# Pinnacle Life Limited

Financial report
For the year ended 31 March 2015

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PINNACLE LIFE LIMITED

## STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 MARCH 2015

| | Note | 12 months to 31 March 2015 $ | 11 months to 31 March 2014 $ |
|---|---|---|---|
| **Revenue and other income** | | | |
| Premium revenue: | | | |
| - Gross premium income | | 10,279,724 | 8,832,015 |
| - Gross reinsurance ceded | | (5,609,319) | (4,978,481) |
| - Gross reinsurance profit share income | | 45,000 | 89,602 |
| Net premium revenue | | 4,715,405 | 3,943,136 |
| Reinsurance commission income | | 139,237 | 115,798 |
| Interest income | | 73,839 | 59,143 |
| **Total revenue** | | 4,928,481 | 4,118,077 |
| **Less: expenses** | | | |
| Claims expense: | | | |
| - Claims expense | | (6,189,943) | (3,098,146) |
| - Reinsurance recoveries | | 4,895,115 | 2,594,262 |
| Net claims expense | | (1,294,828) | (503,884) |
| Net movement in life insurance and reinsurance contract assets / (liabilities) | | 5,248,207 | (1,142,201) |
| Policy acquisition costs | | (246,736) | (297,305) |
| Management fees | 5 | (797,125) | (1,068,272) |
| Advertising expense | | (977,080) | (736,346) |
| Depreciation and amortisation expense | 5 | (152,197) | (189,917) |
| Employee benefits expense | 5 | (869,222) | (555,966) |
| Occupancy expense | | (103,499) | (80,417) |
| Administrative expenses | 5 | (1,276,561) | (902,069) |
| **Total expenses** | | (469,041) | (5,476,377) |
| **Profit / (loss) before income tax expense** | | 4,459,440 | (1,358,300) |
| Income tax benefit | 6 | 521,736 | 865,839 |
| **Net profit / (loss) after income tax** | | 4,981,176 | (492,461) |
| **Other comprehensive income for the period** | | - | - |
| **Total comprehensive income** | | 4,981,176 | (492,461) |

The accompanying notes form part of these financial statements.



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## STATEMENT OF FINANCIAL POSITION
## AS AT 31 MARCH 2015

| | Note | 31 March 2015 $ | 31 March 2014 $ |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 8 | 3,575,363 | 1,739,206 |
| Receivables | 9 | 515,673 | 443,469 |
| Financial assets at fair value through profit and loss | 10 | 1,574,796 | 1,099,360 |
| Other assets | 11 | 120,275 | 104,680 |
| **Total current assets** | | 5,786,107 | 3,386,715 |
| **Non-current assets** | | | |
| Life insurance contract assets | 23 | 44,878,749 | 36,414,834 |
| Property, plant and equipment | 12 | 29,800 | 30,603 |
| Intangible assets | 13 | 162,714 | 244,178 |
| Deferred tax assets | 6 | 1,171,941 | 502,770 |
| **Total non-current assets** | | 46,243,204 | 37,192,385 |
| **Total assets** | | 52,029,311 | 40,579,100 |
| **Current liabilities** | | | |
| Payables | 14 | 1,510,102 | 1,237,507 |
| Provisions | 15 | 59,411 | 40,710 |
| Other liabilities | 16 | 1,104,844 | 1,049,762 |
| **Total current liabilities** | | 2,674,357 | 2,327,979 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 6 | 712,258 | 564,823 |
| Liabilities ceded under reinsurance contracts | 23 | 23,710,050 | 20,494,342 |
| **Total non-current liabilities** | | 24,422,308 | 21,059,165 |
| **Total liabilities** | | 27,096,665 | 23,387,144 |
| **Net assets** | | 24,932,646 | 17,191,956 |
| **Equity** | | | |
| Share capital | 17 | 20,425,523 | 17,684,417 |
| Share based payments reserve | 18 | 92,297 | - |
| Retained earnings / (Accumulated losses) | | 4,414,826 | (492,461) |
| **Total equity** | | 24,932,646 | 17,191,956 |

Signed on behalf of the board of directors, dated 30 July 2015

Director: ____________________ J Porus

Director: ____________________ A Spencer

The accompanying notes form part of these financial statements.



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PINNACLE LIFE LIMITED

## STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 MARCH 2015

| | Note | Subscribed capital | Accumulated premiums | Share capital | Share based payments reserve | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|
| | | $ | $ | $ | $ | $ | $ |
| **Balance as at 1 May 2013** | | 8,148,916 | 5,676,305 | - | - | 3,508,251 | 17,333,472 |
| Loss for the 11 month period | | - | - | - | - | (492,461) | (492,461) |
| **Total comprehensive income for the period** | | - | - | - | - | (492,461) | (492,461) |
| **Transactions with owners in their capacity as owners:** | | | | | | | |
| Transfer of Partnership equity to Company share capital | 17, 29 | (8,148,916) | (5,676,305) | 17,333,472 | - | (3,508,251) | - |
| Share based termination payment | 17 | - | - | 350,945 | - | - | 350,945 |
| **Total transactions with owners in their capacity as owners** | | (8,148,916) | (5,676,305) | 17,684,417 | - | (3,508,251) | 350,945 |
| **Balance as at 31 March 2014** | | - | - | 17,684,417 | - | (492,461) | 17,191,956 |
| Profit for the year | | - | - | - | - | 4,981,176 | 4,981,176 |
| **Total comprehensive income for the period** | | - | - | - | - | 4,981,176 | 4,981,176 |
| **Transactions with owners in their capacity as owners:** | | | | | | | |
| Issue of share capital | 17 | - | - | 5,000,000 | - | - | 5,000,000 |
| Share issue costs | 17 | - | - | (258,894) | - | - | (258,894) |
| Repurchase of share capital | 17 | - | - | (2,000,000) | - | - | (2,000,000) |
| Share options granted | 18 | - | - | - | 92,297 | - | 92,297 |
| Dividends | | - | - | - | - | (73,889) | (73,889) |
| **Total transactions with owners in their capacity as owners** | | - | - | 2,741,106 | 92,297 | (73,889) | 2,759,514 |
| **Balance as at 31 March 2015** | | - | - | 20,425,523 | 92,297 | 4,414,826 | 24,932,646 |

The accompanying notes form part of these financial statements.



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## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 MARCH 2015

| | Note | 12 months to 31 March 2015 $ | 11 months to 31 March 2014 $ |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Premium receipts from customers | | 10,495,602 | 8,792,277 |
| Reinsurance commission income | | - | 115,798 |
| Reinsurance recoveries | | 4,749,451 | 3,990,213 |
| Interest received | | 53,362 | 36,620 |
| Payments to suppliers | | (2,467,126) | (2,015,575) |
| Payments to employees | | (772,224) | (550,332) |
| Payments to reinsurers | | (5,514,174) | (4,908,656) |
| Claims paid | | (5,962,469) | (4,869,959) |
| Management fees paid | | (871,875) | (655,743) |
| GST paid | | (24,018) | (12,235) |
| **Net cash used in operating activities** | 21 | (313,471) | (77,592) |
| **Cash flow from investing activities** | | | |
| Proceeds from sale of investments | | 602,341 | - |
| Payment for property, plant and equipment | | (13,431) | - |
| Payment for intangible assets | | (56,499) | (71,796) |
| Payment for investments | | (1,050,000) | - |
| **Net cash provided by / (used in) investing activities** | | (517,589) | (71,796) |
| **Cash flow from financing activities** | | | |
| Proceeds from preference share issue | 17 | 3,000,000 | - |
| Share issue costs | | (258,894) | - |
| Dividends paid | | (73,889) | - |
| **Net cash provided by financing activities** | | 2,667,217 | - |
| **Reconciliation of cash** | | | |
| Cash at beginning of the financial period | | 1,739,206 | 1,888,594 |
| Net increase / (decrease) in cash held | | 1,836,157 | (149,388) |
| **Cash at end of financial period** | | 3,575,363 | 1,739,206 |

The accompanying notes form part of these financial statements.

## NOTES TO FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 MARCH 2015

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Pinnacle Life Limited is incorporated and domiciled in New Zealand. Pinnacle Life Limited is registered under the Companies Act 1993. Pinnacle Life Limited is a FMC reporting entity in terms of the Financial Markets Conduct Act 2013. The financial statements of Pinnacle Life Limited ('the Company') have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013, the Financial Reporting Act 2013, the Companies Act 1993 and the Insurance (Prudential Supervision) Act 2010.

The Company is a for profit entity.

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

The financial statements were authorised for issue by the directors on 30 July 2015.

The Company was incorporated under the Companies Act 1993 on 20 December 2012. On 1 May 2013 all of the business operations, assets and liabilities of the Pinnacle Life Insurance Partnership were transferred to the Company. The Company commenced its business operations thereafter.

Refer also note 1 (a) and 22 for further details on the transfer.

The primary reason for the transfer was a result of the requirement of the Pinnacle Life Insurance Partnership's provisional licence, issued by the Reserve Bank of New Zealand in accordance with the Insurance (Prudential Supervision) Act 2010. Pinnacle Life Limited was therefore specifically incorporated for the purpose of continuing the Pinnacle Life Insurance business operations ('the Business') from the Pinnacle Life Insurance Partnership. The Business is as defined in the Sale and Purchase Agreement dated 1 May 2013, where the Pinnacle Life Insurance business, assets and liabilities previously owned and operated by the Pinnacle Life Insurance Partnership, a related entity, were transferred to Pinnacle Life Limited. The nature nor operations of the entity did not change on 1 May 2013, only the legal form (i.e. from a Partnership to an incorporated Company).



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## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (a) Transfer of the Pinnacle Life Insurance Partnership business operations, assets and liabilities to Pinnacle Life Limited

On 1 May 2013, all of the business operations, assets and liabilities of the Pinnacle Life Insurance Partnership were transferred to the Company ('the transfer').

The transfer occurred on 1 May 2013 using the carrying value of the assets and liabilities of the Pinnacle Life Insurance Partnership as at 30 April 2013. The Pinnacle Life Insurance Partnership was subsequently dissolved on 26 September 2013, by Deed of Termination.

Refer to note 22 for further details on the transfer.

### (b) Basis of preparation of the financial report

*Compliance with IFRS*

These financial statements 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') and other applicable Financial Reporting Standards, as appropriate for profit oriented entities. These financial statements also comply with International Financial Reporting Standards ('IFRS').

*Historical Cost Convention*

The financial statements have been prepared under the historical cost convention, as modified by revaluations for certain classes of assets and liabilities to fair value and life insurance contract liabilities and related assets to net present value as described in the accounting policies below.

### (c) Comparatives

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

Reinsurance recoveries receivable of $207,500 as at 31 March 2014 have been reclassified from other assets to receivables in the statement of financial position.

The comparative financial information is not fully comparable given the difference in the length in the financial reporting periods. With the Company commencing its operations on 1 May 2013 and with its prior financial reporting period end being 31 March 2014, the comparative financial information covers an eleven month period. The current financial reporting period's financial information comprise twelve months of financial information.



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## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (d) Functional and presentation currency

The financial statements are presented in New Zealand dollars (NZD), which is the Company's functional and presentation currency. All financial information has been rounded to the nearest dollar.

### (e) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

*Premium revenue*

Premiums on life insurance contracts are separated into their revenue and deposit components (if any). All contracts are recognised as revenue. 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. Premiums received in advance of due date are deferred and carried as current liabilities in the statement of financial position as premiums in advance and amortised through the profit and loss over the period of the services provided under the insurance contract.

*Reinsurance commission Income*

Commission income is recognised through profit and loss when received from the reinsurer and with the determination of margin releases and life insurance contract assets / (liabilities) by the Actuary taking account of any repayments due to the reinsurer, the resultant movements in life insurance contract assets / (liabilities) recognised through the profit and loss offsets the upfront income recognition, with repayments to the reinsurer being amortised over the period of the contract.

*Interest income*

Interest income is recognised in profit or loss as they accrue, using the effective interest method.

The effective interest method calculates the amortised cost of a financial asset and allocates the interest income, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset. The application of the method has the effect of recognising income on the financial asset evenly in proportion to the amount outstanding over the period to maturity or repayment.

*Fair value gains and losses*

Fair value gains and losses on financial assets at fair value are recognised through the profit and loss.

*Other income*

All other revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured and the right to receive the revenue has been established.



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## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (f) Expenses

Expenses are recognised as incurred in profit or loss on an accrual basis. The following specific recognition criteria must also be met before expenses are recognised:

*Claims expense*

Claims incurred that relate to the underwriting of life insurance contracts and bearing of risks are recognised as an expense through profit and loss when the liability to the policyholder has been established or upon notification of the insured event. Outstanding claims are recognised as claims payable in the statement of financial position to provide for the estimated costs of all claims notified, but not settled at reporting date. The estimated cost of claims incurred but not reported until after year end are separately recognised in the statement of financial position as provisions.

