Company's financial position and performance, including:
- income tax expense and deferred tax asset and liability breakdown
- relevant accounting policies
- estimates and judgements made in determining these items
- explanation of the calculation basis for each type of non-financial assets and liabilities
- individually significant items.

9. Taxation

Income tax recognised in profit or loss	2019 $	2018 $
Current tax expense	-	-
Deferred tax expense	-	-
Income tax expense	-	-
(Loss)/Profit before tax	(98,305)	491,902
Income tax (credit)/expense at 28%	(27,525)	137,733
Permanent differences		
- Life insurance premiums permanent differences	(222,143)	(67,182)
- Life Insurance liability permanent differences	1,044,699	72,119
- Non-deductible expenses	1,883	-
Tax losses recognised	-	(49,575)
Group tax loss offset	(796,914)	(93,095)
Income tax expense	-	-

	2019 $	2018 $
Imputation credits available for use in subsequent periods	59,998	28,380

Accounting for taxation in relation to the Company's tax position

Current tax
Current tax is calculated in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by balance date. Current tax is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax
Deferred tax assets are recognised to the extent that it is probable that profits will be available against which deductible temporary differences or unused tax losses can be utilised.

10. Accounts Payable / Other Payables

	Note	2019 $	2018 $
Sundry creditors and accruals		180,091	148,832
Unit linked maturities holding		364,974	-
		545,065	148,832
Related party payables	17	63,716	-
Total accounts payable / other payables		**608,781**	**148,832**

Accounts payable are initially recognised at fair value and subsequently measured at amortised cost.

The amount recognised as a related party accrual is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation.

11. Intangible assets

Cost		
Balance at 1 April	28,750	-
Movement	28,750	28,750
Cost at 31 March	**57,500**	**28,750**
Accumulated Depreciation		
Balance at 1 April	-	-
Movement	12,458	-
Accumulated Depreciation at 31 March	**12,458**	**-**
Net Book Value at 31 March	**45,042**	**28,750**

Intangible assets with a limited useful life are amortised using the straight-line method. The straight-line depreciation rate used for software was 40%.

12. Analysis of expense by nature

	2019 $	2018 $
Bank fees	1,557	-
Fees paid to auditors		
- Audit fees	70,849	46,305
- Solvency return reasonable assurance review	9,061	7,875
Management and Administration costs	230,653	85,092
Professional consultancy fees	226,438	164,038
Legal	6,724	-
Amortisation	12,458	-

e. Risk

This section of the notes discusses the Company's exposure to various risk and shows how these could affect the Company's financial position and performance.

13. Financial Risk Management

This section explains the Company's exposure to financial risks and how the risks could affect the Company's future financial performance, current year profit or loss information has been included where relevant to add further context.

Financial risks are generally monitored and controlled by selecting appropriate assets to back life insurance contracts. At present, all assets held to back life insurance contracts are either in the form of cash or other selected assets. The assets are regularly monitored by the Board to ensure that there are no material asset and liability mismatching issues and other risks such as liquidity risk and credit risk are maintained within the acceptable limits.

Financial risk management objectives
The Company has engaged the services of Milliman Pty Ltd to monitor and manage the financial risks relating to the operations of the Company through adoption of the Milliman Managed Risk Strategy ('MMRS').

Risk Management Policies and Procedures
The financial condition and operating results of the Company are affected by a number of key financial and non-financial risks. Financial risks include interest rate risk, currency risk, credit risk, market risk, financing risk and liquidity risk. The non-financial risks are insurance risk, compliance risk, and operational risk.

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13. Financial Risk Management continued

(a) Risk management objectives and policies for mitigating risk
The Company's objective is to satisfactorily manage the risks in line with the Company's Risk Policy, the relevant details of which are included below.

(b) Strategy for Managing Risk
Risk strategy
The Company adopted the Milliman Managed Risk Strategy ('MMRS') in June 2018. In respect of life investment contracts, the Company utilises fixed interest and unlisted equity investments.

