Pinnacle Life Limited

Financial Statements
for the year ended
31 March 2019

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PINNACLE LIFE LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2019

	Note	2019 $	2018 $
Revenue and other income			
Gross premium revenue	3	12,387,019	11,826,250
Gross reinsurance ceded	3	(5,817,529)	(5,820,499)
Gross reinsurance profit share income	3	1,089,494	685,507
Net premium revenue		7,658,984	6,691,258
Interest income	3	133,511	119,704
Administration fee income	3	16,350	-
Total revenue		7,808,845	6,810,962
Less: expenses			
Claims expense		(3,325,838)	(3,813,516)
Reinsurance recoveries		2,239,585	3,051,295
Net claims expense		(1,086,253)	(762,221)
Net movement in life insurance assets and reinsurance contract liabilities	15	5,464,075	3,233,649
Operating expenses	4	(4,617,296)	(4,565,259)
Total expenses		(239,474)	(2,093,831)
Profit before income tax expense		7,569,371	4,717,131
Income tax expense	5	(1,497,770)	(1,273,191)
Net profit after income tax expense		6,071,601	3,443,940
Other comprehensive income for the year		-	-
Total comprehensive income		6,071,601	3,443,940

The accompanying notes form part of these financial statements.

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PINNACLE LIFE LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2019

	Note	2019 $	2018 $
Assets			
Cash and cash equivalents	6	5,624,178	3,668,049
Receivables	7	1,685,792	2,209,469
Financial assets at fair value through profit and loss	8	3,288,165	3,045,866
Other assets	9	114,208	32,721
Life insurance contract assets	15	56,856,296	46,034,911
Plant and equipment	10	28,075	41,812
Intangible assets	11	376,360	411,524
Deferred tax assets	5	48,099	58,004
Total assets		68,021,173	55,502,356
Liabilities			
Payables	12	2,687,690	2,597,291
Provisions	13	87,197	90,494
Current tax liabilities	5	689,710	-
Other liabilities	14	1,194,636	1,179,697
Reinsurance contract liabilities	15	26,060,096	20,702,786
Deferred tax liabilities	5	3,419,208	2,621,053
Total liabilities		34,138,537	27,191,321
Net assets		33,882,636	28,311,035
Equity			
Share capital	16	20,425,523	20,425,523
Retained earnings	18	13,457,113	7,885,512
Total equity		33,882,636	28,311,035

Signed on behalf of the board of directors, dated 25 July 2019

Director: ____________________ Director: ____________________

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 2019

	Note	Share capital $	Reserves $	Retained earnings $	Total equity $
Balance as at 1 April 2017		20,425,523	200,055	4,673,025	25,298,603
Profit for the year				3,443,940	3,443,940
Comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	-	3,443,940	3,443,940
Transactions with owners in their capacity as owners:					
Dividends	18	-	-	(500,000)	(500,000)
Share based payments		-	56,332	-	56,332
Settlement of the CEO LTI Scheme		-	(256,387)	268,547	12,160
Total transactions with owners in their capacity as owners		-	(200,055)	(231,453)	(431,508)
Balance as at 31 March 2018		20,425,523	-	7,885,512	28,311,035
Balance as at 1 April 2018		20,425,523	-	7,885,512	28,311,035
Profit for the year		-	-	6,071,601	6,071,601
Comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	-	6,071,601	6,071,601
Transactions with owners in their capacity as owners:					
Dividends	18	-	-	(500,000)	(500,000)
Total transactions with owners in their capacity as owners		-	-	(500,000)	(500,000)
Balance as at 31 March 2019		20,425,523	-	13,457,113	33,882,636

The accompanying notes form part of these financial statements.

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PINNACLE LIFE LIMITED

STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 31 MARCH 2019

	Note	2019 $	2018 $
Cash flow from operating activities			
Premium receipts from customers		12,401,958	11,836,882
Reinsurance profit share income		557,633	1,029,818
Reinsurance recoveries		3,304,728	2,433,328
Interest received		140,256	94,724
Payments to suppliers		(3,165,966)	(2,967,139)
Payments to employees		(1,190,985)	(1,276,725)
Payments to reinsurers		(5,834,543)	(5,836,658)
Claims paid		(3,312,667)	(3,015,405)
Management fees paid		-	(3,833)
Net GST paid		(5,390)	-
Net cash provided by operating activities	6	2,895,024	2,294,992
Cash flow from investing activities			
Proceeds from maturity of investments		3,045,866	2,474,000
Payment for property, plant and equipment		(5,962)	(27,325)
Payment for intangible assets		(190,635)	(140,068)
Payment for investments		(3,288,164)	(3,045,866)
Net cash used in investing activities		(438,895)	(739,259)
Cash flow from financing activities			
Dividends paid		(500,000)	(500,000)
Net cash used in financing activities		(500,000)	(500,000)
Reconciliation of cash and cash equivalents			
Cash and cash equivalents as at the beginning of the year		3,668,049	2,612,316
Net (decrease) / increase in cash and cash equivalents held during the year		1,956,129	1,055,733
Cash and cash equivalents as at the end of the year	6	5,624,178	3,668,049

The accompanying notes form part of these financial statements.

NOTE 1: ABOUT THESE FINANCIAL STATEMENTS

The notes to the financial statements include information that is considered relevant and material to assist the reader in understanding changes in Pinnacle Life Limited's ('the Company') financial position or performance.

Information is considered relevant and material if:

- the amount is significant because of its size and nature;
- it is important for understanding the results of the Company;
- it helps explain changes in the Company's business; or
- it relates to an aspect of the Company's operations that is important to future performance.

Pinnacle Life Limited is incorporated and domiciled in New Zealand. Pinnacle Life Limited is registered under the Companies Act 1993. The principal activity of the Company is that of a life insurer.

Basis of preparation

These financial statements have been prepared:

- in accordance with New Zealand Generally Accepted Accounting Practices in New Zealand ('GAAP'). They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS'), International Financial Reporting Standards ('IFRS') and other applicable Financial Reporting Standards as appropriate for Tier 1 profit-orientated entities;
- in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 2013, the Insurance (Prudential Supervision) Act 2010 and the Financial Markets Conduct Act 2013;
- on the basis of historical cost convention, as modified by revaluations for certain classes of assets and liabilities to fair value and life insurance contract assets and related liabilities to net present value as described in the notes below;
- where necessary, comparative information has been restated to conform with current year presentation. The changes have no material impact on the financial performance or financial position of the comparative period; and
- in New Zealand dollars (which is the Company's functional and presentation currency).

The financial statements were authorised for issue by the directors on 25 July 2019.

Adoption of new and revised Standards and Interpretations

New standards and amendments and interpretations to existing standards that came into effect during the current reporting period

The Company has adopted the following new or revised standards, amendments and interpretations that became effective for the year beginning 1 April 2018.

- **NZ IFRS 9, *'Financial instruments'***

  NZ IFRS 9, *'Financial instruments'*, addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in NZ IAS 39, *'Financial Instruments: Recognition and Measurement'*, that relates to the classification and measurement of financial instruments.

  NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income ('OCI'); and fair value through profit and loss.

  The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. There is now a new expected credit losses model that replaces the incurred loss impairment model used in NZ IAS 39.