*Basis of expense apportionment*

For the purposes of actuarial reserving, all operating expenses have been apportioned between policy acquisition and policy maintenance expenses. These are further explained under actuarial policies and methods.

*(i)* Policy acquisition costs

Acquisition costs are the fixed and variable costs of acquiring new business including commissions and similar distribution costs, costs of accepting, issuing and initially recording policies. Acquisition expenses are initially recognised through profit and loss. This expense in profit and loss is then offset by the recognition of movements in life insurance contract assets / (liabilities) through the profit and loss. The Actuary determines the life insurance contract assets / (liabilities) and the movements therein, taking account of any deferral and future recovery of acquisition costs which are capitalised by way of the movement in life insurance contract assets / (liabilities). These are then amortised over the period in which they will be recoverable, being recorded as part of movements in life insurance contract assets / (liabilities) through the profit and loss.

*(ii)* Policy 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 in force policies. Maintenance costs include all operating and management costs other than acquisition and investment management costs. Maintenance expenses are recognised through profit and loss at cost in the period to which they relate.

*Outwards reinsurance*

Reinsurance agreements provide for indemnification of the Company by the reinsurer against significant loss or liability. Premiums ceded to the reinsurer under reinsurance contracts that transfer significant insurance risk to the reinsurer are recorded as an outwards reinsurance expense through the profit and loss and are recognised over the period of indemnity of the reinsurance contract. Reinsurance recoveries are recognised separately through the profit and loss when the related incurred claim is recognised.



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## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (f) Expenses (continued)

*Other expenses*

All other expenses are recognised as incurred in profit and loss on an accruals basis.

### (g) Goods and services tax (GST)

As the Company is in the business of providing life insurance services, income and expenditure is accounted for on a GST inclusive basis. The percentage of GST claimable/payable in the GST return is 7.5%.

### (h) Income tax

Income tax on net profit for the 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 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 income tax is provided, using the liability method, on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at reporting date.

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(h) Income tax (Continued)**

*Life insurance tax*

From 1 July 2010, life insurers have been subject to a new tax regime. Two tax bases are maintained; the shareholder base which is subject to tax on life risk products (premium income less claims expense) and net investment income from shareholder funds; and the policyholder base which is subject to tax on net investment income from policyholder funds. The life insurer pay tax on both bases at the prevailing corporate tax rate of 28%. As life insurers are taxed as a proxy for the policyholder, returns to policyholders are exempt.

Transitional provisions are included in the new regime which effectively maintain the historical tax treatment for most policies in force on 30 June 2010 for a period of time (five years in most cases). Under the previous tax regime, the life insurance base was subject to tax on investment income less expenses plus underwriting income, and tax was calculated on the policyholder base as benefits accrued to policyholders under the policies. The life insurer pays tax on the higher of the two bases at the prevailing corporate tax rate of 28%.

**(i) Principles underlying the conduct of life insurance business**

*Classification*

The life insurance operations of the Company comprise the selling and administration of contracts which are classified as insurance 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 additional 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 death, injury or disability caused by accident or illness. Any products that do not meet the definition of a life insurance contract are classified as life investment contracts. The Company only sells life insurance contracts.



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## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (i) Principles underlying the conduct of life insurance business (Continued)

*Life insurance contract assets / (liabilities)*

Life insurance contract assets / (liabilities) in the statement of financial position and the increase or decrease in life insurance contract assets / (liabilities) through the profit and loss have been calculated in accordance with the New Zealand Society of Actuaries Professional Standard No 20 – Determination of Life Insurance Policy Liabilities ('PS20') which prescribes the Margin on Services ('MoS') basis.

MoS is designed to recognise profits on life insurance policies as services are provided to policyholders and income is received. Profits are deferred and amortised over the life of the policy, whereas losses are recognised immediately. Policy services provided over the lifetime of a contract include the costs of expected claims and maintaining policies. Profit margins relating to the expected income from providing policy services for each of the major product groupings are used to defer and amortise the profit over the life of the policies. Typically renewal premiums are used as a 'profit carrier' to release profits as services are provided. Life insurance contract assets / (liabilities) are generally determined as the present value of all future expected payments, expenses, taxes and profit margins reduced by the present value of all future expected premiums.

MoS profit comprises the following components:

*- Planned margins of revenues over expenses*

At the time of writing a policy and at each balance date, best estimate assumptions are used to determine all expected future payments and premiums.

*The difference between actual and assumed experience*

Where actual experience replicates best estimate assumptions, the expected profit margin will be released to profit over the life of the policy. Experience profits or losses are realised where actual experience differs from best estimate assumptions. Instances giving rise to experience profits or losses include variations in claims, expenses, mortality, discontinuance and investment returns. For example, an experience profit will emerge when the expenses of maintaining all in-force business in a year are lower than the best estimate assumption in respect of those expenses.

*- Changes to underlying assumptions*

Assumptions used for measuring policy assets / (liabilities) are reviewed each year. Where the review leads to a change in assumptions, the change is deemed to have occurred from the end of the year, except for changes in discount rates which are recognised in the year that the rates are changed. The financial effect of all other changes to the assumptions underlying the measurement of life insurance contract assets / (liabilities) made during the reporting period, is recognised through the profit and loss over the future reporting periods during which services are provided to policyholders.



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**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(i) Principles underlying the conduct of life insurance business (Continued)**

*Life insurance contract assets / (liabilities) (Continued)*

MoS profit comprises the following components: (Continued)

*- Loss recognition on groups of related products*

If, based on best estimate assumptions, written business for a group of related products is expected to be unprofitable, the total expected loss for that related product group is recognised through the profit and loss immediately. When loss making business becomes profitable previously recognised losses are reversed.

**(j) Liabilities arising from reinsurance contracts**

Policies arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of claims arising under the contracts is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be paid taking into account such factors as counterparty and credit risk.

**(k) Provision for incurred claims**

Provision has been made for estimated liabilities that arise from claims notified but not settled at reporting date. An allowance has been made for unknown net claims as at the reporting date. This allowance is based on the actual delay the company experiences between the date of death and the date of notification. This provision represents the current best estimate of the net claims IBNR as at the end of the month.

**(l) Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts (if any) are shown in current liabilities on the statement of financial position.



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**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(m) Financial instruments**

*Basis of recognition and measurement*

The Company classifies financial instruments into one of the following categories at initial recognition: financial assets or liabilities at fair value through profit or loss, available for sale, loans and receivables, held to maturity, and financial liabilities measured at amortised cost.

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

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows expire or if the Company transfers them without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract are extinguished.

**Financial assets**

Purchases and sales of financial assets are recognised on trade date – the date on which the Company commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. 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.

Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held to maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in profit or loss in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of securities classified as available for sale are recognised in other comprehensive income, except for foreign exchange movements on monetary assets, which are recognised in profit or loss. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments are included in profit or loss as gains and losses from investment securities.

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired.

If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the financial asset acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.



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**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(m) Financial instruments (Continued)**

**Financial assets (Continued)**

If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the financial asset acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

*(i) Financial assets at fair value through profit or loss*

This category has two sub categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the reporting date.

The Company's financial assets at fair value through profit or loss comprise a New Zealand Government Bond and term deposits with a New Zealand registered bank.

*(ii) Held-to-maturity investments*

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. Assets in this category are measured at amortised cost.

The Company has not classified any financial assets in this category.

*(iii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Assets in this category are measured at amortised cost using the effective interest method, less any impairment losses.

The Company's loans and receivables comprise cash at bank and receivables.

*(iv) Available-for-sale*

Available for sale financial assets are non-derivatives, principally equity securities, which are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance date.

The Company has not classified any financial assets in this category.



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## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (m) Financial instruments (Continued)

#### Financial liabilities

*(i) Financial liabilities at fair value through profit or loss*

This category has two sub categories: financial liabilities held for trading, and those designated at fair value through profit or loss at inception. A financial liability is classified in this category if acquired principally for the purpose of paying in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Liabilities in this category are classified as current liabilities if they are either held for trading or are expected to be realised within 12 months of the reporting date.

The Company has not classified any financial liabilities in this category.

*(ii) Other financial liabilities*

This category includes all financial liabilities other than those designated as fair value through profit or loss. Subsequent to initial recognition liabilities in this category are measured at amortised cost using the effective interest method.

The Company's other financial liabilities comprise payables.

#### Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date, or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss through the use of an allowance account. When a financial asset carried at amortised cost is uncollectible, it is written off against the allowance account. A financial asset carried at amortised cost is deemed to be uncollectible upon notification of insolvency of the debtor or upon receipt of similar evidence that the Company will be unable to collect the trade receivable. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed. Subsequent recoveries of financial assets carried at amortised cost previously written off are deducted from the allowance account.



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## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (n) Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation. All assets are depreciated over their estimated useful lives. Depreciation of an asset does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

The carrying amount of property, plant and equipment is tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to present values in determining recoverable amounts.

*Initial recognition*

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

*Subsequent costs*

Subsequent costs are added to the carrying amount of an item of plant and equipment when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognised in the profit or loss as an expense as incurred.The costs of the day to day servicing of property, plant and equipment are recognised in profit or loss as incurred.

*Depreciation*

Depreciation is recognised in profit or loss over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The depreciation rates used for each class of assets are:

| Class of fixed asset | Depreciation rates | Depreciation basis |
|---|---|---|
| Plant and equipment at cost | 30.0% - 60.0% | Diminishing value |
| Furniture, fixtures and fittings at cost | 10.0% - 25.0% | Diminishing value |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.



KPMG

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (o) Intangible assets

*Computer software*

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 3 to 5 years.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met:
- the Company's ability to measure reliably the expenditure attributable to the software under development;
- the software is technically and commercially feasible;
- the software's future economic benefits are probable;
- the Company's ability to use or sell the developed software; and
- the availability of adequate technical, financial and other resources to complete the software under development.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed 3 to 5 years.

### (p) Impairment of non financial assets

Non financial 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 to assess 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 pretax discount rate that reflects current market rates and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Impairment losses directly reduce the carrying amount of assets and are recognised in profit or loss.

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



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## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (q) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

*Operating leases*

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as an expense on a straight-line basis over the term of the lease.

Lease incentives received under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

### (r) Provisions

Provisions are recognised when the Company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

The amount recognised as a provision 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. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### (s) Employee benefits

Liabilities for employee entitlements are carried at the present value of the estimated future cash flows.

*(i) Short-term employee benefit obligations*

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. The expected cost of short-term employee benefits in the form of compensated absences such as annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

*(ii) 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.



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**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(s) Employee benefits (Continued)**

*(iii) Share-based payments*

The Company operates a equity-settled share-based compensation plan, under which the Company receives services from its Chief Executive Officer as consideration for equity instruments (options) of the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to:
- the fair value of the options granted and market performance conditions; and
- the impact of service and non-market performance vesting conditions.

At the end of each reporting period, the Company revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity. If an equity award is forfeited, for example, when the vesting conditions (other than market conditions) have not been met, any expense not yet recognised for that award, as at the date of forfeiture, is treated as if it had never been recognised. At the same time, any expense previously recognised on such cancelled equity awards are reversed effective as at the date of forfeiture.

If the terms of an equity-settled award are modified, at a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the CEO, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.



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## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (t) Share capital

Ordinary share capital and preference share capital is classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Costs which are not directly attributable to the issue of new shares are shown as an expense and included in administrative expenses in the statement of comprehensive income.

Where the Company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

### (u) Distributions

Dividends to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are approved but not distributed at reporting date.



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## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (v) Statement of cash flows

The statement of cash flows has been prepared using the direct approach.

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts (if any) are shown in current liabilities on the statement of financial position.

Cash flows from related party receivables and payables and borrowings have been netted to provide meaningful disclosure to better reflect the activities of party providing the funding.

The following are the definitions of the terms used in the statement of cash flows:

*Operating activities*

Operating activities include all transactions and other events that are not investing or financing activities.

*Investing activities*

Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment, intangible assets and of investments. Investments can include securities not falling within the definition of cash.

*Financing activities*

Financing activities are those activities that result in changes in the size and composition of the capital structure. This includes both equity and debt not falling within the definition of cash. Dividends paid (if any) in relation to the capital structure are included in financing activities.