The MMRS has two primary components being:
- Volatility Management Strategy - this is designed to cap the volatility of returns within the Company.
- Capital Management Strategy - this aims to limit the potential for downside losses by replicating a put-option strategy to reduce the potential for capital drawdowns in falling and sustained down markets.

Allocation of capital
The Company is required to hold a certain level of assets (capital) in order to prudently meet its liabilities to policyholders, fulfil its new business plans and meet regulatory capital requirements. Capital is held partly in the Statutory Fund based on management's assessment of the risk that each line of business is exposed to, and its views on the profitability of the products that are sold, on the regulatory capital requirements and its own views about a suitable margin above the regulatory requirement. At no stage during the year was the Company in breach of the minimum solvency capital requirements. Refer note 6 for disclosures on the Company's solvency requirements and margins.

(c) Methods to monitor and assess risk exposures
Exposure to risk
In an effort to protect and enhance shareholder value, the Company actively manages its exposure to risks so that it can react in a timely manner to changes in financial markets, insurance cycles, and economic and political environments.

Management reporting
The Company reports monthly financial and operations results to its Board. This information is combined with the detail of any changes in MMRS to provide a central view of the Company's risk performance.

(d) Methods to limit or transfer risk exposures
Reinsurance
The Company's reinsurance activities and needs are monitored and directed by Milliman Pty Ltd. Where required and applicable, reinsurance programmes will be put in place (no contracts effective for the 2018 or 2019 years) to mitigate the impact on the Company's exposure to risk and to ensure the achievement of an appropriate choice of type of reinsurance and retention levels.

MMRS Hedging
Through the use of MMRS, there are limits on the maximum loss exposure that the Company is subject to for downside losses through the use of put options.

(e) Concentration of insurance risk
Insurance risks associated with human life events
The Company aims to maintain an appropriate solvency margin in excess of the minimum requirement for any given in force business mix. The Company determines insurance risk concentrations based on the levels of sum assured, as well as age and gender profiling of the policyholders.

Financing and Liquidity risk
Financing and liquidity risk is the risk that the Company will not be able to meet its cash outflows as they fall due, because of lack of liquid assets or access to funding on acceptable terms.

13. Financial Risk Management continued

To mitigate financing and liquidity risk, the Company maintains sufficient liquid assets to ensure that the Company can meet its obligations and other cash outflows on a timely basis. The Company reports monthly to its Board regarding their cash balances.

Ultimate responsibility for financing and liquidity risk management rests with the Board of Directors, who have built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding management requirements.

The carrying amount of financial assets and liabilities recorded in the financial statements represents their respective fair values unless otherwise noted, determined in accordance with the accounting policies of the Company. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of related party lending.

Quantitative liquidity risk
The table below summarises the Company's financial liabilities into relevant maturity groups based on the remaining period at the balance date to the contractual maturity date. The amounts disclosed are contractual undiscounted cash outflows that include interest payments and exclude the impact of netting agreements.

2019

	<1 Month	1-3 Months	3-12 Months	>12 Months	Total
Financial Liabilities	$	$	$	$	
Payables	382,860	65,844	96,361	-	545,065
Related Party Payables	63,716	-	-	-	63,716
Life investment contract liabilities	-	-	-	10,607,539	10,607,539
Total	**446,576**	**65,844**	**96,361**	**10,607,539**	**11,216,320**

2018

	<1 Month	1-3 Months	3-12 Months	>12 Months	Total
Financial Liabilities	$	$	$	$	
Payables	84,217	62,307	-	-	146,524
Financial liabilities held at fair value through profit or loss	-	-	96,004	-	96,004
Life investment contract liabilities	-	-	-	13,961,032	13,961,032
Total	**84,217**	**62,307**	**96,004**	**13,961,032**	**14,203,560**

(f) Market risk
Market risk is the risk of change in the fair value of financial instruments from fluctuations in the foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to an individual financial instrument or its issuer or factors affecting all financial instruments traded in a market which is undertaken through the MMRS by Milliman.

Interest rate risk
Interest rate risk is the risk that the value of the Company's assets and liabilities will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk through its cash holdings. The Company manages its exposure through holding cash in liquid form. Given the risk levels and claims profile the Board believe it is adequately managed.