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NOTE 1: ABOUT THESE FINANCIAL STATEMENTS (CONTINUED)

For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

The impact of the adoption of NZ IFRS 9 on the Company's financial statements:

The Company's financial instruments included only those measured at amortised cost and at fair value through profit or loss and therefore the classification, measurement, presentation and disclosure of the Company's financial instruments remain unchanged under NZ IFRS 9. The Company's incurred credit losses from its financial assets have historically not been material and the introduction of the expected credit losses impairment model has not had a material impact on the measurement of the Company's financial assets. Accordingly, neither the comparative financial information nor the opening balance sheet on 1 April 2018 have been restated.

The adoption of IFRS 9 did, however, result in changes to the Company's accounting policies with respect to the recognition and measurement of impairment of the Company's financial assets. These new accounting policies are set out in the 'Other Accounting Policies' section of the notes to these financial statements below and notes 7, 8 and 12.

- **NZ IFRS 15 *'Revenue from Contracts with Customers'***

NZ IFRS 15 *'Revenue from Contracts with Customers'* replaces NZ IAS 18 *'Revenue'*.

NZ IFRS 15 provides a five step model to be applied to the recognition of revenue arising from contracts with customers:

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

NZ IFRS 15 also introduces new disclosures for revenue.

Under NZ IFRS 15 the Company will recognise revenue when (or as) it satisfies a performance obligation by transferring a promised service to a customer. A performance obligation may be satisfied at a point in time or over time. For a performance obligation satisfied over time, the Company will select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied.

The impact of the adoption of NZ IFRS 15 on the Company's financial statements:

The Company's primary sources of revenue are from insurance contracts within the scope of NZ IFRS 4 *'Insurance Contracts'* and financial assets at fair value through profit and loss within the scope of NZ IFRS 9 *'Financial Instruments'*, both of which are outside the scope of NZ IFRS 15.

During the year ended 31 March 2019, the Company begun earning administration fee income from the administration of an agreement whereby it provides insurance products to customers introduced to the Company by another party. This source of revenue is within the scope of NZ IFRS 15 and the accounting policy adopted and applied by the Company has been disclosed in note 3.

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NOTE 1: ABOUT THESE FINANCIAL STATEMENTS (CONTINUED)

New standards and amendments and interpretations to existing standards that are not yet effective for the current accounting period

The following new or revised standards, amendments and interpretations have been issued at reporting date, but are not year effective for the year beginning 1 April 2018.

- **NZ IFRS 16, *'Leases'***

  NZ IFRS 16 *'Leases'* will replace NZ IAS 17 *'Leases'*. NZ IFRS 16 eliminates the distinction between operating and finance leases for lessees and will result in lessees bringing most leases onto their Statements of Financial Position. A use of a control model for the identification of leases will be introduced. This model distinguishes between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. Assets (a right-of-use asset) and liabilities (a lease liability reflecting future lease payments) will now be recognised in respect of all leases, with the exception of certain short-term and low value assets.

  The effective date is annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted, if NZ IFRS 15 *'Revenue from Contracts with Customers'* has also been adopted. The Company will adopt NZ IFRS 16 for the accounting period beginning 1 April 2019.

  NZ IFRS 16 will not have a material impact on the Company's financial statements. The Company's operating lease commitments as at 31 March 2019 are set out in note 21.

  Based on existing lease arrangements, the adoption of NZ IFRS 16 is expected to result in the recognition of the following:
  - as at 1 April 2019, the recognition of a right of use asset of $249k, a lease liability of $249k and a net movement in deferred tax of $Nil (comprised a increase in deferred tax assets of $69k and deferred tax liabilities of $69k) on the Company's Statement of Financial Position; and
  - for the year ended 31 March 2020, a decrease in rental expense (included within other operating expenses) of $89k, an increase in depreciation expense of $83k, finance costs of $10k, respectively and a decrease in tax expense of $1k in the Company's Statement of Comprehensive Income.

- **NZ IFRS 17 *'Insurance contracts'***

  NZ IFRS 17 *'Insurance contracts'* is a New Zealand Equivalent to International Financial Reporting Standard 17 Insurance Contracts that was issued by the New Zealand Accounting Standards Board in August 2017. NZ IFRS 17 will replace NZ IFRS 4 'Insurance Contracts' on accounting for insurance contracts and has an effective date of 1 January 2022.

  The Company is yet to assess NZ IFRS 17's full effect and impact on the Company's financial statements and intends to adopt NZ IFRS 17 no later than the accounting period beginning on or after 1 April 2023.

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NOTE 1: ABOUT THESE FINANCIAL STATEMENTS (CONTINUED)

Other Accounting Policies

Accounting policies that are relevant to an understanding of the financial statements (other than those provided throughout the notes to the financial statements) are set out below:

Financial instruments

(a) Classification of financial assets

The Company classifies its financial assets into one of the following measurement categories:

- those to be measured subsequently at fair value through profit or loss ('FVTPL'),
- those to be measured subsequently at fair value through other comprehensive income ('FVTOCI'), and
- those to be measured at amortised cost.

The classification depends on the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

A financial asset that meets the following conditions are subsequently measured at amortised cost:

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

A financial asset that meets the following conditions are subsequently measured at FVTOCI:

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

By default, all other financial assets are subsequently measured at FVTPL.

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

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

The Company has no financial assets classified at FVTOCI.

(i) Financial assets measured at amortised cost

At initial recognition financial assets are measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

The Company's financial assets measured at amortised cost consists of receivables disclosed in note 7.

(ii) Financial assets at FVTPL

At initial recognition financial assets are measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Subsequent fair value gains or losses recognised in profit or loss.

The Company's financial assets at FVTPL consists of term deposits disclosed in note 8.

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NOTE 1: ABOUT THESE FINANCIAL STATEMENTS (CONTINUED)

(b) Impairment of financial assets

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

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

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

The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit impaired at the reporting date or an actual default occurring.

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

(c) Classification of financial liabilities

The Company classifies its financial liabilities into one of the following measurement categories:

- those to be measured subsequently at fair value through profit or loss ('FVTPL'); and
- those to be measured at amortised cost.

The Company has no financial liabilities measured at FVTPL.

(i) Financial liabilities measured at amortised cost

At initial recognition financial liabilities are measured at fair value plus transaction costs that are directly attributable to the issue of the financial liabilities. The amortised cost of a financial liability is the amount at which the financial liability is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount.

The Company's financial liabilities measured at amortised cost consists of trade and other payables disclosed in note 12.

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NOTE 1: ABOUT THESE FINANCIAL STATEMENTS (CONTINUED)

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 pre-tax 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.

Significant accounting estimates and judgements

In preparing these financial statements, management is required to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. These judgments, estimates and 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 estimates, judgments and assumptions. Actual results may differ from the estimates, judgments and assumptions made by 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.

Life insurance contract assets and reinsurance contract liabilities

The significant judgements relate to the valuation of Company's life insurance contract assets and reinsurance contract liabilities, and the judgments, estimates and assumptions applied (refer note 15).

NOTE 2: FINANCIAL RISK MANAGEMENT

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

(a) Credit risk

(b) Liquidity risk

(c) Interest rate risk

(d) Market risk - fair value risk

The Board of Directors have overall responsibility for identifying and managing operational and financial risks.