### (w) Adoption of new and amended accounting standards that are mandatory for first time adoption

The following new standards, amendments and interpretations issued that are mandatory for first time adoption for accouting periods beginning on or after 1 April 2014:

(i) Amendments to NZ IAS 32, 'Financial Instruments: Presentation', clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The adoption of this amendment did not have any presentation or disclosure impacts on the Company's financial statements.

No other new standards, amendments and interpretations to existing standards are mandatory for the first time for the financial period ended 31 March 2015 have been adopted.



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## NOTE 2: ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED BUT NOT EFFECTIVE AT 31 MARCH 2015

The following new standards, amendments and interpretations are issued but not yet effective for the Company's accounting periods beginning on or after 1 April 2014 or later periods. The Company has not early adopted them.

(i) NZ IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. NZ IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of NZ IAS 39 that relate to the classification and measurement of financial instruments. NZ IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow charactristics of the instrument. For financial liabilities, the standard retains most of the NZ IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Company is yet to assess NZ IFRS 9's full impact and intends to adopt NZ IFRS 9 no later than the accounting period beginning on or after 1 April 2018.

(ii) NZ IFRS 15 'Revenue from Contracts with Customers' provides a five-step model to be applied to the recognition of revenue arising from contracts with customers:

- identify the contract with the customer
- identify the performance obligations in the contract
- determine the transaction price
- allocate the transaction price to the performance obligations in the contract; and
- recognise revenue when (or as) the entity satisfies a performance obligation.

The Company is yet to assess NZ IFRS 15's full impact and intends to adopt NZ IFRS 15 no later than the accounting period beginning on or after 1 April 2018.

(iii) NZ IFRS 4 (Amendments to Appendix C of NZ IFRS 4 Insurance Contracts - Life Insurance Entities), 'Insurance Contracts'. The amendments are consistent with the Amendments to the Insurance (Prudential Supervision) Act 2010, Appendix C of NZ IFRS 4 now requires disclosures in relation to the statutory funds of life insurance entities under that Act. In addition, entities are now required to disclose disaggregated information for each life fund (previously entities distinguished only between investment linked business and non-investment linked business). The Company has assessed that the adoption of NZ IFRS 4 (Amendments) will have a disclosure only impact on the Company's financial statements. The Company intends to adopt NZ IFRS 4 (Amendments to Appendix C of NZ IFRS 4 Insurance Contracts - Life Insurance Entities no later than the accounting period beginning on or after 1 April 2015.



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## NOTE 3: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the application of NZ IFRS, the Board of Directors and management are required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments. Actual results may differ from the estimates, judgments and assumptions made by the Board of Directors and management.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Judgments made by management in the application of NZ IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

In particular, information about significant areas of estimation uncertainty that have the most significant effect on the amount recognised in the financial statements is outlined below:

### (a) Life insurance contract assets / (liabilities)

Refer to note 23 for more detail on the valuation of the life insurance contract assets / (liabilities) judgments, estimates and assumptions applied.

On 17 December 2014, the Reserve Bank of New Zealand ("RBNZ") issued a Revised Solvency Standard in respect of the treatment of financial reinsurance arrangements which commenced 1 January 2015. The Company has assessed that this standard will have a disclosure only impact on the Company's financial statements as any repayable amount relating to financial reinsurance is already calculated within the life insurance contract assets / (liabilities) framework.



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## NOTE 3: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

### (b) Current and deferred income taxes

There are certain transactions and computations for which the ultimate tax determination may be different from the initial estimate. The Company recognises tax liabilities based on its understanding of the prevailing tax laws and estimates of whether such taxes will be due in the ordinary course of business. Where the final outcome of these matters is different from the amounts that were initially recognised, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made. Refer also note 6.

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted. To determine the future taxable profits, reference is made to the latest forecasts of future earnings of the Company. Where the temporary differences are related to losses, relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits. Refer also to note 6.

### (c) Fair value of the equity instruments granted under share based arrangements

Refer to note 18 for more detail on the valuation of the Company's equity instuments for the purpose of share based payments, judgments, estimates and assumptions applied.



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## NOTE 4: FINANCIAL RISK MANAGEMENT

The Company is exposed to a variety of financial risks comprising:

(a) Interest rate risk;
(b) Credit risk;
(c) Liquidity risk; and
(d) Market risk

The board of directors have overall responsibility for identifying and managing operational and financial risks.

The Company holds the following financial instruments:

| | 31 March 2015 $ | 31 March 2014 $ |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | 3,575,363 | 1,739,206 |
| Receivables | 515,673 | 443,469 |
| Financial assets at fair value through profit and loss | 1,574,796 | 1,099,360 |
| | 5,665,832 | 3,282,035 |
| **Financial liabilities** | | |
| Payables | 1,510,102 | 1,237,507 |
| | 1,510,102 | 1,237,507 |

### (a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates.

The Company's exposure to interest rate risk arises mainly from its interest earning cash and term deposits, and its New Zealand Government Bond. The Company's exposure to interest rate risk is to the extent that it invests for a fixed term at fixed rates. The Company's policy is to obtain the most favourable term and interest rate available.

Cash deposits and term deposits are subject to market risk in the event of changes in interest rates. As these securities are carried at net market value, the effective interest rate is reflected in the market price. By investing with registered banks and short term New Zealand Government Bonds the Company minimises the impact of market interest rate fluctuations.



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**NOTE 4: FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(a) Interest rate risk (Continued)**

The Company's exposure to interest rate risk in relation to future cashflows and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

**31 March 2015**

| **Financial instruments** | **Interest bearing** $ | **Weighted average effective interest rate** |
|---|---|---|
| *Financial assets* | | |
| Cash | 3,575,363 | 3.2 % Floating |
| Financial assets at fair value through profit and loss | 1,574,796 | 5.0 % Fixed |
| | 5,150,159 | |

**31 March 2014**

| **Financial instruments** | **Interest bearing** $ | **Weighted average effective interest rate** |
|---|---|---|
| *Financial assets* | | |
| Cash | 1,739,206 | 0.9 % Floating |
| Financial assets at fair value through profit and loss | 1,099,360 | 4.9 % Fixed |
| | 2,838,566 | |

No other financial assets or financial liabilities are expected to be exposed to interest rate risk.

***Sensitivity***

If interest rates were to increase/decrease by 100 basis points from rates used to determine fair values as at the reporting date, assuming all other variables that might impact on fair value remain constant, then the impact on profit for the year and equity is as follows:

| | **31 March 2015** | **31 March 2014** |
|---|---|---|
| + / - 100 basis points | $ | $ |
| Impact on profit before tax | 51,502 | 28,836 |
| Impact on equity | 37,081 | 20,438 |



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**NOTE 4: FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(b) Credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

The Company's exposure to credit risk, or the risk of counterparties defaulting arises mainly from cash at bank, trade and other receivables, reinsurance receivables and term investments.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date of recognised financial assets is the carrying amount of those assets, net of any provisions for impairment of those assets, as disclosed in statement of financial position and notes to financial statements.

With the exception of the cash deposits (refer note 8) and other financial instruments (refer note 10), the Company does not have any other material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Company. Credit risk expsosure in relation to cash deposits and other financial instruments is limited to institutions with minimum AA Standard and Poors credit ratings.

*(i) Cash deposits (refer note 8)*

Credit risk for cash deposits is managed by holding all cash deposits with high credit rating financial institutions (i.e. major registered New Zealand banks; ASB Bank Limited and ANZ Bank New Zealand Limited all with a Standard and Poors rating of AA- 'outlook stable').

*(ii) Trade receivables and other receivables (refer note 9)*

Credit risk for trade receivables is managed by dealing exclusively with high credit rating counterparties. Outstanding receivables are regularly monitored for payment in accordance with credit terms.

The aging analysis of trade and other receivables is provided in Note 9. As the Company undertakes transactions with a large number of customers and regularly monitors payment in accordance with credit terms, the financial assets that are neither past due nor impaired, are expected to be received in accordance with the credit risk.

The Company minimises concentrations of credit risk in relation to trade receivables by undertaking transactions with a large number of customers throughout the New Zealand.

*(iii) Reinsurance receivables (refer note 9)*

Credit risk for reinsurance receivables is managed by dealing exclusively with A rated or above (Standard & Poors) international reinsurers.

*(iv) Other financial instruments (refer note 10)*

Credit risk is managed for other financial instruments by dealing exclusively with A rated or above (Standard & Poors) counterparties. The New Zealand Government Bond has a Standard and Poors rating of AA 'outlook stable' and the ASB Bank Limited and ANZ Bank New Zealand Limited term deposits have Standard and Poors ratings of AA- 'outlook stable'.



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**NOTE 4: FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(c) Liquidity risk**

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

The Company monitors its liquidity position on a continuous basis and plans its operating activities to ensure a balanced liquidity position. The Company practices prudent risk management by maintaining sufficient cash balances. If necessary the Company will build up cash reserves to meet longer term liabilities.

**Maturity analysis**

The table below represents the undiscounted contractual settlement terms for financial instruments and and insurance contract assets/(liabilities) and managements expectation for settlement of undiscounted maturities.

| 31 March 2015 | < 6 months | 6-12 months | 1-5 years | Total contractual cash flows | Carrying amount |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Cash and cash equivalents | 3,575,363 | - | - | 3,575,363 | 3,575,363 |
| Receivables | 515,673 | - | - | 515,673 | 515,673 |
| Financial assets at fair value through profit or loss | 1,574,796 | - | - | 1,574,796 | 1,574,796 |
| Life insurance contract assets | - | - | 44,878,749 | 44,878,749 | 44,878,749 |
| Payables | (1,510,102) | - | - | (1,510,102) | (1,510,102) |
| Liabilities ceded under reinsurance contracts | - | - | (23,710,050) | (23,710,050) | (23,710,050) |
| Net maturities | 4,155,730 | - | 21,168,699 | 25,324,429 | 25,324,429 |

| 31 March 2014 | < 6 months | 6-12 months | 1-5 years | Total contractual cash flows | Carrying amount |
|---|---|---|---|---|---|
| Cash and cash equivalents | 1,739,206 | - | - | 1,739,206 | 1,739,206 |
| Receivables | 443,469 | - | - | 443,469 | 443,469 |
| Financial assets at fair value through profit or loss | 19,370 | 579,990 | 500,000 | 1,099,360 | 1,099,360 |
| Life insurance contract assets | - | - | 36,414,834 | 36,414,834 | 36,414,834 |
| Payables | (1,237,507) | - | - | (1,237,507) | (1,237,507) |
| Liabilities ceded under reinsurance contracts | - | - | (20,494,342) | (20,494,342) | (20,494,342) |
| Net maturities | 964,538 | 579,990 | 16,420,492 | 17,965,020 | 17,965,020 |



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## NOTE 4: FINANCIAL RISK MANAGEMENT (CONTINUED)

### (d) Market risk

The carrying value of all financial assets and liabilities not measured at fair value approximates their fair values as they are either short term in nature or rate insensitive.

*Cash and cash equivalents*

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

*Trade and other receivables*

These assets are short term in nature and are reviewed for impairment; the carrying value approximates their fair value.

*Trade and other payables*

These liabilities are short term in nature; the carrying value approximates their fair value.

**Fair value hierarchy**

NZ IFRS 7 specifies a hierarchy of valuation measurements based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

*Level 1:*
Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, New Zealand Stock Exchange) and exchanges traded derivatives like futures (for example, Nasdaq, S&P 500).

*Level 2:*
Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of over the counter derivative contracts, traded loans, issued structured debt and term deposits. The sources of input parameters for yield curves or counterparty credit risk are Bloomberg or Reuters.

*Level 3:*
Inputs for asset and liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.



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## NOTE 4: FINANCIAL RISK MANAGEMENT (CONTINUED)

### (d) Market risk (Continued)

#### Fair value hierarchy (Continued)

This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.