If interest rates had been 1% higher/lower during the year the loss for the year would have been approximately $71,000 (2018: $66,000) lower/higher.

The impact of changes in interest rates on the fair value of the Company's investments has been assessed as part of price risk.

13. Financial Risk Management continued

Currency risk

Currency risk is the risk of loss resulting from changes to exchange rates when applied to assets and liabilities or future transactions denominated in a currency that is not in the Company's base currency. The Company has adopted MMRS to manage its volatility and capital management, which includes currency risk. The Company believe a degree of exposure to currency risk is prudent for managing the liabilities.

If the New Zealand dollar had been 5% higher/lower during the year the loss would have been approximately $46,000 lower/higher.

Credit risk exposure

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only contracting with creditworthy counterparties, as a means of mitigating the risk of financial loss from defaults. Credit exposure in respect of the Company's cash deposit balances is limited to banks with minimum A credit ratings. The Company's exposure and the credit of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Concentration of credit risk exists when the Company enters into contracts or financial instruments with a number of counterparties that are engaged in similar business activities or exposed to similar economic factors that may affect their ability to meet contractual obligations. Lifetime Income Limited manages concentration of credit risk by credit rating, industry type and individual counterparty.

(i) Concentration of credit risk

The significant concentrations of credit risk are outlined by industry type below.

	Carrying Value	
	2019	**2018**
	$	**$**
Related party receivables	60,800	368,401
Banks	9,416,138	7,145,168
New Zealand government	9,167,810	15,910,217
Financial institutions	15,803,434	13,470,241
Other receivables	113,541	50,777
	34,561,723	**36,944,804**

(ii) Maximum exposure to credit risk

The Company's maximum exposure to credit risk without taking account of any collateral or any other credit enhancements, is as follows:

	Carrying Value	
	2019	**2018**
	$	**$**
Cash and cash equivalents	7,052,276	6,327,394
Margin account	2,348,672	338,985
Related party receivables	60,800	368,401
Outstanding premiums and trade receivables	113,541	50,777
Financial assets at fair value through profit or loss	24,986,434	29,859,247
	34,561,723	**36,944,804**

13. Financial Risk Management continued

(iii) Credit quality of financial assets that are neither past due nor impaired
The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if applicable) or to historical information about counterparty default rates:

	Carrying Value	
Credit exposure by credit rating	**2019**	**2018**
	$	**$**
AAA	2,662,724	1,309,292
AA+	769,290	7,006,727
AA	7,572,805	8,745,449
AA-	10,283,214	6,616,041
A+	4,855,483	372,183
A	278,157	301,172
A-	64,149	186,039
BBB+	52,779	1,263,288
BBB	347,114	448,966
BBB-	63,974	-
Cash	479,960	676,125
Sub investment grade	65,060	80,314
Total counterparties with external credit rating by Standard and Poor's	**27,494,709**	**27,005,596**
Group 1: trade debtors outstanding for less than 6 months or secured	113,541	50,777
Group 1A: related party receivable	60,800	368,401
Group 2: trade debtors (more than 6 months) with some defaults in the past	-	-
Group 3: unrated investments	6,892,673	9,520,030
Total counterparties with no external credit rating	**7,067,014**	**9,939,208**
Total financial assets neither past due nor impaired with credit exposure	**34,561,723**	**36,944,804**

Price risk
Price risk is the risk that movements in market prices of the Company's investments adversely impacts its ability to meets its insurance obligations. The Company manages this risk through matching the maturity / term of the investments to its underlying exposures.

If prices had been 5% higher/lower during the year the loss for the year would have been approximately $1,006,000 (2018: $1,323,000) lower/higher.

Compliance and Operations risk
Compliance and operations risk is monitored at a Retirement Income Group Limited (Group) level on a monthly basis by management through a formal committee structure and reporting to the Board at each of their meetings. Management uses an objective methodology to evaluate the likelihood and potential impact of each risk to help the Group understand its inherent risk exposure. "Inherent risk" is the risk that exists in the absence of any controls or mitigation strategies. At the outset gaining a preliminary understanding of inherent risk helps the Group develop an early view on its strategy for risk mitigation and steps required to accept or mitigate the risk.