The Company holds the following financial instruments:

	Note	2019 $	2018 $
Financial assets			
Cash and cash equivalents	6	5,624,178	3,668,049
Receivables	7	1,685,792	2,209,469
Financial assets at fair value through profit or loss	8	3,288,165	3,045,866
Total financial assets		10,598,135	8,923,384
Financial liabilities			
Payables	12	2,687,690	2,597,291
Total financial liabilities		2,687,690	2,597,291

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NOTE 2: FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) 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 the statement of financial position and notes to financial statements.

With the exception of the cash deposits (refer note 6), term deposits (refer note 8), and reinsurance receivables (refer note 7), 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.

(i) Cash deposits (refer note 6) and term deposits (refer note 8)

Credit risk for cash at bank and term deposits is managed by holding all cash deposits with high credit rating financial institutions (i.e. ASB Bank Limited with a Standard and Poor's rating of 'AA ' 'outlook negative').

(ii) Trade receivables and other receivables (refer note 7)

Credit risk for trade receivables is managed by dealing exclusively with high credit rating counterparties. The Company also undertakes transactions with a large number of customers throughout New Zealand, thus minimising concentrations of credit risk. Outstanding receivables are regularly monitored for payment in accordance with credit terms. Trade receivables that are neither past due nor impaired, are expected to be received in accordance with the credit risk. The aging analysis of trade and other receivables is provided in note 7.

(iii) Reinsurance receivables (refer note 7)

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

(b) 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 insurance contract assets and liabilities and managements expectation for settlement of undiscounted maturities.

	< 6 months $	6-12 months $	> 1 year $	Total contractual cash flows $	Carrying amount $
2019					
Cash and cash equivalents	5,624,178	-	-	5,624,178	5,624,178
Receivables	1,685,792	-	-	1,685,792	1,685,792
Financial assets at fair value through profit and loss	-	3,288,165	-	3,288,165	3,288,165
Life insurance contract assets	1,284,102	1,368,643	54,203,551	56,856,296	56,856,296
Payables	(2,687,690)	-	-	(2,687,690)	(2,687,690)
Reinsurance contract liabilities	(866,431)	(984,659)	(24,209,006)	(26,060,096)	(26,060,096)
Net maturities	5,039,951	3,672,149	29,994,545	38,706,645	38,706,645

NOTE 2: FINANCIAL RISK MANAGEMENT (CONTINUED)

Maturity analysis (continued)

	< 6 months $	6-12 months $	> 1 year $	Total contractual cash flows $	Carrying amount $
2018					
Cash and cash equivalents	3,668,049	-	-	3,668,049	3,668,049
Receivables	2,209,469	-	-	2,209,469	2,209,469
Financial assets at fair value through profit and loss	3,045,866	-	-	3,045,866	3,045,866
Life insurance contract assets	989,669	1,019,570	44,025,672	46,034,911	46,034,911
Payables	(2,597,291)	-	-	(2,597,291)	(2,597,291)
Reinsurance contract liabilities	(733,871)	(775,738)	(19,193,177)	(20,702,786)	(20,702,786)
Net maturities	6,581,891	243,832	24,832,495	31,658,218	31,658,218

(c) 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. 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.

As these securities are carried at net market value, the effective interest rate is reflected in the market price. By investing with high credit rating financial institutions, the Company minimises the impact of market interest rate fluctuations.

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:

	2019 Interest bearing $	2019 Weighted average effective interest rate %	
Financial assets			
Cash	5,624,178	0.80%	Floating
Financial assets at fair value through profit and loss	3,288,165	3.40%	Fixed
Total financial assets	8,912,343		

	2018 Interest bearing $	2018 Weighted average effective interest rate %	
Financial assets			
Cash	3,668,049	1.10%	Floating
Financial assets at fair value through profit and loss	3,045,866	3.50%	Fixed
Total financial assets	6,713,915		

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

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NOTE 2: FINANCIAL RISK MANAGEMENT (CONTINUED)

Sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. A 100 basis point increase/decrease represents management's assessment of the reasonably possible change in interest rates. 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:

	Note	2019 $	2018 $
+ / - 100 basis points			
Impact on profit before tax		89,123	67,139
Impact on equity		64,169	48,340

(d) Market risk - fair value risk

Fair values compared with carrying amounts

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 are short term in nature and the carrying value is equivalent to their fair value. Trade and other receivables are short term in nature and are reviewed for impairment; the carrying value approximates their fair value. Trade and other payables are short term in nature; the carrying value approximates their fair value.

Fair value measurement

Financial assets and liabilities recognised and measured at fair value have been determined by the following fair value measurement hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Input other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Inputs for the asset or liability that are not based on observable market data

Recurring fair value measurements

		2019			
	Note	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets					
Financial assets at fair value through profit or loss					
- Term deposits	8	-	3,288,165	-	3,288,165
Total financial assets		-	3,288,165	-	3,288,165

		2018			
	Note	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets					
Financial assets at fair value through profit or loss					
- Term deposits	8	-	3,045,866	-	3,045,866
Total financial assets		-	3,045,866	-	3,045,866

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NOTE 3: REVENUE

Net premium revenue is comprised of the following: Gross premium income; Gross reinsurance ceded; and Gross reinsurance profit share income.

- **Premium revenue**
  Premium revenue on life insurance contracts are recognised when due. Premiums received in advance of due date are deferred and amortised through the profit and loss over the period of the services provided under the insurance contract.
- **Reinsurance ceded**
  Reinsurance premium ceded to the reinsurer under reinsurance contracts are recognised as an outwards reinsurance expense through the profit and loss when due.
- **Reinsurance profit share income**
  Reinsurance profit share income due from the reinsurer under reinsurance contracts is recognised through profit and loss when earned from the reinsurer.

Other income comprises interest income.

- **Interest income**
  Interest income is recognised in profit or loss as it accrues, using the effective interest method.
- **Administration fee income**
  The Company earns administration fee income from the administration of an agreement ('the contract') whereby it provides insurance products to customers introduced to the Company by another party. On inception of the contract, the Company estimates the total fee income it expects to receive over the expected period of the contract. The expected fee income is then recognised as revenue on a straight-line basis over the expected period of the contract. At each reporting date, the Company reassesses its estimate of expected fee income and the expected term of the contract, the Company then adjusts the revenue recognition profile as necessary.

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NOTE 4: 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 note 15.

  (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 and reinsurance contract liabilities through the profit and loss. The Actuary determines the insurance contract assets and reinsurance contract 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 insurance contract assets and reinsurance contract liabilities. These are then amortised over the period in which they will be recoverable, being recorded as part of movements in insurance contract assets and 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.

- **Reinsurance recoveries**
  Reinsurance recoveries are recognised separately through the profit and loss when the related incurred claim is recognised.