**31 March 2015**

| | Level 1 $ | Level 2 $ | Level 3 $ | Total $ |
|---|---|---|---|---|
| *Financial assets at fair value through profit and loss* | | | | |
| - Term deposit - ASB Bank New Zealand | - | 1,074,031 | - | 1,074,031 |
| - New Zealand Government Bond | 500,765 | - | - | 500,765 |
| | 500,765 | 1,074,031 | - | 1,574,796 |

**31 March 2014**

| | Level 1 $ | Level 2 $ | Level 3 $ | Total $ |
|---|---|---|---|---|
| *Financial assets at fair value through profit and loss* | | | | |
| - Term deposit - ANZ Bank New Zealand | - | 579,990 | - | 579,990 |
| - New Zealand Government Bond | 519,370 | - | - | 519,370 |
| | 519,370 | 579,990 | - | 1,099,360 |



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| | Note | 12 months to 31 March 2015 $ | 11 months to 31 March 2014 $ |
|---|---|---|---|
| **NOTE 5: EXPENSES** | | | |
| Management fees: | | | |
| - Policy acquisition | | 617,772 | 555,928 |
| - Policy maintenance | | 179,353 | 161,399 |
| - Taut Limited | | - | 350,945 |
| | | 797,125 | 1,068,272 |
| Depreciation: | | | |
| - Plant and equipment | 12 | 12,200 | 14,669 |
| - Furniture and fittings | 12 | 2,034 | 2,228 |
| | | 14,234 | 16,897 |
| Amortisation: | | | |
| - Computer software | 13 | 137,963 | 173,020 |
| Employee benefits: | | | |
| - Short term benefits | | 776,925 | 555,966 |
| - Share based payments | 19, 20 | 92,297 | - |
| | | 869,222 | 555,966 |
| Administrative expenses: | | | |
| - Director fees | 20 | 117,786 | 134,989 |
| - Legal and accounting | | 132,896 | 141,756 |
| - Actuarial | | 210,064 | 159,267 |
| - Repairs and maintenance | | 109,818 | 85,943 |
| - Remuneration of KPMG | | 125,604 | 104,291 |
| - Capital raising costs and Pinnacle Life Limited company set up costs | | 32,570 | 22,617 |
| - Regulatory charges | | 45,850 | 42,086 |
| - Insurance | | 50,952 | 5,246 |
| - Other consultants | | 214,938 | 34,618 |
| - Other expenses | | 236,083 | 171,256 |
| | | 1,276,561 | 902,069 |



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| | Note | 12 months to 31 March 2015 $ | 11 months to 31 March 2014 $ |
|---|---|---|---|
| **NOTE 5: EXPENSES (CONTINUED)** | | | |
| Remuneration of KPMG for: | | | |
| *Audit and assurance services:* | | | |
| - Audit of Company financial statements - current period | | 67,922 | 58,190 |
| - Audit of Company financial statements - prior period | | 34,280 | - |
| - Audit of financial statements - The Pinnacle Life Partnership | | - | 13,800 |
| - Audit of solvency return | | 23,402 | 20,801 |
| *Other services:* | | | |
| - Taxation and accounting services | | - | 11,500 |
| | | 125,604 | 104,291 |

| | 12 months to 31 March 2015 $ | 11 months to 31 March 2014 $ |
|---|---|---|
| **NOTE 6: INCOME TAX** | | |
| **(a) Components of tax (benefit) / expense** | | |
| Current tax | - | - |
| Deferred tax | (521,736) | (865,839) |
| | (521,736) | (865,839) |
| **(b) Prima facie tax payable** | | |
| The prima facie tax payable on profit before income tax is reconciled to the income tax (benefit) / expense as follows: | | |
| Prima facie income tax payable on profit before income tax at 28.0% | 1,248,643 | (380,324) |
| Actuarial adjustments: | | |
| - Grandfathering adjustment | (661,630) | (591,738) |
| - Expected death strain/premium loading profit | 137,221 | 125,343 |
| Reinsurance quota share related adjustments: | | |
| - Repayment of reinsurance advance - non-deductible | 151,738 | 133,172 |
| - Commission in advance - non assessable | (38,986) | (32,423) |
| - Reinsurance fees | (86,346) | (78,653) |
| Net movement in life insurance and reinsurance contract assets/(liabilities) | (1,322,063) | (43,253) |
| GST content of net premiums included in income | (7,746) | (6,119) |
| Non deductible expenses | 36,744 | 8,156 |
| Deductible preference share distribution | 20,689 | - |
| Income tax expense attributable to profit | (521,736) | (865,839) |



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| | Note | 31 March 2015 $ | 31 March 2014 $ |
|---|---|---|---|

## NOTE 6: INCOME TAX (CONTINUED)

### (c) Deferred tax

Deferred tax relates to the following:

| | Note | 31 March 2015 $ | 31 March 2014 $ |
|---|---|---|---|
| *Deferred tax assets* | | | |
| The balance comprises: | | | |
| Employee benefits | | 4,133 | 3,051 |
| Provisions | | 28,110 | 32,674 |
| Tax losses recognised | | 1,139,698 | 467,045 |
| Total deferred tax assets | | 1,171,941 | 502,770 |
| *Deferred tax liabilities* | | | |
| The balance comprises: | | | |
| Deferred acquisition costs | | 712,258 | 564,823 |
| Total deferred tax liabilities | | 712,258 | 564,823 |
| Net deferred tax assets / (liabilities) | | 459,683 | (62,053) |

Deferred tax assets and liabilities are recognised to the extent that the realisation of the related benefit / outflow through future taxable income / expense is probable. The ability to utilise these tax losses depends on the generation of sufficient assessable income and the statutory requirement for shareholder continuity being met.

| | 12 months to 31 March 2015 $ | 11 months to 31 March 2014 $ |
|---|---|---|
| **(d) Deferred income tax (revenue)/expense included in income tax expense comprises** | | |
| Decrease / (increase) in deferred tax assets | (669,171) | (502,770) |
| (Decrease) / increase in deferred tax liabilities | 147,435 | (363,069) |
| | (521,736) | (865,839) |

## NOTE 7: IMPUTATION CREDIT ACCOUNT

| | | |
|---|---|---|
| Opening balance | - | - |
| At reporting date | - | - |

| | Note | 31 March 2015 $ | 31 March 2014 $ |
|---|---|---|---|
| **NOTE 8: CASH AND CASH EQUIVALENTS** | | | |
| Cash at bank - on call | | 3,315,321 | 1,359,401 |
| Cash at bank - other | | 260,042 | 379,805 |
| | | 3,575,363 | 1,739,206 |
| | | | |
| **NOTE 9: RECEIVABLES** | | | |
| CURRENT | | | |
| Trade debtors | | - | 89,602 |
| Reinsurance commission receivable | | 139,237 | - |
| Reinsurance recoveries receivable | | 353,164 | 207,500 |
| Other receivables | | 23,272 | 146,367 |
| | | 515,673 | 443,469 |

**Aged analysis**

Trade and other receivables ageing analysis at 31 March is:

| | Gross 12 months to 31 March 2015 $ | Impairment 12 months to 31 March 2015 $ | Gross 11 months to 31 March 2014 $ | Impairment 11 months to 31 March 2014 $ |
|---|---|---|---|---|
| Not past due * | 515,673 | - | 443,469 | - |
| | 515,673 | - | 443,469 | - |

* Receivables that are 'not past due' as those that are within trading terms of 0 to 30 days.

| | Note | 31 March 2015 $ | 31 March 2014 $ |
|---|---|---|---|
| **NOTE 10: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS** | | | |
| CURRENT | | | |
| *Financial assets at fair value through profit and loss* | | | |
| Term deposit - ANZ Bank New Zealand | (i) | - | 579,990 |
| Term deposit - ASB Bank New Zealand | (ii) | 1,074,031 | - |
| | | 1,074,031 | 579,990 |
| New Zealand Government Bond | (iii) | 500,765 | 519,370 |
| Total financial assets at fair value through profit and loss | | 1,574,796 | 1,099,360 |

All financial assets at fair value through profit and loss are designated on initial recognition.

**(i) Term deposit - ANZ Bank New Zealand**

As at 31 March 2014, the term deposit bore an interest rate of 3.85% per annum, this deposit matured on 1 July 2014.

**(ii) Term deposit - ASB Bank New Zealand**

A $750,000 term deposit bearing annual interest rate of 4.50% per annum, maturing on 7 April 2015 and a $300,000 term deposit bear annual interest rate of 4.55% per annum, maturing on 11 May 2015.

**(iii) New Zealand Government Bond**

The New Zealand Government Bond represents a deposit with the New Zealand Reserve Bank amounting to $500,000 at par which earns interest at a rate of 6.00% and matures on 15 April 2015.

**NOTE 11: OTHER ASSETS**

| | 31 March 2015 $ | 31 March 2014 $ |
|---|---|---|
| CURRENT | | |
| Prepayments | 63,318 | 71,741 |
| GST receivable | 56,957 | 32,939 |
| | 120,275 | 104,680 |



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| | Note | 31 March 2015 $ | 31 March 2014 $ |
|---|---|---|---|

## NOTE 12: PROPERTY, PLANT AND EQUIPMENT

| | Note | 31 March 2015 $ | 31 March 2014 $ |
|---|---|---|---|
| **Plant and equipment** | | | |
| Plant and equipment at cost | | 46,663 | 33,232 |
| Accumulated depreciation | | (26,869) | (14,669) |
| | | 19,794 | 18,563 |
| Furniture, fixtures and fittings at cost | | 14,266 | 14,266 |
| Accumulated depreciation | | (4,260) | (2,226) |
| | | 10,006 | 12,040 |
| Total property, plant and equipment | | 29,800 | 30,603 |

### (a) Reconciliations

Reconciliation of the carrying amounts of property, plant and equipment at the beginning and end of the current financial period

| | Note | 12 months to 31 March 2015 $ | 11 months to 31 March 2014 $ |
|---|---|---|---|
| *Plant and equipment* | | | |
| Opening carrying amount | | 18,563 | 33,232 |
| Additions | | 13,431 | - |
| Depreciation expense | 5 | (12,200) | (14,669) |
| Closing carrying amount | | 19,794 | 18,563 |
| *Furniture, fixtures and fittings* | | | |
| Opening carrying amount | | 12,040 | 14,266 |
| Depreciation expense | 5 | (2,034) | (2,226) |
| Closing carrying amount | | 10,006 | 12,040 |



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| | Note | 31 March 2015 $ | 31 March 2014 $ |
|---|---|---|---|
| **NOTE 13: INTANGIBLE ASSETS** | | | |
| Computer software at cost | | 452,910 | 417,198 |
| Accumulated amortisation and impairment | | (310,983) | (173,020) |
| | | 141,927 | 244,178 |
| Computer software under development at cost | | 20,787 | - |
| Accumulated amortisation and impairment | | - | - |
| | | 20,787 | - |
| Total intangible assets | | 162,714 | 244,178 |

| | Note | 12 months to 31 March 2015 $ | 11 months to 31 March 2014 $ |
|---|---|---|---|
| **(a) Reconciliations** | | | |
| Reconciliation of the carrying amounts of intangible assets at the beginning and end of the current financial period | | | |
| *Computer software* | | | |
| Opening balance | | 244,178 | 345,404 |
| Additions | | 35,712 | 71,794 |
| Amortisation expense | 5 | (137,963) | (173,020) |
| Closing balance | | 141,927 | 244,178 |
| *Computer software under development* | | | |
| Opening balance | | - | - |
| Additions | | 20,787 | - |
| Closing balance | | 20,787 | - |



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## NOTE 14: PAYABLES

| | Note | 31 March 2015 $ | 31 March 2014 $ |
|---|---|---|---|
| CURRENT | | | |
| Trade creditors | | 718,426 | 704,142 |
| Commissions payable | | 51,737 | 16,326 |
| Claims payable | | 501,329 | 287,855 |
| Management fees | | - | 74,750 |
| Other payables | | 238,610 | 154,434 |
| | | 1,510,102 | 1,237,507 |

## NOTE 15: PROVISIONS

| | 31 March 2015 $ | 31 March 2014 $ |
|---|---|---|
| CURRENT | | |
| Other employee entitlements | 19,411 | 14,710 |
| Claims | 40,000 | 26,000 |
| | 59,411 | 40,710 |

**(a) Reconciliations**

Reconciliation of the carrying amounts of provisions at the beginning and end of the current financial year

| | 12 months to 31 March 2015 $ | 11 months to 31 March 2014 $ |
|---|---|---|
| *Claims (current)* | | |
| Opening balance | 26,000 | 26,000 |
| Additional amounts recognised | 14,000 | - |
| Closing balance | 40,000 | 26,000 |

## NOTE 16: OTHER LIABILITIES

| | 31 March 2015 $ | 31 March 2014 $ |
|---|---|---|
| CURRENT | | |
| Premiums received in advance | 1,104,844 | 1,049,762 |
| | 1,104,844 | 1,049,762 |



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| | Note | 31 March 2015 $ | 31 March 2014 $ |
|---|---|---|---|
| **NOTE 17: SHARE CAPITAL** | | | |
| Issued and paid-up capital | | | |
| 7,689,514 (2014: 8,314,514) Ordinary shares | (a) | 15,684,417 | 17,684,417 |
| 937,500 (2014: -) Series A convertible preference shares | (b) | 2,762,819 | - |
| 500,000 (2014: -) Series B convertible preference shares | (c) | 1,978,287 | - |
| | | 20,425,523 | 17,684,417 |

**Ordinary shares**

Ordinary shares are fully paid and have no par value. The holder of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company, and rank equally with regards to the Company's residual assets.