(g) Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Refer below for details of valuation methods used for each category of financial assets and liabilities.

The carrying amounts of all financial assets and liabilities reasonably approximate the fair values. The following methods and assumptions were used by the Company in estimating the fair values of financial instruments.

13. Financial Risk Management continued

(i) Cash and cash equivalents
The carrying amount of cash and cash equivalents reasonably approximates its fair value.

(ii) Financial assets at fair value through profit or loss
The fair value of financial assets at fair value through profit or loss is determined by reference to their quoted price at the reporting date.

Credit exposure by type	2019 $	2018 $
Fixed Interest	9,167,810	15,404,541
Cash equivalents held as part of an investment portfolio	2,363,862	827,928
Unlisted Funds/Trusts	10,245,311	13,121,102
Foreign exchange futures and interest rate derivatives	3,209,451	505,676
Total financial assets at fair value through profit or loss	**24,986,434**	**29,859,247**

The carrying amounts of all financial assets reasonably approximate their fair values.

Transfer of Investment Businesses
In November 2017 all of Foundation Life (NZ) Limited's annuity business transferred to Lifetime Income Limited, followed by the investment-linked business in March 2018, in a combined transaction that involved almost 1,000 investors. Both the investments and the corresponding policyholder liabilities were recorded at their fair value on the transfer date. The cash consideration received by the Company on assuming the future liabilities totalled $1,583,101. In addition, the Company received $16,191,173 other financial assets and assumed policyholder liabilities of $16,191,173.

Financial instruments that are measured in the Statement of Financial Position at fair value (excluding short term amounts held at a reasonable approximation of fair value), are categorised by the following fair value measurement hierarchy levels:
- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 - Inputs for that asset or liability that are not based on observable market data (i.e. as unobservable inputs)

The following tables present the Company's assets and liabilities categorised by fair value measurement hierarchy levels.

As at 31 March 2019

	Total	Level 1	Level 2	Level 3
Financial Assets	$	$	$	
Derivative financial assets	3,209,451	-	3,209,451	-
Investment in unlisted funds/trusts	10,245,311	-	10,245,311	-
Investments in fixed interest securities	9,167,810	-	9,167,810	-
Cash	2,363,862	2,363,862	-	-
Total financial assets	**24,986,434**	**2,363,862**	**22,622,572**	-

13. Financial Risk Management continued

As at 31 March 2018

	Total	Level 1	Level 2	Level 3
Financial Assets	$	$	$	
Derivative financial assets	505,676	-	505,676	-
Investment in unlisted funds/trusts	13,121,102	-	13,121,102	-
Investments in fixed interest securities	15,404,541	-	15,404,541	-
Cash	827,928	827,928	-	-
Total financial assets	**29,859,247**	**827,928**	**29,031,319**	-
Derivative financial liabilities	-	-	(96,004)	-
Total financial liabilities	-	-	**(96,004)**	-

(a) Financial instruments in Level 1:
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.

(b) Financial instruments in Level 2:
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. Specific valuation techniques used to value financial instruments include:
- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for remaining financial instruments.

(iii) Financial liabilities at fair value through profit or loss

	2019	2018
	$	$
Foreign exchange futures	-	96,004
Total financial assets at fair value through profit or loss	-	**96,004**

Fair value is the amount for which a liability could be settled, between knowledgeable, willing parties in an arm's length transaction. The carrying amounts of all financial liabilities reasonably approximate their fair values. The fair value of derivative financial liabilities is determined by reference to the rates available from publicly quoted sources.

f. Other Information

This section provides information about items that are not recognised in the financial statements but could potentially have significant impact on the Company's financial position and performance but are not included as they do not satisfy the recognition criteria.

14. Operating commitments

The Company utilises the premises in Wellington of its parent, Retirement Income Group Limited for which it is charged a management fee. In addition, the Company does not lease any operating equipment under cancellable operating lease agreements. In addition, the Company does not lease any operating equipment under cancellable operating lease agreements.

15. Contingent liability

The Company had no material contingent liabilities at balance date (2018: Nil).