	Note	2019 $	2018 $
Operating expenses split between policy acquisition and maintenance costs			
Acquisition expenses		2,702,716	2,720,630
Maintenance expenses		1,914,580	1,844,629
Total operating expenses		4,617,296	4,565,259
Operating expenses by nature			
Advertising expense		1,285,607	1,182,603
Depreciation and amortisation expense		245,498	366,900
Employee benefits expense		1,187,688	1,328,680
Occupancy expense		117,257	109,053
Underwriting and commission expense		298,965	232,211
Other operating expenses		1,482,281	1,345,812
Total operating expenses		4,617,296	4,565,259
Remuneration of auditors, KPMG:			
Audit of Company financial statements - current period		78,000	88,077
Audit of Company financial statements - prior period		-	-
Audit of solvency return		25,000	21,000
Total remuneration of auditors		103,000	109,077

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NOTE 5: TAXATION

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

Current tax

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

Deferred tax

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

Components of tax expense / (benefit) & prima facie tax payable

	Note	2019 $	2018 $
Current tax		689,710	-
Deferred tax		808,060	1,273,191
		1,497,770	1,273,191

The prima facie tax payable on profit before income tax is reconciled to the income tax (benefit) / expense as follows:

		2019	2018
Prima facie income tax payable on profit before income tax at 28.0%		2,119,424	1,320,797
Net insurance and reinsurance contract related adjustments		(623,023)	(64,807)
Non-deductible expenses		1,369	17,201
Income tax expense / (benefit) attributable to profit		1,497,770	1,273,191

Deferred tax

	Provisions $	Total Tax losses recognised $	Total Deferred tax assets $	Total Deferred acquisition costs $	Total Deferred tax liabilities $	Total Net deferred tax $
Balance as at 1 April 2017	60,465	519,605	580,070	(1,869,928)	(1,869,928)	(1,289,858)
Charge through the profit and loss	(9,318)	(512,748)	(522,066)	(751,125)	(751,125)	(1,273,191)
Balance as at 31 March 2018	51,147	6,857	58,004	(2,621,053)	(2,621,053)	(2,563,049)
Charge through the profit and loss	(3,048)	(6,857)	(9,905)	(798,155)	(798,155)	(808,060)
Balance as at 31 March 2019	48,099	-	48,099	(3,419,208)	(3,419,208)	(3,371,109)

Imputation credit account

	Note	2019 $	2018 $
Opening balance at 1 April		-	-
Income tax payments		-	-
At reporting date		-	-

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NOTE 6: CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts.

	Note	2019 $	2018 $
Cash at bank - on call		4,098,427	2,620,920
Cash at bank - other		1,525,751	1,047,129
		5,624,178	3,668,049

Reconciliation of cash flow from operations with profit after income tax	Note	2019 $	2018 $
Profit from ordinary activities after income tax		6,071,601	3,443,940
Adjustments and non-cash items			
Amortisation		225,799	331,692
Depreciation		19,699	35,208
Share based payments expense		-	56,332
Net movement in life insurance assets and reinsurance contract liabilities		(5,464,075)	(3,233,649)
Current tax		689,710	-
Deferred tax		808,060	1,273,191
Changes in assets and liabilities			
(Increase) / decrease in receivables		523,677	(298,636)
(Increase) / decrease in other assets		(81,487)	(15,145)
Increase / (decrease) in payables		90,398	717,527
Increase / (decrease) in provisions		(3,297)	(16,536)
Increase / (decrease) in other liabilities		14,939	1,068
		(3,176,577)	(1,148,948)
Cash flows from operating activities		2,895,024	2,294,992

NOTE 7: RECEIVABLES AND CONTRACT ASSETS

Receivables are measured on initial recognition at fair value and subsequently at amortised cost using the effective interest method, less appropriate allowances for expected irrecoverable amounts (if any). There are no trade and other receivables with a significant financing component.

	Note	2019 $	2018 $
CURRENT			
Reinsurance profit share receivable		1,217,357	685,496
Reinsurance recoveries receivable		392,824	1,457,967
Administration fee receivable		16,350	-
Other receivables		59,261	66,006
		1,685,792	2,209,469

Trade and other receivables ageing analysis:	Note	Gross 2019 $	Impairment 2019 $	Gross 2018 $	Impairment 2018 $
Not past due		1,685,792	-	2,209,469	-
		1,685,792	-	2,209,469	-

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

NOTE 8: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

Term deposits are designated as FVTPL upon initial recognition and recognised at fair value based on the interest rate set at inception of the term deposit.

	Note	2019 $	2018 $
CURRENT			
Term deposits		3,288,165	3,045,866
		3,288,165	3,045,866

NOTE 9: OTHER ASSETS

Prepayments

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

Goods and services tax (GST)

As the Company is primarily in the business of providing life insurance services, the majority of income and expenditure is accounted for on a GST inclusive basis. The percentage of business income and expenditure on which GST is returned is 5.64% (2018: 5.64%).

	Note	2019 $	2018 $
CURRENT			
Prepayments		103,624	27,527
GST receivable		10,584	5,194
		114,208	32,721

NOTE 10: PLANT AND EQUIPMENT

Plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures all directly attributable costs necessary to purchase, create, produce and prepare the asset to be capable of operating in the manner intended by management. Depreciation is recognised in profit or loss over the estimated useful lives of the item of plant and equipment (which has been assessed to be between three to ten years) on a diminishing value basis. Plant and equipment carrying values, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

	2019			2018		
	Plant and equipment $	Furniture, fixtures and fittings $	Total plant and equipment $	Plant and equipment $	Furniture, fixtures and fittings $	Total plant and equipment $
Cost as at 1 April	119,502	16,887	136,389	92,178	16,887	109,065
Accumulated depreciation as at 1 April	(85,582)	(8,995)	(94,577)	(51,875)	(7,494)	(59,369)
Carrying value at 1 April	33,920	7,892	41,812	40,303	9,393	49,696
Additions	5,962	-	5,962	27,324	-	27,324
Depreciation expense	(18,449)	(1,250)	(19,699)	(33,707)	(1,501)	(35,208)
Balance as at reporting date	21,433	6,642	28,075	33,920	7,892	41,812
Cost as at reporting date	125,464	16,887	142,351	119,502	16,887	136,389
Accumulated depreciation as at reporting date	(104,031)	(10,245)	(114,276)	(85,582)	(8,995)	(94,577)
Carrying value as at reporting date	21,433	6,642	28,075	33,920	7,892	41,812

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NOTE 11: INTANGIBLE ASSETS

Computer software measured at cost less accumulated amortisation and impairment losses. Cost includes expenditures that are directly attributable costs necessary to purchase, create, produce and prepare the asset to be capable of operating in the manner intended by management. Amortisation is recognised in profit or loss over the estimated useful lives of the item of computer software (which has been assessed to be between three to five years) on a diminishing value basis. Computer software carrying values, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Costs associated with maintaining computer software programs 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 six criteria are met:

1 the Company's ability to measure reliably the expenditure attributable to the software under development;
2 the software is technically and commercially feasible;
3 the software's future economic benefits are probable;
4 the Company's intention to complete the developed software and use or sell it;
5 the Company's ability to use or sell the developed software; and
6 the availability of adequate technical, financial and other resources to complete the software under development.