**Series A convertible preference shares**

The Series A convertible preference shares have the following terms and rights:
- Each share has a par value of $3.20 per share;
- Each share will convert one for one to ordinary shares on conversion;
- Convertible at any time by the holder; by the Company only on occurrence of an IPO or successful trade sale;
- The holder can decline the offer to convert if the implied value is below $3.20 at the time that the conversion offer is made by the Company;
- Carry a fixed non-cumulative dividend of 32 cents per share (less dividend withholding tax), with the Company holding full discretion over the payment of the dividend.
- On a winding up of the Company they will rank for payment ahead of ordinary shares with regards to the Company's residual assets; and
- Carry no voting rights at meetings of the Company.

**Series B convertible preference shares**

The Series B convertible preference shares have the following terms and rights:
- Each share has a par value of $4.00 per share;
- Each share will convert one for one to ordinary shares on conversion;
- The holder can convert at any time, whereas the Company can only convert 5 years after the issue date of the Series B convertible preference shares, on occurrence of an IPO or successful trade sale;
- Carry a fixed non-cumulative dividend of 40 cents per share (less dividend withholding tax), with the Company holding full discretion over the payment of the dividend.
- On a winding up of the Company they will rank for payment ahead of ordinary shares with regards to the Company's residual assets; and
- Carry no voting rights at meetings of the Company.



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## NOTE 17: SHARE CAPITAL (CONTINUED)

| | | | 12 months to 31 March 2015 | | 11 months to 31 March 2014 | |
|---|---|---|---|---|---|---|
| | | Note | Number | $ | Number | $ |
| **(a) Ordinary shares** | | | | | | |
| Opening balance - fully paid | | | 8,314,514 | 17,684,417 | 1 | - |
| Shares issued: | | | | | | |
| 1 May 2013 | - fully paid | (i) | - | - | 8,149,513 | 17,333,472 |
| 1 May 2013 | - fully paid | (ii) | - | - | 165,000 | 350,945 |
| | | | - | - | 8,314,513 | 17,684,417 |
| Shares cancelled: | | | | | | |
| 20 February 2015 | | (iii) | (625,000) | (2,000,000) | - | - |
| | | | (625,000) | (2,000,000) | - | - |
| Closing balance | | | 7,689,514 | 15,684,417 | 8,314,514 | 17,684,417 |

## NOTE 17: SHARE CAPITAL (CONTINUED)

### (a) Ordinary shares (Continued)

**Movements**

***Shares issued***

In accordance with the 'Agreement for the transfer of the Pinnacle Life Insurance Partnership Business' dated 1 May 2013, the following issues of ordinary share capital took place:

(i) The Company acquired the business operations, assets and liabilities of the Pinnacle Life Insurance Partnership (refer to note 1 (a) and 22), the consideration for this transfer was the issue of 8,149,513 ordinary shares in the Company to Pinnacle Life Custodial Services Limited, the value of the net assets acquired was $17,333,472. Pinnacle Life Custodial Services Limited holds these shares in trust for the partners of the Pinnacle Life Partnership, in proportion to each partners respective contributions as at 1 May 2013.

(ii) The Company satisfied the 'termination payment' due to Taut Limited (refer to note 19) upon a sale or other disposition of the business of the Pinnacle Life Insurance Partnership arising pursuant to clause 5.5 of the Partnership Deed, the consideration for this termination payment was the issue of 165,000 ordinary shares in the Company to Pinnacle Life Custodial Services Limited, the value of the termination payment was $350,945. Pinnacle Life Custodial Services Limited holds these shares in trust for Taut Limited.

***Shares cancelled***

(iii) In accordance with the 'Pinnacle Life Limited disclosure document for offer by Company to acquire its own shares pursuant to section 61 of the Companies Act 1993' dated in November 2014 and the 'Written Resolution of Directors' dated 5 November 2014, the following cancellations ordinary share capital took place:

On 20 February 2015, the Company purchased 625,000 ordinary shares of the Company held by Noel Vaughan (refer note 19) for $2,000,000 and issued Noel Vaughan 500,000 convertible preference shares ('Series B convertible preference shares') of the Company (refer also note 17(c) below) for $2,000,000. Pinnacle Life Custodial Services Limited holds these shares in trust for Noel Vaughan.



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| | Note | 12 months to 31 March 2015 Number | $ | 11 months to 31 March 2014 Number | $ |
|---|---|---|---|---|---|

**NOTE 17: SHARE CAPITAL (CONTINUED)**

| | Note | 12 months to 31 March 2015 Number | $ | 11 months to 31 March 2014 Number | $ |
|---|---|---|---|---|---|
| **(b) Series A convertible preference shares** | | | | | |
| Opening balance | | - | - | - | - |
| Shares issued: | | | | | |
| 20 February 2015 | (i) | 156,250 | 500,000 | - | - |
| 20 February 2015 | (i) | 31,250 | 100,000 | - | - |
| 31 March 2015 | (ii) | 750,000 | 2,400,000 | - | - |
| Transaction costs relating to shares issued, net of tax | | - | (237,181) | - | - |
| | | 937,500 | 2,762,819 | - | - |
| At reporting date - fully paid | | 937,500 | 2,762,819 | - | - |

**Movements**

In accordance with the 'Pinnacle Life Limited Preference Share Offer' dated 12 November 2014, *(This Offer is exempt from the requirements of Part 2 of the Securities Act so that the registration of a prospectus and the issue of an investment statement is not required for the Offer)* the following issues of Series A convertible preference shares took place:

(i) On 20 February 2015, the Company issued 156,250 and 31,250, to Jack Porus and the CEO respectively, Series A convertible preference shares of the Company.

(ii) On 31 March 2015, the Company issued 750,000, Series A convertible preference shares of the Company to qualifying investors. "Qualifying Investors" are people who satisfy the "wealthy person" requirements under the Securities Act or persons who are not considered to be members of the public under section 3(2)(a)(ii) of the Securities Act.



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| | Note | 12 months to 31 March 2015 Number | $ | 11 months to 31 March 2014 Number | $ |
|---|---|---|---|---|---|
| **NOTE 17: SHARE CAPITAL (CONTINUED)** | | | | | |
| **(c) Series B convertible preference shares** | | | | | |
| Opening balance | | - | - | - | - |
| Shares issued: | | | | | |
| 20 February 2015 | (i) | 500,000 | 2,000,000 | - | - |
| Transaction costs relating to shares issues | | - | (21,713) | - | - |
| | | 500,000 | 1,978,287 | - | - |
| At reporting date - fully paid | | 500,000 | 1,978,287 | - | - |

**Movements**

In accordance with the 'Written Resolution of Directors' dated 5 November 2014, the following issues of Series B convertible preference shares took place:

(i) On 20 February 2015, the Company repurchased 625,000 ordinary shares of the Company held by Noel Vaughan (refer note 19) in exchange for 500,000 Series B convertible preference shares of the Company for $2,000,000 (refer also note 17 (a) above).

## NOTE 17: SHARE CAPITAL (CONTINUED)

### Capital management

The Company considers its capital to comprise its ordinary share capital, accumulated retained earnings and solvency capital.

The Company's capital management objectives are to:

- Maintain an 'actual solvency capital' that exceeds the 'minimum solvency capital' requirements per the 'Solvency Standard for Life Insurance Business' issued by the Reserve Bank of New Zealand ('RBNZ') per the on-going licensing requirements of the Company's licence to carry on insurance business in New Zealand issued by the RBNZ 29 April 2013 under section 19 of the Insurance (Prudential Supervision) Act 2010 (IPSA);
- Maintain a strong capital base to protect life insurance contract policyholders;
- Maintain a strong credit rating; and
- Ensure equity holder objectives are met, the primary of which is to ensure the Company's continued ability to provide a consistent return to its equity shareholders through a combinations of capital growth and distributions.

The Company manages its capital by considering the return on capital reported under the New Zealand equivalents to International Financial Reporting Standards and projections of the solvency capital margin.

In order to achieve these objectives the Company seeks to maintain gearing and solvency ratios that balance risks and returns at an acceptable level and also to maintain a sufficient funding base to enable to Company to meet its working capital and strategic investment needs.

In making decisions to adjust its capital structure to achieve these aims, either through altering its dividend policy, or new share issue, the Company takes into consideration not only its short term position but also its long term operational and strategic objectives.

During the period ended 31 March 2014 and 31 March 2015, the Company has maintained compliance with all externally imposed capital and licensing requirements.

Refer to note 23 (g) and 24 for the Company's solvency capital disclosures required by the IPSA.

During the period ended 31 March 2015, the Company declared/paid dividends of:

- $Nil (2014: $Nil) to ordinary shareholders;
- 3.556 cents per share totaling $6,667 (2014: $Nil) to Series A convertible preference shareholders; and
- 13.444 cents per share totaling $67,222 (2014: $Nil) to Series B convertible preference shareholders.

## NOTE 18: SHARE BASED PAYMENTS

### The CEO LTI Scheme

During September 2014, as part the Company's Chief Executive Officer ('the CEO')) long term incentive scheme, the Company entered into the following two agreements with the CEO, being the 'Pinnacle Life Limited Executive Share Scheme Agreement' ('the Executive Share Scheme Agreement') and 'Loan Agreement between parties Pinnacle Life ('the Lender') and the CEO ('the Borrower')' ('the Loan Agreement') (collectively 'the CEO LTI Scheme').

The CEO LTI Scheme is structured through a loan to the CEO, a loan from the Company ('the Employee Loan'), to be used soley for the purpose of purchasing ordinary shares ('LTI Shares') in the Company as consideration for the services the Company receives from the CEO. The CEO also has the option of purchasing a specified amount of LTI Shares outright (i.e. without use of the Employee Loan).

While the Employee Loan remains outstanding, all dividends on the LTI Shares purchased by the CEO and all bonuses paid to the CEO must be applied to reducing the outstanding principal of the Loan. The Employee Loan is interest free while the CEO is an employee of the Company. As the Loan Agreement to purchase the LTI Shares was recourse only to the LTI Shares (i.e. not full recourse) the CEO LTI Scheme has been recognised as an equity-settled share-based payment transaction and treated as an option.

If the CEO ceases to be employed by the Company (except in specified circumstances) prior to 1 December 2017, all LTI Shares (except those purchased without using the Employee Loan) must be returned to the Company (and in turn the Company must return all payments made on the Shares, including dividends and bonuses automatically applied to the Shares).

If the CEO is still employed by the Company at 1 December 2017, the Shares being held in Trust are to be transferred to the CEO.

If the CEO sells or otherwise transfers a portion of the Shares (except those purchased without using the Employee Loan) after 1 December 2017, an equivalent portion of the Employee Loan becomes immediately repayable.

The Employee Loan is limited to the value of the LTI Shares at any point in time (i.e.the liability under the Loan will never exceed the amount drawn).

There are nine tranches of options to be granted to the CEO which are conditional upon the CEO meeting the agreed performance conditions of each tranche. The first seven tranches will vest on 1 December 2017 and the last two tranches will vest immediately upon being granted on 31 March 2018. Tranche one share options were issued on inception of the CEO LTI Scheme in September 2014 and tranches two to nine share options are to be issued on between 31 March 2015 to 31 March 2018.

The fair value of the share options granted to the CEO during the year, being tranches one and two, was $309,060. The total expense recognised through the income statement for these share options granted was $92,297 (refer to note 5).



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**NOTE 18: SHARE BASED PAYMENTS (CONTINUED)**

**The CEO LTI Scheme (continued)**

The fair value of the share options granted was determined using the discounted cash flow ("DCF") model whereby the value of the share options to be granted at each tranche has been discounted to the valuation date at a discount rate reflecting the risk of the return expected by holders of the equity instrument. It is expected that the share options will be exercised by the employee upon vesting. Significant assumptions used in the DCF model include:

- valuation date of 3 September 2014 being the date of the employment agreement when share options were committed by the Company to the employee;
- weighted average cost of capital post tax at 9% p.a.; and
- all performance conditions are met at the grant date of each tranche of option.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Options Number | Average exercise price per share option $ | Options Number | Average exercise price per share option $ |
| Opening balance | - | - | - | - |
| *Granted* | | | | |
| - 7 November 2014 | 100,000 | 3.20 | - | - |
| - 31 March 2015 | 50,000 | 3.26 | - | - |
| Closing balance | 150,000 | 3.22 | - | - |

Out of the 150,000 share options outstanding at reporting date, none of the options were exercisable.