16. Capital commitments

The Company had no material capital commitments at balance date (2018: Nil).

17. Related party information

The Company is a wholly owned subsidiary of Retirement Income Group Limited (ultimate controlling entity) and has the following related entities:

Entity	Activity
Lifetime Asset Management Limited	Fund Management
Stewart Capital Holdings Limited	Investment holding entity
Stewart Capital Limited	Investment holding entity

a) Key management personnel compensation

The Company does not incur any key management personnel expenses directly as these are incurred and paid for directly by Retirement Income Group. Key management personnel expenses include salaries and other short-term benefits, post-employment benefits, employee share options, termination benefits and Directors Fees. The Company pays for these services by way of a management fee to Retirement Income Group Limited.

b) Transactions with other related entities

		2019 $	2018 $
Transactions during the year:			
Retirement Income Group Limited	Management fees	11,692	48,000
Retirement Income Group Limited	Receipt of receivables/funding	259,168	-
Lifetime Asset Management Limited	Repayment of loan	457	-
Stewart Capital Holdings Limited	Repayment/(provision) of loan	100,000	(130,000)

		2019 $	2018 $
Receivables			
Lifetime Asset Management Limited	Related party loan	-	457
Stewart Capital Holdings Limited	Related party loan	30,000	130,000
Retirement Income Group Limited	Related party receivable	30,800	237,944
Payables			
Retirement Income Group Limited	Related party payable	63,716	-

All related party loans are non-interest bearing and repayable on demand. Ralph Stewart is the majority shareholder of Stewart Capital Holdings Limited. In October 2017, the Company advanced an amount of $450,000 to Stewart Capital Holdings Limited on interest free terms. As at balance date, $420,000 of this loan had been repaid.

18. New standards adopted by the Company

The accounting policies used by the Company are consistent with those used in previous periods, except for the changes arising from the adoption of NZ IFRS 9 and NZ IFRS 15 as set out below.

NZ IFRS 9 Financial instruments

NZ IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The standard is effective for accounting periods beginning on or after 1 January 2018.

NZ IFRS 9 also introduces a new impairment model for financial assets. Overall, impairment under NZ IFRS 9 results in earlier recognition of credit losses than under NZ IAS 39. Note 8 provides further details on the Company's expected credit loss provision measured under the new impairment model.

The Company adopted the standard and its amendments on 1 April 2018. Following the adoption of NZ IFRS 9 there was no material impact to the measurement or recognition of financial assets and liabilities. Comparative balances were not restated, as permitted by the standard.

NZ IFRS 15 Revenue from contracts with customers

This standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard is effective for annual periods beginning on or after 1 January 2018.

The Company has reviewed its contracts with customers and this standard applies to the fees earned in respect of the administration and management of life investment contracts held by the Company. Following the adoption of NZ IFRS 15 the Company concluded that there was no material impact on the recognition and measurement of the revenue from these contracts.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 April 2018 are not material to the Company.

19. New standards not yet adopted

The following relevant new standards, amendments or interpretations to existing standards are not yet effective, and have not been early adopted by the Company:

NZ IFRS 17 Insurance contracts

In May 2017, the International Accounting Standards Board (IASB) issued NZ IFRS 17, 'Insurance Contracts'. Whereas the current standard, NZ IFRS 4, allows insurers to use their local GAAP, NZ IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements.

Under NZ IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period.

The new standard was to be effective for annual reporting periods beginning on or after 1 January 2021 but the IASB have since postponed it to 1 January 2022 with comparative figures required. Early application is permitted for entities that apply NZ IFRS 9, 'Financial Instruments', and NZ IFRS 15, 'Revenue from Contracts with Customers', on or before the date of initial application of IFRS 17. The standard can be applied retrospectively in accordance with NZ IAS 8, but it also contains a 'modified retrospective approach' and a 'fair value approach' for transition depending on the availability of data. The Company intends to adopt IFRS 17 on its effective date and has yet to assess its full impact.

At the date of authorisation of these financial statements, there were no new standards, amendments or interpretations to existing standards not yet effective that are expected to be relevant to the Company's operations.