	2019			2018		
	Computer software	Computer software under development	Total intangible assets	Computer software	Computer software under development	Total intangible assets
	$	$	$	$	$	$
Cost as at 1 April	1,217,259	49,725	1,266,984	1,126,886	-	1,126,886
Accumulated amortisation at 1 April	(855,460)	-	(855,460)	(523,768)	-	(523,768)
Carrying value as at 1 April	361,799	49,725	411,524	603,118	-	603,118
Additions	153,931	156,420	310,351	90,373	134,403	224,776
Amortisation expense	(225,800)	-	(225,800)	(331,692)	-	(331,692)
Transfers to computer software	-	(119,715)	(119,715)	-	(84,678)	(84,678)
Balance as at reporting date	289,930	86,430	376,360	361,799	49,725	411,524
Cost as at reporting date	1,371,189	86,430	1,457,619	1,217,259	49,725	1,266,984
Accumulated amortisation at reporting date	(1,081,259)	-	(1,081,259)	(855,460)	-	(855,460)
Carrying value as at reporting date	289,930	86,430	376,360	361,799	49,725	411,524

NOTE 12: PAYABLES

Trade and other payables are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest

	Note	2019 $	2018 $
CURRENT			
Trade creditors		835,272	738,905
Commissions payable		-	116
Claims payable		1,713,451	1,700,280
Other payables		138,967	157,990
		2,687,690	2,597,291

NOTE 13: 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.

Employee benefits

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.

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 incurred but not reported ('IBNR') as at the end of the month.

	Note	2019 $	2018 $
CURRENT			
Employee entitlements		47,197	50,494
Claims		40,000	40,000
		87,197	90,494

NOTE 14: OTHER LIABILITIES

Premiums received in advance

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.

	Note	2019 $	2018 $
CURRENT			
Premiums received in advance		1,194,636	1,179,697
		1,194,636	1,179,697

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NOTE 15: LIFE INSURANCE CONTRACT ASSETS AND REINSURANCE CONTRACT LIABILITIES

(a) Actuarial information

The Company's Actuary, Ben Coulter, FIAA, FNZSA has calculated the life insurance contract and reinsurance contract assets and liabilities and solvency margin for the Company. The actuary is satisfied as to the accuracy of the data from which the life insurance contract and reinsurance contract assets and liabilities and solvency margin have been determined. This note summarises the life insurance contract and reinsurance contract assets and liabilities and solvency margin of the Company, the assumptions made and the methods adopted for the calculation of the Company's life insurance contract and reinsurance contract assets and liabilities and solvency margin.

Summary of significant actuarial methods and assumptions for life insurance contract assets and reinsurance contract liabilities

The life insurance contract assets and reinsurance contract 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 and reinsurance contract 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 and reinsurance contract liabilities*

  Life insurance contract assets and reinsurance contract liabilities comprise the amount required to pay the expected future benefits and expenses after receiving expected future premiums and investment earnings and future reinsurance premium ceded and reinsurance recoveries. The value of life insurance contract assets and reinsurance contract 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 and reinsurance contract liabilities - Projection method*

  The projection method uses expected cash flows (premiums, premium ceded investment income, redemptions or benefit payments, reinsurance recovers, expenses and profits) to establish the value of life insurance contract assets and reinsurance contract 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:

Related product group	Method 2019	Profit carrier 2019	Method 2018	Profit carrier 2018
Transferred yearly renewable and level term	Projection	Gross premium	Projection	Gross premium
Office yearly renewable and level term	Projection	Gross premium	Projection	Gross premium
Online yearly renewable term	Projection	Gross premium	Projection	Gross premium
Stand Alone Serious Illness, Cancer, Income Protection and Accident yearly renewable	Projection	Gross premium	Projection	Gross premium
Funeral Policy	Projection	Gross claims	Projection	Gross claims
Greenstone Funeral	Projection	Gross claims	N/A	N/A

NOTE 15: LIFE INSURANCE CONTRACT ASSETS AND REINSURANCE CONTRACT LIABILITIES (CONTINUED)

Disclosure of assumptions

Assumptions used for measuring life insurance contract assets and reinsurance contract liabilities are reviewed each year. When the review leads to a change in assumptions, the change is deemed to have occurred from the end of the year, except for change 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 and reinsurance contract liabilities made during the year is recognised in profit or loss over the future reporting periods during which services are provided to policyholders.

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 - all product groups	Risk free discount rates have been adopted for life insurance contracts where the benefits are not contractually linked to the performance of backing asset pools. The risk free discount rates have been determined based on the Treasury risk free discount rates and the term of the contract liabilities.	The discount rates used: - 2019: 1.30% to 4.54% (2018: 1.76% to 4.75%)
Inflation rates for life insurance contracts - all product groups	Inflation rates have been adopted for life insurance contracts to inflation future renewal expenses and where benefits increase in line with inflation. The inflation assumption has been determined as a long-term expectation based on the RBNZ's target inflation levels.	The inflation rates used: - 2019: 2% p.a. (2018: 2% p.a.)
Future renewal expense - 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 and allowance for future inflation.	The future renewal expense used: - 2019: $140 for Funeral Plan, $25 for Greenstone Funeral Policies and $200 for other products. (2018: $130 for Funeral Plan and $200 for other products)
Taxation rates	Rates of taxation have been set with regard to current tax laws.	The taxation rates used: - 2019: 28% (2018: 28%)
Mortality rates	Risk product mortality rates based on reinsurance rates smoker/non-smoker adjusted reinsurance expenses and margins.	The mortality rates used: - Reinsurance rates for the particular related product group adjusted for expense, profit margins, and experience.
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

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NOTE 15: LIFE INSURANCE CONTRACT ASSETS AND REINSURANCE CONTRACT LIABILITIES (CONTINUED)

Acquisition expense assumptions were based on the actual acquisition expenses incurred for the year ending 31 March 2019. This method is unchanged from the prior year.

Maintenance expense assumptions were based on the Company's business plan for the period to 31 March 2022, allowing for new business expected. After this time an assumed inflation rate of 2.0% per annum was used. This method is unchanged from the prior year.

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:

Assumption/ Model Change	Change in current period's contract assets / (liabilities)		Change in current periods profit and loss	
	2019	2018	2019	2018
	$	$	$	$
Interest	3,204,345	1,404,544	3,204,345	1,404,544
Model	-	(3,846)	-	(3,846)
Premium rates	-	-	-	-
Mortality	98,721	-	98,721	-
Discontinuances	(44,794)	(758)	(44,794)	(758)
Expenses	(77,656)	380,537	(77,656)	380,537
Reinsurance profit share	-	-	-	-
Taxation	-	-	-	-

Assumption/ Model Change	Change in future profit margins		Change in next period's planned profit	
	2019	2018	2019	2018
	$	$	$	$
Interest	2,202,521	791,305	(51,835)	(71,681)
Model	55,222	5,636,051	3,990	420,037
Premium rates	(1,801,617)	-	(130,167)	-
Mortality	1,780,685	1,126,299	128,654	83,939
Discontinuances	(2,144,330)	(703,326)	(154,928)	(52,417)
Expenses	-	(696,641)	-	(51,918)
Reinsurance profit share	2,834,046	-	204,760	-
Taxation	-	-	-	-

Life insurance contract assets and reinsurance contract liabilities include the value of future profit margins that are to be released over future reporting periods.

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 life insurance contract assets and reinsurance contract liabilities. These losses may be reversed in subsequent periods should experience improve.