Subsequent to reporting date, during July 2015, the Company and the Company's Chief Executive Officer (Michelle van Gaalen, 'the CEO') executed a long term incentive scheme in the form of 'Share Option Deed' (the 'Deed'). The effect of the Deed was twofold, as follows:

- Enable the CEO to benefit from an appreciation in the share price of the Company over the period from the date of the Deed through to 31 March 2018, provided certain service and performance conditions are met by the CEO; and
- The Deed cancelled and substituted earlier agreements, being the 'Executive Share Scheme Agreement' and the 'Loan Agreement' as described earlier in this note.

The financial effect of the Deed has been an increase in employee remuneration and the Company's share option reserve of $Nil, which reflects the current period cost of the expected future settlement of the Deed.



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## NOTE 19: RELATED PARTY TRANSACTIONS

The Company had related party dealings with the following related parties:

| Related party | Relationship |
|---|---|
| The Pinnacle Life Insurance Partnership | Common ultimate beneficial owners (shareholders/partners) |
| Pinnacle Life Custodial Services Limited | Company shareholder |
| Jack Porus* | Director and ultimate beneficial company shareholder |
| Noel Vaughan* | Director and ultimate beneficial company shareholder |
| Desmond Victor Shaw* | Ultimate beneficial company shareholder |
| Brian van den Hurk* | Ultimate beneficial company shareholder |
| Leighton Smith* | Ultimate beneficial company shareholder |
| Bill Patterson* | Ultimate beneficial company shareholder |
| Edwin Saul* | Ultimate beneficial company shareholder |
| Steven de Jong* | Ultimate beneficial company shareholder |
| Taut Limited | Ultimate beneficial company shareholder |
| Bemrose Limited | Ultimate beneficial company shareholder |
| Leighton Smith Productions Limited | Common ultimate beneficial shareholders |
| Fifteen01 NZ Limited | Common ultimate beneficial shareholders |
| The Patterson Hopkins Partnership | Common ultimate beneficial owners (shareholders/partners) |
| The Glaister Ennor Partnership | Common ultimate owners (shareholders/partners) |
| Foote, Cone & Belding Limited | Employers of ultimate beneficial company shareholders |
| Michelle van Gaalen | Chief Executive Officer ('CEO) and beneficial company shareholder |

* Pinnacle Life Insurance Partnership partner as at 1 May 2013



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**NOTE 19: RELATED PARTY TRANSACTIONS (CONTINUED)**

**Transactions and balances**

The Company undertook the following transactions with the above related parties during the period:

***Pinnacle Life Custodial Services Limited***
Pinnacle Life Custodial Services Limited holds:
- all 7,689,514 (2014: 8,314,514) ordinary shares of the Company in trust for shareholders;
- all 937,500 Series A convertible preference shares of the Company in trust for shareholders;
- all 500,000 Series B convertible preference shares of the Company in trust for Noel Vaughan.

***Noel Vaughan***
On 20 February 2015, the Company repurchased 625,000 ordinary shares of the Company held by Noel Vaughan in exchange for 500,000 Series B convertible preference shares of the Company for $2,000,000 (refer to note 17).

***Taut Limited***
During the period ended 31 March 2014, the Company also satisfied the 'termination payment' due to Taut Limited (refer to note 17) upon a sale or other disposition of the business of the Pinnacle Life Partnership arising pursuant to clause 5.5 of the Partnership Deed, the consideration for this termination payment was the issue of 165,000 ordinary shares in the Company, the value of the termination payment was $350,945. During the year ended 31 March 2015, there were no payments to Taut Limited.

***- Bemrose Limited***
Management fees, consultant fees and directors fees of $566,002 (2014: $227,125) were charged by Bemrose Limited, a company in which Noel Vaughan is a shareholder. The balance unpaid as at 31 March is $Nil (2014: $74,750). A fee of $173,288 was paid for services provided in relation to the raising of Series A convertible preference share capital (refer to note 17).

***Foote, Cone & Belding Limited (formerly known as Draft FCB Ltd)***
Advertising fees of $440,213 (2014: $225,419) were charged by Foote, Cone & Belding Limited, a company of which Des Shaw was a Senior Consultant and Brian van den Hurk is employed. The balance unpaid as at 31 March is $69,504 (2014: $1,289).

***Leighton Smith Productions Limited***
Advertising fees of $109,250 (2014: $109,250) were charged by Leighton Smith Productions Limited, a company of which Leighton Smith is the sole director. The balance unpaid as at 31 March is $55,750 (2014: $5,750).

***The Patterson Hopkins Partnership***
Legal fees of $Nil (2014: $2,162) were charged by Patterson Hopkins, a Partnership of which Bill Patterson is a partner. The balance unpaid as at 31 March is $Nil (2014: $Nil).

***The Glaister Ennor Partnership***
Legal fees and directors fees of $167,234 (2014: $92,477) were charged by Glaister Ennor, a Partnership of which Jack Porus is a partner. The balance unpaid as at 31 March is $19,596 (2014: $3,715).

***Fifteen01 NZ Limited (formerly known as Intelligent Life Ltd)***
The Company paid software management services and management fees of $460,000 (2014: $421,667) to Fifteen01 NZ Limited, a company of which Edwin Saul and Steven de Jong are directors. The balance unpaid as at 31 March is $38,333 (2014: $38,333).



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## NOTE 19: RELATED PARTY TRANSACTIONS (CONTINUED)

***Michelle van Gaalen***

*(i) Share based payments*

On 7 November 2014 and 31 March 2015, the Company issued the first and second tranches of share options under the the CEO LTI Scheme (refer note 18) to the CEO, the fair value of the share options granted during the year was $92,297.

*(ii) Preference shares*

On 20 February 2015, the Company issued 31,250 Series A convertible preference shares of the Company to the CEO for $100,000 (refer note 17).

***Jack Porus***

*(i) Preference shares*

On 20 February 2015, the Company issued 156,250 Series A convertible preference shares of the Company to Jack for $500,000 (refer note 17).

No related party balances were impaired or written off during the period (2014: $Nil).



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| | 12 months to 31 March 2015 $ | 11 months to 31 March 2014 $ |
|---|---|---|
| **NOTE 20: KEY MANAGEMENT PERSONNEL COMPENSATION** | | |
| Key management includes the directors and the CEO of the Company. | | |
| Compensation and financial assistance received by key management personnel of the company | | |
| - short-term employee benefits | 155,154 | - |
| - directors fees | 117,786 | 134,989 |
| - share based payments | 92,297 | - |
| | 365,237 | 134,989 |

No other compensation was paid or payable to key management personnel of the Company.

The names of directors who have held office during the year are:

| Name | Appointment / resignation details |
|---|---|
| Jack Lee PORUS | Appointed 20 December 2012 |
| Noel Edmund VAUGHAN | Appointed 17 January 2013 |
| Andrew SPENCER | Appointed 23 January 2013 |

The names of key management personnel during the year are:

| Name | Appointment / resignation details | Position |
|---|---|---|
| Michelle VAN GAALEN | Appointed 5 November 2014 | Chief Executive Officer |



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## NOTE 21: CASH FLOW INFORMATION

| | Note | 12 months to 31 March 2015 $ | 11 months to 31 March 2014 $ |
|---|---|---|---|
| **Reconciliation of cash flow from operations with profit after income tax** | | | |
| Profit / (loss) from ordinary activities after income tax | | 4,981,176 | (492,461) |
| **Adjustments and non-cash items** | | | |
| Amortisation | 5 | 137,963 | 173,020 |
| Depreciation | 5 | 14,234 | 16,897 |
| Termination payment made to Taut Limited | 5 | - | 350,945 |
| Share based payments expense | 5 | 92,297 | - |
| Net movement in life insurance and reinsurance contract assets / (liabilities) | 23 | (5,248,207) | 1,142,201 |
| Current tax | | - | - |
| Deferred tax | 6 | (521,736) | (865,839) |
| **Changes in assets and liabilities** | | | |
| (Increase) / decrease in receivables | | (72,205) | (221,552) |
| (Increase) / decrease in financial assets at fair value through profit and loss | | (27,776) | (6,369) |
| (Increase) / decrease in other assets | | (15,595) | 1,311,975 |
| Increase / (decrease) in payables | | 272,595 | (1,568,100) |
| Increase / (decrease) in provisions | | 18,701 | 5,634 |
| Increase / (decrease) in other liabilities | | 55,082 | 76,057 |
| | | (5,294,647) | 414,869 |
| Cash flows from operating activities | | (313,471) | (77,592) |

## NOTE 22: TRANSFER OF THE PINNACLE LIFE INSURANCE PARTNERSHIP BUSINESS OPERATIONS, ASSETS AND LIABILITIES TO PINNACLE LIFE LIMITED

On 1 May 2013, all of the business operations, assets and liabilities of the Pinnacle Life Insurance Partnership were transferred to the Company ('the transfer').

The transfer occurred on 1 May 2013 using the carrying value of the assets and liabilities of the Pinnacle Life Insurance Partnership as at 30 April 2013.

Details of the transfer were:

| | $ |
|---|---|
| Shares issued as consideration | 17,333,472 |
| Total consideration | 17,333,472 |

The consideration for this transfer was the issue of 8,149,513 ordinary shares in the Company to Pinnacle Life Custodial Services Limited, the carrying value of the net assets transferred was $17,333,472. Pinnacle Life Custodial Services Limited holds these shares in trust for the partners of the Pinnacle Life Insurance Partnership, in proportion to each partners respective contributions as at 1 May 2013.

**Assets and liabilities acquired**

Assets and liabilities transferred were:

| | Recognised on transfer at book value $ |
|---|---|
| Assets and liabilities held at transfer date: | |
| - Cash and cash equivalents | 2,445,206 |
| - Receivables and other assets | 1,638,571 |
| - Financial assets at fair value through profit and loss | 536,379 |
| - Life insurance contract assets | 34,486,445 |
| - Property, plant and equipment | 47,498 |
| - Intangible assets | 345,404 |
| - Payables | (2,805,606) |
| - Provisions | (35,076) |
| - Other liabilities | (973,705) |
| - Liabilities ceded under reinsurance contracts | (18,351,644) |
| Net assets acquired | 17,333,472 |
| - Goodwill | - |
| Net assets acquired | 17,333,472 |



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**NOTE 23: ACTUARIAL ANALYSIS**

The Company's Actuary, Murray. A. Hilder, FIA, FIAA, FNZSA, has calculated the life insurance contract assets / (liabilities) and solvency margin for the Company.

The actuary is satisfied as to the accuracy of the data from which the life insurance contract assets / (liabilities) have been determined.

This note summarises the life insurance contract assets / (liabilities) and solvency margin of the Company, the assumptions made and the methods adopted for the calculation of the Company's life insurance contract assets / (liabilities) and solvency margin.

**(a) Life insurance contract assets/ (liabilities)**

Life insurance contract assets / (liabilities) are computed using statistical or mathematical methods, which were calculated for each contract. The computations are made by the Actuary on the basis of recognised actuarial methods, with due regard to relevant actuarial principles. The methodology takes into account the risks and uncertainties of the particular classes of life insurance business written.

The key factors that affect the estimation of these liabilities and related assets are:
- the cost of providing benefits and administering these insurance contracts;
- mortality and morbidity experience on life insurance products;
- discontinuance experience, which affects the Company's ability to recover the cost of managing and acquiring new business over the life of the contracts.

In addition, factors such as regulation, competition, interest rates, taxes, securities market conditions and general economic conditions affect the level of these assets / (liabilities).

Details of specific actuarial policies and methods are set out in note 1.

**(b) Assets and liabilities arising from reinsurance contracts**

Assets and liabilities arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balances are reflective of the amounts that will ultimately be received or paid, taking into consideration factors such as credit risk and interest risk.