20. Margin account

Cash collateral provided by the Company is identified in the Statement of Financial Position as the margin account and is not included in cash and cash equivalents. The Company trades foreign exchange derivative contracts and interest rate swaps and holds a margin account as collateral with the broker. The cash is held by brokers and is only available to make margin calls.

21. Subsequent events

No significant events have occurred since balance date which would impact on the financial position of the Company disclosed in the Statement of Financial Position as at 31 March 2019 or on the results and cash flows of the Company for the period ended on that date.

Independent auditor's report

To the shareholder of Lifetime Income Limited

We have audited the financial statements which comprise:

- the statement of financial position as at 31 March 2019;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements.

Our opinion

In our opinion, the accompanying financial statements of Lifetime Income Limited (the Company), present fairly, in all material respects, the financial position of the Company as at 31 March 2019, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

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

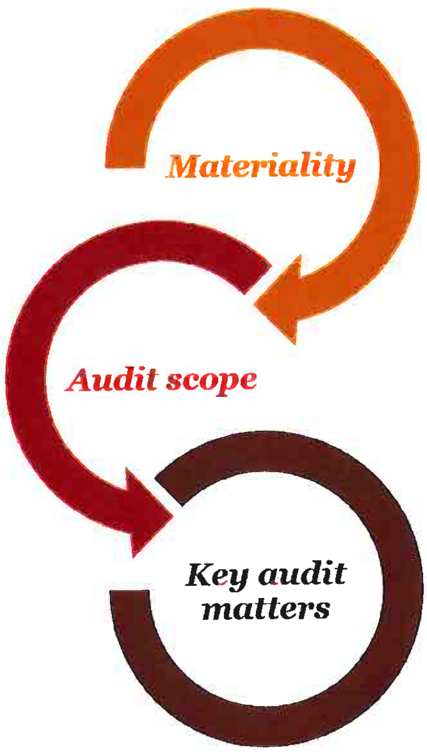
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Our firm performs an assurance service over the Company's regulatory solvency return. The provision of this service has not impaired our independence as auditor of the Company.

Our audit approach

Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Our materiality for the Company is calculated based on 1% of the total investments of the Company.

We chose total investments as the basis for our materiality benchmark. The Company is in an early stage of its lifecycle and its focus is on building an asset base to enable growth in operations, total investments, in our view, is an appropriate proxy by which its performance is best measured.

We have determined that there is one key audit matter:

- Valuation of life insurance contract liabilities.

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

pwc

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

Valuation of life insurance contract liabilities
 	
As at 31 March 2019 the Company has life insurance contract liabilities of $15.4 million (31 March 2018: $16.8 million).
 	
The Company's valuation of life insurance contract liabilities involves complex and subjective judgements about future events. We consider the valuation of life insurance contract liabilities as a key audit matter due to:
 	
• the subjective judgements around key material assumptions required to be made by the Directors, and
 	
• the sensitivity of the life insurance contract liability valuation to changes in these judgements and assumptions.
 	
The Company uses external actuaries to perform the valuation using methodologies and models recognised in the industry and actuarial standards. The Company also has an Appointed Actuary who assesses and reviews the reasonableness and accuracy of the work performed by these actuaries.
	With our internal actuarial specialists we assessed the assumptions used to value the Company's life insurance contract liability and the competence, capability and objectivity of the external actuaries and the Appointed Actuary in relation to the actuarial calculations. Specifically we:
	
	• obtained an understanding of the actuarial methodology used by the Company and compared this to methodologies commonly applied in the industry and recognised by accounting and actuarial standards,
	
	• gained an understanding of the Company's processes and controls over the valuation, including how the Company:
	
	    o assesses and exercises oversight over the key assumptions, and
	
	    o prepares and reviews the calculated components of the liability,
	
	• compared key inputs (for example discount rates) used in the calculation to supporting evidence, such as external market data,
	
	• challenged the key actuarial assumptions used against past experience, market observable data (as applicable) and our experience of market practice, and
	
	• considered the impact of key changes in the actuarial methodology over the year and compared these changes to industry practice.