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

NOTE 15: LIFE INSURANCE CONTRACT ASSETS AND REINSURANCE CONTRACT LIABILITIES (CONTINUED)

(b) Analysis of life insurance contract results

	Note	2019 $	2018 $
Planned profit margins		1,506,299	1,077,160
Income on liability		399,715	414,685
Investment earnings on assets in excess of policy liabilities		96,128	86,187
Effects of changes in discount rate		3,204,345	1,404,544
Other		865,114	461,364
Net profit / (loss) after income tax arising from life insurance contracts		6,071,601	3,443,940

(c) Net life insurance contract assets and reinsurance contract liabilities

	Note	2019 $	2018 $
Future policy benefits		(56,417,805)	(59,339,871)
Future expenses		(15,835,087)	(14,330,427)
Future taxes		(20,330,919)	(17,906,829)
Future reinsurance		(26,060,095)	(20,702,786)
Future profit margins		(23,016,602)	(20,848,444)
Future premiums		169,037,500	155,839,429
Net life insurance contract assets and reinsurance contract liabilities (including deferred tax)		27,376,992	22,711,072
Deferred tax liability		3,419,208	2,621,053
Net policy liabilities (excluding deferred tax)		30,796,200	25,332,125

(d) Reconciliation of gross life insurance contract assets

	Note	2019 $	2018 $
Opening balance as at 1 April		43,413,858	42,507,409
New life insurance assets and liabilities acquired		2,941,729	2,813,855
Adjustment for experience differences		7,081,501	(1,907,406)
Gross life insurance contract assets at reporting date (including deferred tax)		53,437,088	43,413,858
Deferred tax liability		3,419,208	2,621,053
Gross life insurance contract assets at reporting date (excluding deferred tax)		56,856,296	46,034,911

(e) Reconciliation of gross reinsurance contract liabilities

	Note	2019 $	2018 $
Opening balance as at 1 April		(20,702,786)	(22,278,861)
(Increase) / decrease in liabilities ceded under reinsurance contracts		(5,357,310)	1,576,075
Gross reinsurance contract liabilities at reporting date		(26,060,096)	(20,702,786)

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NOTE 15: LIFE INSURANCE CONTRACT ASSETS AND REINSURANCE CONTRACT LIABILITIES (CONTINUED)

(f) Life insurance risk

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.

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 15: LIFE INSURANCE CONTRACT ASSETS AND REINSURANCE CONTRACT LIABILITIES (CONTINUED)

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 and loss disclosed below.

For the period ended the following adverse percentage changes in respect of the listed assumptions would result in the presented decreases in future margins and profit, before and after reinsurance:

	Impact on future margins	Impact on profit and equity		Impact on future margins	Impact on profit and equity	
		Before reinsurance	After reinsurance		Before reinsurance	After reinsurance
	$	$	$	$	$	$
	2019	2019	2019	2018	2018	2018
Expenses + 10%	(950,822)	(125,924)	(125,924)	(928,854)	(102,937)	(102,937)
Mortality + 10%	(2,164,876)	(344,611)	(268,480)	(2,375,505)	(2,473,103)	(218,102)
Morbidity + 10%	(196,407)	(46,980)	(41,830)	(184,170)	(103,514)	(6,947)
Discontinuances + 10%	(6,693,517)	94,665	71,529	(5,387,952)	(1,994,718)	46,924
Interest rates + 1%	(2,112,178)	(5,058,187)	(2,849,778)	(1,809,968)	(3,997,193)	(2,358,818)

With respect to the interest rate assumption, 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.

Risk management

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 15: LIFE INSURANCE CONTRACT ASSETS AND REINSURANCE CONTRACT LIABILITIES (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.

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.

(g) Statutory fund

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

The Company 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.

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NOTE 15: LIFE INSURANCE CONTRACT ASSETS AND REINSURANCE CONTRACT LIABILITIES (CONTINUED)

Disaggregated Information

The disaggregated information for the Company's shareholder fund and sole statutory fund, the Rimu Statutory Fund ('the RSF') is presented below. The Company does not have any life investment contracts on issue or any investment linked business.

	Shareholder Fund $ 2019	Rimu Statutory Fund $ 2019	Total $ 2019	Shareholder Fund $ 2018	Rimu Statutory Fund $ 2018	Total $ 2018
Summary Income Statement						
Net premium income	-	7,658,984	7,658,984	-	6,691,258	6,691,258
Investment revenue	1,105	132,406	133,511	1,380	118,324	119,704
Net claims expense	-	(1,086,253)	(1,086,253)	-	(762,221)	(762,221)
Net movement in life insurance and reinsurance	-	5,464,075	5,464,075	-	3,233,649	3,233,649
All other net income / (net expense)	(4)	(4,600,942)	(4,600,946)	(4)	(4,565,255)	(4,565,259)
Profit / (loss) before income tax expense	1,101	7,568,270	7,569,371	1,376	4,715,755	4,717,131
Income tax expense	-	(1,497,770)	(1,497,770)	-	(1,273,191)	(1,273,191)
Net profit / (loss) after income tax expense	1,101	6,070,500	6,071,601	1,376	3,442,564	3,443,940
Summary Balance Sheet						
Assets						
Investments backing insurance policy liabilities	441,606	8,470,737	8,912,343	399,823	6,314,092	6,713,915
Life insurance contract assets	-	56,856,296	56,856,296	-	46,034,911	46,034,911
Other assets	-	2,252,534	2,252,534	-	2,753,530	2,753,530
Total assets	441,606	67,579,567	68,021,173	399,823	55,102,533	55,502,356
Liabilities						
Reinsurance contract liabilities	-	26,060,096	26,060,096	-	20,702,786	20,702,786
Other liabilities	40,683	8,037,758	8,078,441	-	6,488,535	6,488,535
Total liabilities	40,683	34,097,854	34,138,537	-	27,191,321	27,191,321
Share capital						
Opening balance as at 1 April	1,396,106	19,029,417	20,425,523	1,396,106	19,229,472	20,625,578
Settlement of CEO LTI scheme	-	-	-	-	(256,387)	(256,387)
Share based payments reserve	-	-	-	-	56,332	56,332
Balance as at reporting date	1,396,106	19,029,417	20,425,523	1,396,106	19,029,417	20,425,523
Retained earnings						
Opening balance as at 1 April	(996,283)	8,881,795	7,885,512	(997,659)	5,670,686	4,673,027
Operating profit / (loss)	1,101	6,070,500	6,071,601	1,376	3,442,564	3,443,940
Dividends paid	(500,000)	-	(500,000)	(500,000)	-	(500,000)
Transfers between the Funds	500,000	(500,000)	-	500,000	(500,000)	-
Settlement of CEO LTI scheme	-	-	-	-	268,545	268,545
Balance as at reporting date	(995,182)	14,452,295	13,457,113	(996,283)	8,881,795	7,885,512

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NOTE 16: SHARE CAPITAL

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.

Pinnacle Life Custodial Services Limited, holds all of the Company's share capital in trust for its ultimate beneficial shareholders at reporting date.