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**NOTE 23: ACTUARIAL ANALYSIS (Continued)**

| | 31 March 2015 $ | 31 March 2014 $ |
|---|---|---|
| **(c) Net life insurance contract and reinsurance contract assets / (liabilities)** | | |
| Future policy benefits | (81,688,565) | (67,916,866) |
| Future expenses | (14,448,634) | (9,398,722) |
| Future taxes | (4,892,404) | (3,824,508) |
| Future reinsurance | (23,710,050) | (20,494,342) |
| Future profit margins | (31,159,597) | (29,627,665) |
| Future premiums | 176,355,691 | 146,617,772 |
| Net life insurance contract and reinsurance contracts assets / (liabilities) (including deferred tax) | 20,456,441 | 15,355,669 |
| Deferred tax liability | 712,258 | 564,823 |
| Net policy liabilities (excluding deferred tax) | 21,168,699 | 15,920,492 |

| | 12 months to 31 March 2015 $ | 11 months to 31 March 2014 $ |
|---|---|---|
| **(d) Reconciliation of gross life insurance contract assets / (liabilities)** | | |
| Balance as at the beginning of the period | 35,850,011 | 34,486,445 |
| New life insurance assets / (liabilities) acquired | 3,595,423 | 2,754,112 |
| Adjustment for experience differences | 4,721,057 | (1,390,546) |
| Gross Life Insurance Assets at the end of the period (including deferred tax) | 44,166,491 | 35,850,011 |
| Deferred tax liability | 712,258 | 564,823 |
| Gross Life Insurance Assets at the end of the period respectively (excluding deferred tax) | 44,878,749 | 36,414,834 |
| **(e) Reconciliation of gross reinsurance contract assets / (liabilities)** | | |
| Balance as at the beginning of the period | (20,494,342) | (18,351,644) |
| (Increase) / decrease in liabilities ceded under reinsurance | (3,215,708) | (2,142,698) |
| Balance as at the end of the period | (23,710,050) | (20,494,342) |



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**NOTE 23: ACTUARIAL ANALYSIS (Continued)**

| | 12 months to 31 March 2015 $ | 11 months to 31 March 2014 $ |
|---|---|---|
| **(f) Analysis of life insurance contract results** | | |
| Planned profit margins | 1,949,076 | 1,257,208 |
| Income on liability | 865,017 | 579,767 |
| Investment earnings on assets in excess of policy liabilities | 73,839 | 59,143 |
| Effects of changes in underlying assumptions | 3,130,914 | (1,930,883) |
| Other | (1,037,670) | (457,696) |
| Net profit / (loss) after income tax arising from life insurance contracts | 4,981,176 | (492,461) |

**(g) Solvency requirements under the Insurance (Prudential Supervision) Act 2010**

Separate to the life insurance contract assets / (liabilities) recognised in the financial statements, life insurance companies are required to maintain sufficient capital to meet solvency requirements. These are amounts required to provide protection against the impact of fluctuations and unexpected adverse circumstances on the life insurance businesses. The methodology and bases for determining the solvency requirement are in accordance with the requirements of the Insurance (Prudential Supervision) Act 2010.

The minimum equity required to be retained to meet solvency requirements over and above the life insurance contract assets / (liabilities) for the Company is shown below.

The Company's actual solvency capital exceeds this minimum solvency capital requirement by $2,590,880 (2014: $608,760).

| | 31 March 2015 $ | 31 March 2014 $ |
|---|---|---|
| ***(i) Actual solvency capital*** | | |
| Actual solvency capital | 23,597,991 | 16,445,008 |
| ***(ii) Minimum solvency capital*** | | |
| Minimum solvency capital | 21,007,111 | 15,836,248 |
| ***(iii) Excess solvency margin and solvency ratio*** | | |
| Solvency margin | 2,590,880 | 608,760 |
| Solvency ratio | 1.12 | 1.04 |



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**NOTE 23: ACTUARIAL ANALYSIS (Continued)**

**(h) Summary of significant actuarial methods and assumptions - life insurance**

***(i) Life insurance contract assets / (liabilities)***

The life insurance contract assets / (liabilities) have been determined in accordance with Professional Standard No.20 'Determination of Life Insurance Policy Liabilities' issued by the New Zealand Society of Actuaries. This standard requires that life insurance contract assets / (liabilities) be calculated on the basis of best estimate assumptions and in a way that allows for the release of planned margins as services are provided to policyholders.

*- Valuation of life insurance contract assets / (liabilities)*

Life insurance contract assets / (liabilities) comprise the amount required to pay the expected future benefits and expenses after receiving expected future premiums and investment earnings. The value of life insurance contract assets / (liabilities) may also include a component for profit margins on existing business that will be earned as services are provided to policy owners over the time the relevant policies are held with the Company. The Company incurs costs in selling new policies. New business selling costs (or acquisition costs) related to the acquisition of new business are recovered from premiums receivable in the future as long as the underlying policies are expected to be profitable.

*- Methods used to value life insurance contract assets / (liabilities) - Projection method*

The projection method uses expected cash flows (premiums, investment income, redemptions or benefit payments, expenses and profits) to establish the value of life insurance contract assets / (liabilities). The value of expected future premiums is deducted from the value of expected benefit and expense payments to arrive at the obligation to policy owners. Where the policy liability is determined by the projection method, 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 profit carriers adopted for the related product groups are shown in the table below:

**31 March 2015**

| *Related product group* | *Method* | *Profit carrier* |
|---|---|---|
| Transferred yearly renewable and level term | Projection | Gross premium* |
| Office yearly renewable and level term | Projection | Gross premium* |
| Online yearly renewable term | Projection | Gross premium* |
| Stand Alone Serious Illness, Cancer and Accident yearly renewable | Projection | Gross premium* |
| Funeral Policy | Projection | Gross claims* |

**31 March 2014**

| *Related product group* | *Method* | *Profit carrier* |
|---|---|---|
| Transferred yearly renewable and level term | Projection | Net premium |
| Office yearly renewable and level term | Projection | Net premium |
| Online yearly renewable term | Projection | Net premium |
| Stand Alone Serious Illness, Cancer and Accident yearly renewable | Projection | Net premium |
| Funeral Policy | Projection | Premium |

## NOTE 23: ACTUARIAL ANALYSIS (Continued)

### (h) Summary of significant actuarial methods and assumptions - life insurance (Continued)

#### *(i) Life insurance contract assets / (liabilities)*

* The profit carriers were changed from net premium to gross premium, and premium to gross claims for Funeral, to remove the impact of varying reinsurance arrangements on the net premium and to better reflect the expected profit profile of Funeral business given the Funeral premium is level.

#### *(ii) Disclosure of assumptions*

The following table summarises the key assumptions used in the calculation of life insurance contract assets / (liabilities), together with notes on any significant changes in the assumptions:

| Required assumption | Basis of Assumption | Significant Changes |
|---|---|---|
| **Discount rates for life insurance contracts**<br>- all product groups | Risk free discount rates have been adopted for life insurance contracts where benefits are not contractually linked to the performance of life insurance contracts where the benefits are backing asset pools. The risk free discount rates have been determined based on government rates, depending on the term of the contract liabilities. | The discount rates used:<br>- 2015: 3.25% (2014: 4.6%) |
| **Inflation**<br>- all product groups | Determined based on economists forecasts. | The inflation rates used:<br>- 2015: 2.0% (2014: 2.5%) |
| **Future renewal expense**<br>- for policies | Future renewal expense have been set based on experience analyses conducted by the Company as well as the Actuary's expectation of future expense levels, with an allowance for future inflation. | The future renewal expense used:<br>- 2015: $175 (2014: $120) |
| **Taxation rates** | Rates of taxation have been set with regard to current tax laws. | Taxation rates used:<br>- 2015: 28% (2014: 28%) |
| **Mortality rates** | Risk product mortality rates based on reinsurance rates smoker/non-smoker adjusted for expenses | Mortality rates used:<br>- Reinsurance rates for the particular related product group adjusted for expense and profit margins. |
| **Discontinuances** | Discontinuance rates have been assumed consistent with the Company's recent experience. Assumed discontinuance rates vary by related product group and vary according to the length of time business has been in-force. | Discontinuance rates have been adjusted in line with experience. |
| **Surrender value** | No policies have surrender values. | N/A |
| **Participation** | No policies participate in profits. | N/A |

**NOTE 23: ACTUARIAL ANALYSIS (Continued)**

**(h) Summary of significant actuarial methods and assumptions - life insurance (Continued)**

***(ii) Disclosure of assumptions (Continued)***

*- Effect of changes in actuarial assumptions during the reporting period*

Life insurance contract assets / (liabilities) include the value of future profit margins that are to be released over future reporting periods. The impact of assumption changes are absorbed by the future profit margins, provided sufficient future margins exist, such that there is no change in the life insurance contract assets / (liabilities) in the current period.

The life insurance contract asset / (liability) calculations include the use of published market yields, such as government bond rates. The changes in these yields do not represent actuarial assumption changes and they impact life insurance contract assets / (liabilities) values at reporting date.

The impact of the consecutive assumption changes in the current period on future profit margins in respect of life insurance contracts (excluding new business contracts which are measured using assumptions at the valuation date) are shown below:

**31 March 2015**

| Assumption Change | Change in future profit margins | Change in next period's planned profit | Change in current period's contract assets / (liabilities) | Change in current period's profit |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Mortality | 3,189 | 91 | - | (415,207) |
| Discontinuances | 1,488,109 | 27,303 | - | (139,829) |
| Expenses | (3,730,219) | (193,352) | - | (438,666) |
| Taxation | - | - | - | - |

**31 March 2014**

| Assumption Change | Change in future profit margins | Change in next period's planned profit | Change in current period's contract assets / (liabilities) | Change in current period's profit |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Mortality | - | - | - | 153,215 |
| Discontinuances | (90,953) | (2,378) | - | (3,173) |
| Expenses | - | - | - | - |
| Taxation | - | - | - | - |

## NOTE 23: ACTUARIAL ANALYSIS (Continued)

### (h) Summary of significant actuarial methods and assumptions - life insurance (Continued)

#### *(ii) Disclosure of assumptions (Continued)*

*- Effect of changes in actuarial assumptions during the reporting period (Continued).*

Where the value of future profit margins is insufficient to absorb the assumption changes, the resulting losses are recognised in the current period via a change in the contract liability. These losses may be reversed in subsequent periods should experience improve.

The changes in the life insurance contract assets / (liabilities) due to assumption changes for the period ended 31 March 2015 were:
- A change to the lapse rates for transfer, underwritten and online business after age 60, increasing the renewal expense to $175 per annum and a decrease to the assumed inflation rate. In addition a number of minor corrections were made to the valuation model.

The changes in the life insurance contract assets / (liabilities) due to assumption changes for the period ended 31 March 2014 were:
- A change to the lapse rate for online and funeral business, an adjustment to the expense loading, and a change to the tax treatment to reflect the company status and minor premium modelling improvements.

The allowance for the life insurance tax basis and the end of the grandfathering arrangement is built into the valuation methodology.

| 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 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 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 equity. |
| **Morbidity rates** | The cost of health-related claims depends on the incidence of policyholders becoming totally and permanently disabled or suffering serious illness. Higher than expected incidence would increase claim costs, reducing profit and equity. |
| **Discontinuances** | The impact of the discontinuance rate assumption depends on a range of factors including the type of contract 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 equity. However, due to the interplay between the factors, there is not always an adverse outcome from an increase in discontinuance rates. |



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**NOTE 23: ACTUARIAL ANALYSIS (Continued)**

**(h) Summary of significant actuarial methods and assumptions - life insurance (Continued)**

***(iii) 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 movements in any key variable will impact the profit and equity.

A change in actual experience relative to that expected will affect the period's expected profit:

**2015**

A 10% adverse change in respect of:
- Expenses decreases future margins by $1,252,531 or $77,311 per annum
- Mortality decreases future margins by $1,437,810 or $76,498 per annum
- Morbidity decreases future margins by $178,675 or $7,706 per annum
- Discontinuances decreases future margins by $6,684,036 or $203,874 per annum

A 1% adverse change in respect of interest rates from 3.25% to 4.25% decreases the value of all future profit margins by $3,028,019. The impact per annum is zero. It is important to note that this does not affect future expected profits other than from the unwinding of the discount rate and is not a sensitivity in the case of the Company.

**2014**

A 10% adverse change in respect of:
- Expenses decreases future margins by $839,564 or $56,010 per annum
- Mortality decreases future margins by $1,138,126 or $38,302 per annum
- Morbidity decreases future margins by $161,504 or $7,651 per annum
- Discontinuances decreases future margins by $5,031,390 or $156,923 per annum

A 1% adverse change in respect of interest rates from 4.6% to 5.6% decreases the value of all future profit margins by $2,692,972. The impact per annum is zero. It is important to note that this does not affect future expected profits other than from the unwinding of the discount rate and is not a sensitivity in the case of the Company.

***(iv) Solvency requirements***

Separate to the life insurance contract assets / (liabilities) recognised in the financial statements, life insurance companies are required to maintain sufficient capital to meet solvency requirements.

These are amounts required to provide protection against the impact of fluctuations and unexpected adverse circumstances on the life insurance businesses.

The methodology and bases for determining the solvency requirement are in accordance with the requirements of the Insurance (Prudential Supervision) Act 2010.



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**NOTE 23: ACTUARIAL ANALYSIS (Continued)**

**(h) Summary of significant actuarial methods and assumptions - life insurance (Continued)**

***(v) Life insurance risk (Continued)***

The risk under any one insurance contract is the possibility that an insured event occurs and there is uncertainty about the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This occurs when the frequency or severity of claims and benefits exceeds the estimates. Insurance events are random and the actual number of claims and the amount of benefits paid will vary each period from estimates established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population to reduce the variability of the expected outcome. The Company manages insurance risk through underwriting strategy, claims handling, reinsurance arrangements and insurance contract terms and conditions.