Key audit matter	How our audit addressed the key audit matter
The material assumptions used in the valuation of life insurance contract liabilities represent best estimate assumptions at reporting date and include the expected future cash flows to be generated by the policies, comprising of future: • premium payments from customers, • investment returns and mortality, and • maintenance expenses, lapses and claims. These expected future cash flows are then adjusted to present day values using a discount rate. Life insurance policy data is used as a key input to these estimates. Refer to note 4 in the Company's financial statements for disclosure on the related accounting policies, critical accounting estimates and judgements.	To assess the reliability of the policy data used to calculate the estimates, we tested the completeness and accuracy of policy data between the policy administration system and the actuarial model. Because of the subjectivity involved in valuing life insurance contract liabilities, there is a range of values, which can be considered reasonable. Based on the above procedures there were no matters to report.

Information other than the financial statements and auditor's report

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

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

Responsibilities of the Directors for the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible 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) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/

This description forms part of our auditor's report.

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
26 July 2019

Wellington

Life Management Limited
Charles Hett - Consulting Actuary

Wellington
24th July 2019

The Directors
Lifetime Income Limited
P.O. Box 10811
WELLINGTON

Dear Directors,

Appointed Actuary – Report Required under Section 78 of the Act
Review of *actuarial information* for Lifetime Income Limited as at 31 March 2019

Section 78 of the Act specifies those matters that must be addressed, namely;

(a) This report is prepared by Charles Hett, Lifetime Income Limited (LIL) appointed actuary. I operate as an independent consultant to LIL and have no financial interests in LIL; and

(b) I have reviewed the actuarial information contained in, or used in the preparation of, the 31st March 2019 financial statements of LIL. The review has been carried out in accordance with the applicable solvency standard. For the avoidance of doubt, actuarial information means:
1) information relating to Lifetime Income's calculations of premiums, claims, reserves, insurance rates, and technical provisions; and
2) information relating to assessments of the probability of uncertain future events occurring and the financial implications for the insurer if those events do occur; and
3) information specified in an applicable solvency standard as being actuarial information for the purposes of this section; and

(c) There were no restrictions or limitations placed on my work or on my report, I obtained all the information I required. The scope and limitations of the review are attached as an appendix to this report; and

(d) In my opinion and from an actuarial perspective:
1) The actuarial information contained in the financial statements has been appropriately included in those statements; and
2) The actuarial information used in the preparation of the financial statements has been used appropriately; and

(e) No condition has been imposed under Section 21(2) (b) or (c) as at 31 March 2019.

(f) In my opinion and from an actuarial perspective LIL has maintained a solvency margin as at 31 March 2019 that complies with the relevant solvency standards issued by the Reserve Bank of New Zealand. This has been maintained at both an overall company level and for the various separate statutory funds.

Yours sincerely

Charles Hett MA FNZSA, FIA
Appointed Actuary – Lifetime Income Limited

15 Highbury Crescent, Highbury, WELLINGTON
Mobile: (021) 616-040 Email: lifemanagement@xtra.co.nz

Appendix

Reliances and Limitations

This report is provided to Lifetime Income Limited ("LIL") as at 31 March 2019 for the purpose of Section 78 of the Insurance Prudential Supervision Act 2010.

The report should not be used for any purpose other than that stated above. This report should not be reproduced or supplied to any other party other than the Auditors and the Reserve Bank of New Zealand without first obtaining my written consent. I accept no responsibility for any reliance that may be placed on the report, should it be used for any purpose other than that set out above, and in any event will accept no liability in respect of its contents to any party other than LIL.

The processes and calculations made to produce the results in this report are based on representations and information supplied to me by LIL. In the course of carrying out my work I performed some data validation checks but have not carried out anything in the nature of an audit. Accordingly, I express no opinion on the total reliability, accuracy or completeness of the information provided to me and upon which I have relied. I have no reason to believe that the information provided to me is inaccurate or misleading.

This report should be read in its entirety. Individual sections of this report could be misleading if considered in isolation from each other.

For the purposes of professional regulation my primary professional regulator is the New Zealand Society of Actuaries.