		2019		2018	
	Note	Number	$	Number	$
Ordinary shares	(a)	7,689,514	15,684,417	7,689,514	15,684,417
Series A convertible preference shares	(b)	937,500	2,762,819	937,500	2,762,819
Series B convertible preference shares	(c)	500,000	1,978,287	500,000	1,978,287
		9,127,014	20,425,523	9,127,014	20,425,523

	Ordinary shares		Series A convertible preference shares		Series B convertible preference shares	
	Number	$	Number	$	Number	$
Balance as at 1 April 2017	7,689,514	15,684,417	937,500	2,762,819	500,000	1,978,287
Balance as at 31 March 2018	7,689,514	15,684,417	937,500	2,762,819	500,000	1,978,287
Balance as at 31 March 2019	7,689,514	15,684,417	937,500	2,762,819	500,000	1,978,287

(a) 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.

(b) 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.

(c) 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: 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 capital needs of the business, the risks that the Company is exposed to and projections of the solvency capital margin. In making decisions to adjust its capital structure, 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 reporting period, the Company has maintained compliance with all externally imposed capital and licensing requirements.

Solvency requirements under the Insurance (Prudential Supervision) Act 2010

Separate to the life insurance contract assets and 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 Company's minimum solvency capital required to be retained to meet the requirements of the Solvency Standard for Life Insurance Business and the solvency margin above this requirement is shown below.

	Shareholder Fund $ 2019	Rimu Statutory Fund $ 2019	Total $ 2019	Shareholder Fund $ 2018	Rimu Statutory Fund $ 2018	Total $ 2018
Solvency capital						
Actual solvency capital	275,923	33,057,255	33,333,178	274,823	27,441,684	27,716,507
Minimum solvency capital	2,208	31,537,037	31,539,245	1,999	24,165,708	24,167,707
Excess solvency margin	273,715	1,520,217	1,793,932	272,824	3,275,976	3,548,800
Excess solvency ratio	124.96	1.05	1.06	137.48	1.14	1.15

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NOTE 18: RETAINED EARNINGS

	Note	2019 $	2018 $
Opening balance as at 1 April		7,885,512	4,673,025
Profit for the reporting period		6,071,601	3,443,940
Other comprehensive income		-	-
Dividends		(500,000)	(500,000)
Settlement of the CEO LTI Scheme		-	268,547
Balance as at reporting date		13,457,113	7,885,512

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.

During the year, the Company declared/paid the following dividends:

	Note	2019 ¢ per share	2019 $	2018 ¢ per share	2018 $
Series A convertible preference shares					
- 30 June 2018 (2018: 30 June 2017)		0.08	75,000	0.08	75,000
- 30 September 2018 (2018: 30 September 2017)		0.08	75,000	0.08	75,000
- 31 December 2018 (2018: 31 December 2017)		0.08	75,000	0.08	75,000
- 31 March 2019 (2018: 31 March 2018)		0.08	75,000	0.08	75,000
			300,000		300,000
Series B convertible preference shares					
- 30 June 2018 (2018: 30 June 2017)		0.10	50,000	0.10	50,000
- 30 September 2018 (2018: 30 September 2017)		0.10	50,000	0.10	50,000
- 31 December 2018 (2018: 31 December 2017)		0.10	50,000	0.10	50,000
- 31 March 2019 (2018: 31 March 2018)		0.10	50,000	0.10	50,000
			200,000		200,000

NOTE 19: RELATED PARTY TRANSACTIONS AND BALANCES

Related parties

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

Related party	*Relationship*
Pinnacle Life Custodial Services Limited	Company shareholder
Jack Porus	Director and ultimate beneficial company shareholder
Noel Vaughan	Director and ultimate beneficial company shareholder
Michelle van Gaalen	Past CEO and ultimate beneficial company shareholder
Bemrose Limited	Ultimate beneficial company shareholder, a company in which Noel Vaughan is a shareholder.
The Glaister Ennor Partnership	Common ultimate beneficial owners (shareholders/partners), a Partnership in which Jack Porus is a partner.
Spencers Chartered Accountants & Advisers Limited	A company in which Andrew Spencer is a shareholder.

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NOTE 19: RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Transactions

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

	Note	2019 $	2018 $
Bemrose Limited			
- Consultant fees and directors fees		11,404	45,614
Michael Murphy			
- directors fees		40,000	38,900
Noel Vaughan			
- directors fees		30,000	-
Spencers Chartered Accountants & Advisers Limited			
- directors fees		49,605	49,605
The Glaister Ennor Partnership			
- Legal fees and directors fees		82,455	95,463
Michelle van Gaalen			
- Share based payments		-	56,332
- Bonus		-	19,000

Balances

The Company has the following receivable/ (payable) balances with the above related parties as at year end:

	Note	2019 $	2018 $
Noel Vaughan		(3,333)	-
Spencers Chartered Accountants & Advisers Limited		(4,169)	(4,169)
The Glaister Ennor Partnership		(2,559)	(1,861)

No related party balances were impaired or written off during the year (2018: $Nil).

Life insurance policies held by the Directors of the Company

Directors, Jack Lee Porus and Noel Vaughan have life insurance policies with the Company. These policies were entered into and issued on an arm's length basis.

Key management compensation

Key management includes the directors and the CEO of the Company.

Compensation received by key management personnel of the Company:

	Note	2019 $	2018 $
Short-term employee benefits		339,480	586,374
Directors fees		188,026	192,237
Share based payments		-	56,332
Bonus		-	19,000
		527,506	853,943

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

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NOTE 20: CREDIT RATING

A.M. Best rates Pinnacle Life Limited 'B' financial strength (outlook 'stable') and a bb+ issuer credit rating (outlook 'stable') at 31 January 2019.

The financial strength rating scale used by A.M. Best is:

A++, A+ (Superior)	B, B- (Fair)	D (Poor)	F (In Liquidation)
A, A- (Excellent)	C++, C+ (Marginal)	E (Under Regulatory Supervision)	S (Suspended)
B++, B+ (Good)	C, C- (Weak)		

NOTE 21: CAPITAL AND LEASING COMMITMENTS

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. The Company has no finance leases.

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.

(a) Non-cancellable operating leases contracted for but not capitalised in the financial statements:	Note	2019 $	2018 $
Payable			
- not later than one year		-	73,684
- later than one year		-	-
- later than five years		-	-
		-	73,684

As at 31 March 2019, the Company had no operating lease commitments. Subsequent to reporting date, on 1 April 2019, the Company has renewed its operating lease for its office space for the three years to 31 March 2022, with options to extend further (As at 31 March 2018, 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 2019).

(b) Other commitments

There were no other material commitments at reporting date (2018: $Nil).

NOTE 22: CONTINGENT LIABILITIES

In January 2019, the Financial Markets Authority ('FMA') and the New Zealand Reserve Bank ('RBNZ') released a report on the New Zealand life insurance sector. The report noted that life insurers have been complacent about considering conduct risk, too slow to make changes following previous FMA reviews and not sufficiently focused on developing a culture that balances the interests of shareholders with those of customers. The regulators also noted weaknesses in life insurers' systems and controls, with weak governance and management of conduct risks across the sector and a lack of focus on good customer. The outcomes and total costs associated with such regulatory sector-wide investigations and reviews are a potential risk for the Company and potential exposures remain uncertain.

There were no other contingent liabilities at reporting date (2018: $Nil).