The life insurance business of the Company involves a number of non-financial risks concerned with the pricing, acceptance and management of the mortality, morbidity and longevity risks accepted from policyholders.

Insurance risks are controlled through the use of underwriting procedures and adequate premium rates and policy charges. Tight controls are also maintained over claims management practices to ensure the correct and timely payment of insurance claims.

*- Underwriting management procedures*

Underwriting is managed by a separate department with underwriting limits in place to enforce appropriate risk selection criteria. The Company provides appropriate training and development of underwriting staff. Individual policies carrying insurance risk are underwritten on their merits and are generally not issued without having been examined and underwritten individually.

*- Claims management procedures*

Claims are managed through a dedicated claims team, with appropriate training and development of staff to ensure procedures are adhered to. Claims are managed to ensure timely and correct payment in accordance with policy conditions. Claims experience is reviewed regularly and appropriate actuarial reserves are established.

*- Reinsurance management procedures*

The Company holds appropriate reinsurance arrangements to limit exposure to individual and catastrophe risks. All reinsurance arrangements are approved by the Directors of the Company.



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## NOTE 23: ACTUARIAL ANALYSIS (Continued)

### (h) Summary of significant actuarial methods and assumptions - life insurance (Continued)

***(v) Life insurance risk (Continued)***

*- 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 cash flows for claim payments depend. The tables below provide an overview of the key variables upon which the amount of related cash flows are dependent.

| Type of contract | Details of contract workings | Nature of compensation for claims | Key variables affecting future cashflows |
|---|---|---|---|
| Life insurance contracts with fixed and guaranteed terms (term life and disability including renewable term). | Guaranteed benefits paid on death, permanent and temporary disablement that are fixed and guaranteed and not at the discretion of the issuer. | Benefits, defined by the insurance contract are determined by the contract and not directly affected by the performance of underlying assets or the performance of the contracts as a whole. | Mortality, morbidity, lapses and expenses. |

***(vi) 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 geographical locations for the individual risk business. The Company uses reinsurance to limit the insurance risk exposure for any one individual.

## NOTE 24: STATUTORY FUND

Pinnacle Life Limited ('the Company') established the Rimu Statutory Fund ('the RSF') on 1 May 2013. The RSF is the sole statutory fund held by the Company.

Pinnacle Life Limited operates solely in the life insurance business. The RSF relates solely to the life insurance business of the Company. All of the current and future policies are non-participating, risk based term insurance and are classified as "life policies" under section 84 of the Insurance (Prudential Supervision) Act 2010. None of the Company's policies are "investment-linked" in character and all of the Company's policies are similar in nature.

The Company's shareholders' access to the retained earnings of the RSF is restricted by the Insurance (Prudential Supervision) Act 2010. The Company shareholders' entitlement to monies held in the RSF is subject to the distribution and transfer restrictions on the Insurance (Prudential Supervision) Act 2010. Any distribution of the shareholders' capital or retained profits will only be made after advice from the Company's appointed Actuary is received regarding the effect of such a distribution. No distribution will be made if it would cause the solvency margin of RSF to drop below the minimum margin target set by the Company's Board, or if such distribution was otherwise in breach of Insurance (Prudential Supervision) Act 2010.

**NOTE 24: STATUTORY FUND (Continued)**

| | Note | Shareholder Fund $ | Rimu Statutory Fund $ | Total $ |
|---|---|---|---|---|
| **31 March 2015** | | | | |
| **Share capital** | | | | |
| Opening balance | | 5,000 | 17,679,417 | 17,684,417 |
| Issue of share capital net of share share issue costs | 17 | 2,762,819 | 1,978,287 | 4,741,106 |
| Transfers between the Funds | | (750,000) | 750,000 | - |
| Repurchases | | - | (2,000,000) | (2,000,000) |
| Share based payments reserve | | - | 92,297 | 92,297 |
| Closing balance | | 2,017,819 | 18,500,001 | 20,517,820 |
| **Retained earnings** | | | | |
| Opening balance | | - | (492,461) | (492,461) |
| Operating profit / (loss) | | - | 4,981,176 | 4,981,176 |
| Dividends paid | | (73,889) | - | (73,889) |
| Closing balance | | (73,889) | 4,488,715 | 4,414,826 |
| **Solvency capital** | | | | |
| Actual solvency capital | 23(g) | 1,943,930 | 21,654,061 | 23,597,991 |
| Minimum solvency capital | 23(g) | 9,720 | 20,997,391 | 21,007,111 |
| Excess solvency margin | 23(g) | 1,934,210 | 656,670 | 2,590,880 |
| Excess solvency ratio | 23(g) | 200.00 | 1.03 | 1.12 |
| **31 March 2014** | | | | |
| **Share capital** | | | | |
| Opening balance | | - | - | - |
| Issue of share capital net of share share issue costs | 17 | 17,684,417 | - | 17,684,417 |
| Transfers between the Funds | | (17,679,417) | 17,679,417 | - |
| Closing balance | | 5,000 | 17,679,417 | 17,684,417 |
| **Retained earnings** | | | | |
| Opening balance | | - | - | - |
| Operating profit / (loss) | | - | (492,461) | (492,461) |
| Dividends paid | | - | - | - |
| Transfers between the Funds | | - | - | - |
| Closing balance | | - | (492,461) | (492,461) |
| **Solvency capital** | | | | |
| Actual solvency capital | 23(g) | 5,000 | 16,440,008 | 16,445,008 |
| Minimum solvency capital | 23(g) | 25 | 15,836,223 | 15,836,248 |
| Excess solvency margin | 23(g) | 4,975 | 603,785 | 608,760 |
| Excess solvency ratio | 23(g) | 200.00 | 1.04 | 1.04 |



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**NOTE 25: CREDIT RATING**

A.M Best rates Pinnacle Life Limited 'B' financial strength (outlook 'stable') and a bb+ issuer credit rating (outlook 'stable') at 30 April 2014. On 16 April 2015, A.M Best reaffirmed the financial strength and issuer credit rating for Pinnacle Life Limited.

The financial strength rating scale used by A.M. Best is:
- A++, A+ (Superior);
- A, A- (Excellent);
- B++, B+ (Good);
- B, B- (Fair);
- C++, C+ (Marginal);
- C, C- (Weak);
- D (Poor);
- E (Under Regulatory Supervision);
- F (In Liquidation); and
- S (Suspended).

| | 31 March 2015 $ | 31 March 2014 $ |
|---|---|---|
| **NOTE 26: CAPITAL AND LEASING COMMITMENTS** | | |
| (a) Operating lease commitments | | |
| Non-cancellable operating leases contracted for but not capitalised in the financial statements: | | |
| Payable | | |
| - not later than one year | 62,400 | 62,400 |
| - later than one year and not later than five years | - | 62,400 |
| - later than five years | - | - |
| | 62,400 | 124,800 |

Operating lease payments represent the future rentals payable for office space under the current lease. The office lease is for the three years to 31 March 2016.

(b) There were no other material commitments at reporting date (2014: $Nil).

**NOTE 27: CONTINGENT LIABILITIES**

There were no contingent liabilities at reporting date (2014: $Nil).

**NOTE 28: EVENTS SUBSEQUENT TO REPORTING DATE**

There has been no matter or circumstance, which has arisen since 31 March 2015 that has significantly affected or may significantly affect:



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## NOTE 28: EVENTS SUBSEQUENT TO REPORTING DATE (CONTINUED)

(a) the operations, in financial years subsequent to 31 March 2015, of the Company, or
(b) the results of those operations, or
(c) the state of affairs, in financial years subsequent to 31 March 2015, of the Company.



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## NOTE 29: PARTNERS FUNDS

| | Note | 31 March 2015 $ | 31 March 2014 $ |
|---|---|---|---|
| **Subscribed capital** | | | |
| Opening balance | | - | 8,148,916 |
| Transfer of Partnership subscribed capital at 30 April 2013 to Company share capital on 1 May 2013 | (i) | - | (8,148,916) |
| Closing balance | | - | - |
| **Accumulated premiums** | | | |
| Opening balance | | - | 5,676,305 |
| Transfer of Partnership accumulated premiums at 30 April 2013 to Company share capital on 1 May 2013 | (i) | - | (5,676,305) |
| Closing balance | | - | - |
| **Accumulated Profit and Loss** | | | |
| Opening balance | | - | 3,508,251 |
| Transfer of Partnership accumulated profit at 30 April 2013 to Company share capital on 1 May 2013 | (i) | - | (3,508,251) |
| Closing balance | | - | - |

**Movements in Partner subscribed capital, accumulated premiums and accumulated profit and loss**

(i) In accordance with the 'Agreement for the transfer of the Pinnacle Life Insurance Partnership Business' dated 1 May 2013, the Company acquired the business operations, assets and liabilities of the Pinnacle Life Insurance Partnership (refer to note 1 (a) and 22). The consideration for this transfer was the issue of 8,149,513 ordinary shares in the Company to Pinnacle Life Custodial Services Limited. The value of the net assets acquired was $17,333,472, which represented the Pinnacle Life Insurance Partnerships subscribed capital, accumulated premiums and retained earnings as at 30 April 2013 (refer to note 17).



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# Independent auditor's report

## To the shareholders of Pinnacle Life Limited

### Report on the financial statements

We have audited the accompanying financial statements of Pinnacle Life Limited ("the Company") on pages 1 to 66. The financial statements comprise the statement of financial position as at 31 March 2015, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

***Auditor's responsibility***

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

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

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

Our firm has also provided other services to the Company in relation to our limited assurance engagement on the Company's annual insurer solvency return. Subject to certain restrictions, partners and employees of our firm may also deal with the Company on normal terms within the ordinary course of trading activities of the business of the Company. These matters have not impaired our independence as auditor of the Company. The firm has no other relationship with, or interest in, the Company.

***Opinion***

In our opinion, the financial statements on pages 1 to 66 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the financial position of Pinnacle Life Limited as at 31 March 2015 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

KPMG

30 July 2015
Auckland

**PINNACLE LIFE LIMITED**

**COMPANY DIRECTORY**

| | | | |
|---|---|---|---|
| Company Number: | 4187258 | | |
| NZ Business Number: | 9429030397248 | | |
| Nature of Business: | Life insurer, the underwriting of non-participating, risk based term life insurance including modest additional covers for accident, sickness and disability. | | |
| Issued Capital: | | | |
| | 7,689,514 | Ordinary shares | |
| | 937,500 | Series A convertible preference shares | |
| | 500,000 | Series B convertible preference shares | |
| Directors: | Jack Lee PORUS | | (Appointed 20 December 2012) |
| | Andrew SPENCER | | (Appointed 23 January 2013) |
| | Noel Edmund VAUGHAN | | (Appointed 17 January 2013) |
| Registered Office: | 27 Gillies Ave<br>Newmarket, Auckland | | |
| Website: | www.pinnaclelife.co.nz | | |
| Statutory Fund: | Rimu Statutory Fund | | |
| Actuary: | Murray. A. Hilder, FIA, FIAA, FNZSA | | |
| Reinsurer: | Hannover Life Re of Australasia | | |
| Bankers: | ASB Bank Limited<br>Bank of New Zealand | | |
| Solicitors: | Glaister Ennor | | |
| Accountants: | Staples Rodway | | |
| Auditors: | KPMG Auckland | | |

Auckland
29 July 2015

**Private and Confidential**

Michelle van Gaalen
Pinnacle Life Ltd
P.O. Box 1471
AUCKLAND

Dear Michelle

**Appointed Actuary – Report Required under Section 78 of the Act**

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

(a) I am the appointed actuary of Pinnacle Life Ltd; and

(b) I have reviewed the actuarial information contained in, or used in the preparation of, the financial statements of Pinnacle Life Ltd. 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 Pinnacle'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) The scope and limitations of the review are attached to this report as Appendix A; and

(d) I have a relationship with Pinnacle as a policyholder; and

(e) I have obtained all information and explanations that I required; and

(f) 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

(g) No condition has been imposed under Section 21(2) (b) as at 31 March 2015; and

(h) No condition has been imposed under Section 21(2) (c) as at 31 March 2015.

Yours sincerely

Murray Hilder

Appendix A

**Reliances and Limitations**

This report is provided to Pinnacle Life ("Pinnacle") as at 31 March 2015 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 Pinnacle.

The processes and calculations made to produce the results in this report are based on representations and information supplied to me by Pinnacle. 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.