NOTE 23: EVENTS SUBSEQUENT TO REPORTING DATE

There has been no other matter or circumstance, which has arisen since reporting date that has significantly affected or may significantly affect:

(a) the operations, in financial years subsequent to reporting date, of the Company, or

(b) the results of those operations, or

(c) the state of affairs, in financial years subsequent to reporting date, of the Company.

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Independent Auditor's Report

To the shareholders of Pinnacle Life Limited

Report on the financial statements

Opinion

In our opinion, the accompanying financial statements of Pinnacle Life Limited (the Company) on pages 1 to 33:

i. present fairly in all material respects the Company's financial position as at 31 March 2019 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

— the statement of financial position as at 31 March 2019;

— the statements of comprehensive income, changes in equity and cash flows for the year then ended; and

— notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

Our firm has also provided other services to the Company in relation to the audit of the insurer solvency return at 31 March 2019. 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.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements.

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Valuation of life insurance contract assets ($56.9m), liabilities ceded under reinsurance contracts ($26.1m) and net movement in life insurance and reinsurance contract assets and liabilities ($5.5m)

The key audit matter	How the matter was addressed in our audit

Refer to Note 15 of the financial statements.
 	
The valuation of life insurance contract assets and liabilities ceded under reinsurance contracts is a key audit matter because of the judgement required in projecting expected cash flows long into the future and the impact these have on profitability and the asset and liability base of the Company.
 	
The net movement in life insurance and reinsurance contract assets and liabilities is a function of the same valuation uncertainties, being the year on year movement in the valuation. This movement includes the release of profit from the expected cash flows, using either gross premium or gross claims as a basis for the release.
 	
Specific audit and actuarial expertise is required to evaluate complex actuarial methodologies and assumptions that take into account the risks and uncertainties of the particular classes of insurance business written.
 	
The key factors that affect the valuation of these balances are:
 	
— The cost of providing benefits and administering the insurance contracts.
 	
— The costs incurred in acquiring the insurance policies (acquisition costs), including adviser commissions, underwriting and policy issue costs.
 	
— Mortality and morbidity experience on life insurance products.
 	
— Discontinuance experience (where the policyholder cancels their policy) which affects the ability to recover acquisition costs.
 	
— Reinsurance arrangements and timing of future cash flows under these arrangements, which include reinsurance expense, reinsurance recoveries, reinsurance commission revenue.
 	
— Future premium rates.
 	
— Other factors such as regulation, competition, interest rates, and general economic conditions.
 	
— Determination of an appropriate basis on which to release profit in future periods.
	Our audit procedures included:
	
	— Checking the completeness and accuracy of the data used in the valuation process. The data is projected over the expected life of the policy.
	
	— Assessing the appropriateness of any valuation model changes and the change control processes surrounding any changes.
	
	— Using our actuarial specialist to challenge the actuarial methods and key assumptions used in the valuation by comparing key assumptions and expected experience to:
	
	    — actual historical experience;
	
	    — observable market data, including industry average and experience for certain classes of business and assumptions; and
	
	    — actuarial and accounting standard requirements.
	
	— Assessing the historical accuracy of the estimate by testing the "analysis of profit", which compares the Company's expected profit to actual profit. This included challenging the consistency of the analysis compared with our understanding of the business and emerging claims and lapse experience.
	
	— Checking that information in the actuarial valuation report is consistent with the information disclosed in the financial statements.
	
	— Evaluating the work of the Company's independent Appointed Actuary as well as his competence and objectivity.

Other information

The Directors, on behalf of the Company, are responsible for the other information included in the entity's Annual Report. Other information includes the Chairman and CEO report, Summary Financials, Director Appointments and Statutory Disclosures. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

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

Use of this independent auditor's report

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

Responsibilities of the Directors for the financial statements

The Directors, on behalf of the Company, 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;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

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

This description forms part of our independent auditor's report.

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

For and on behalf of

KPMG
Auckland

26 July 2019

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 Andrew SPENCER Noel Edmund VAUGHAN Michael MURPHY
Registered Office:	27 Gillies Ave Newmarket, Auckland
Website:	www.pinnaclelife.co.nz
Statutory Fund:	Rimu Statutory Fund
Actuary:	Ben Coulter, FIAA, FNZSA
Reinsurer:	Hannover Life Re of Australasia
Bankers:	ASB Bank Limited Bank of New Zealand Limited Westpac New Zealand Limited
Solicitors:	Glaister Ennor
Accountants:	Baker Tilly Staples Rodway Auckland Limited
Auditors:	KPMG Auckland

Gillian Vaughan
Pinnacle Life Limited
PO Box 1471
Auckland 1140

25 July 2019

Appointed actuary's review of actuarial information for Pinnacle Life Limited for the year ending 31 March 2019

Dear Gillian

This letter has been prepared for Pinnacle Life Limited (Pinnacle Life) to meet the requirements of Section 78 of the Insurance (Prudential Supervision) Act 2010 (the Act) in respect of Section 77 of the Act, which requires that each licensed insurer must ensure that the actuarial information contained in, or used in preparation of, the financial statements of the insurer is reviewed by the appointed actuary.

I have reviewed the following actuarial information to be included in the audited financial statements for Pinnacle Life as at 31 March 2019:

- information relating to Pinnacle Life's calculations of premiums, claims, reserves, dividends, insurance rates and technical provisions;
- information relating to assessments of the probability of uncertain future events occurring and the financial implications for the insurer if those events do occur;
- information specified in the Solvency Standard for Life Insurance Business 2014 as being actuarial information for the purposes of section 77 of the Act.

I have been provided with all the information and explanations that I have required to complete my review.

I am the appointed actuary to Pinnacle Life and I am employed by PricewaterhouseCoopers New Zealand. I have a relationship with Pinnacle Life as a policyholder, but I am not a shareholder and I do not have any other financial interest in Pinnacle Life.

In my opinion:

- the actuarial information contained in the financial statements has been appropriately included in those statements; and
- the actuarial information used in the preparation of the financial statements has been used appropriately; and
- Pinnacle Life is maintaining a solvency margin as required under Solvency Standard for Life Insurance Business 2014 issued by the Reserve Bank of New Zealand in respect of its Rimu Statutory Fund, as required by section 21(2)(c), and at a total level, as required by section 21(2)(b).

Reliances and limitations

This letter has been prepared for Pinnacle Life Limited (Pinnacle Life) and is provided in accordance with the terms set out in our engagement letter dated 8 August 2017.

Our responsibilities and liabilities are limited to Pinnacle Life and exist only in the context of their use of our letter. No liability or responsibility will be accepted by us in relation to the use of our letter for any other purpose. We will not accept any liability or responsibility to any third party recipients.

We have relied on information provided to us in the course of carrying out our work. We perform some data validation checks but we have not verified all of the information provided to us, nor have we carried out anything in the nature of an audit. Accordingly, we express no opinion on the total reliability, accuracy or completeness of the information provided to us and upon which we have relied. We have no reason to believe that the information provided to us is inaccurate or misleading.

This letter must be read in its entirety. Individual sections of this letter could be misleading if considered in isolation from each other. If distributed, this letter must be distributed in its entirety.

This letter is not considered an actuarial report under Professional Standard 90 of the New Zealand Society of Actuaries.

Yours sincerely

Ben Coulter FNZSA
Appointed Actuary, Pinnacle Life Limited