PINNACLE LIFE INSURANCE PARTNERSHIP

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2009

THE PINNACLE LIFE INSURANCE PARTNERSHIP

DIRECTORY

BUSINESS ADDRESS	Level 2, Ideal House Cnr Gillies Ave & Eden St, Newmarket, Auckland
PRINCIPAL BUSINESS	Life Insurance
ACCOUNTANTS	MGI Auckland Limited
ACTUARIES	M A Hilder FIA FIAA FNZSA
AUDITORS	WHK Gosling Chapman Partnership
SOLICITORS	Patterson Hopkins
BANKERS	Westpac, Queen Street, Auckland

FINANCIAL STATEMENTS : as at 31st March 2009

THE PINNACLE LIFE INSURANCE PARTNERSHIP

INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2009

2008		Note	2009
5,242,703	TOTAL OPERATING REVENUE		6,137,315
	Underwriting Account		
3,337,185	Gross Premiums Earned		4,009,138
3,337,185	Premium Income		4,009,138
2,106,549	Less Gross Reinsurance Ceded		2,388,610
1,230,636	Net Premium Income		1,620,528
180,151	Finance Income (net)		163,394
5,000	Reinsurance Commissions	2	
1,415,787	Total Income		1,783,922
	Direct Expenses		
1,889,940	Gross Claims Incurred		2,206,363
1,719,940	Less Reinsurance Recovered		1,964,783
31,503	Provision for Claims	16	25,000
201,503	Net Claims Expense		266,580
1,214,284	Operating Revenue After Payments To Policyholders		1,517,342
	Other Operating Expenses		
592,492	Policy Acquisition - Management Fees		655,202
172,014	Policy Maintenance - Management Fees		190,220
325,052	On-Line Research and Setup		490,468
483,663	Policy Acquisition Expenses		586,982
273,784	Employee Benefits Expense		575,800
316	Depreciation - Furniture & Fittings		662
184,304	Depreciation - Plant & Equipment		216,526
22,930	Audit Fees		28,414
21,986	Rent Expense		30,794
255,541	Other Expenses		246,875
2,332,082	Total Expenses		3,021,943
(1,117,798)	NET OPERATING SURPLUS/(DEFICIT)		(1,504,601)

This statement is to be read with the Notes and Auditors Report attached

THE PINNACLE LIFE INSURANCE PARTNERSHIP

STATEMENT OF CHANGES IN PARTNERS' EQUITY
FOR THE YEAR ENDED 31 MARCH 2009

2008		Note	2009
2,408,577	Balance at Beginning of Year		1,924,998
(1,117,798)	Surplus/(Deficit) for Year		(1,504,601)
(1,117,798)	Total Recognised Revenue and Expenses		(1,504,601)
250,625	Capital Introduced	14	64,101
383,594	Premium Paid	14	144,141
1,924,998	TOTAL PARTNERS' EQUITY		628,639

WHK Gosling Chapman Partnership

This statement is to be read with the Notes and Auditors Report attached

THE PINNACLE LIFE INSURANCE PARTNERSHIP

BALANCE SHEET
AS AT 31ST MARCH 2009

2008		Note	2009
1,924,998	Total Partners' Equity	14	628,639
	Represented By:		
	Current Assets		
1,798,529	Cash & Cash Equivalents	6	1,392,531
63,386	Accounts Receivable		43,797
26,823	Reinsurance Recoveries Receivable		233,111
1,888,738	Total Current Assets		1,669,439
	Current Liabilities		
433,769	Accounts Payable		509,036
200,000	Management fee payable to Taut Ltd	9	420,000
444,708	Premiums in Advance		520,232
12,902	Employee Entitlements		17,827
46,823	Claims Payable		253,111
75,000	Provision for Claims	16	100,000
1,213,202	Total Current Liabilities		1,820,206
675,536	Net Current Assets		(150,767)
243,232	Fixed Assets	4	279,406
1,006,230	Investments	6	500,000
1,924,998	NET ASSETS		628,639

MANAGER .... DATE ....

MANAGER ....

WHK Gosling Chapman
Partnership

This statement is to be read with the Notes and Auditors Report attached

THE PINNACLE LIFE INSURANCE PARTNERSHIP

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2009

2008		Note	2009
	Cash Flows from Operating Activities		
	Cash was provided from:		
3,400,685	Receipts from Customers		4,084,662
150,852	Interest Received		188,858
5,000	Reinsurance Commissions Received		-
1,693,117	Reinsurance Recovered		1,758,495
5,249,654			6,032,015
	Cash was applied to:		
(3,452,884)	Payments to Suppliers		(3,826,173)
(435,210)	Payments to Taut Ltd		(496,125)
(1,973,117)	Claims Paid		(2,000,075)
(263,774)	Payments to Employees		(570,876)
(427)	Interest Paid		
(5,718)	GST Paid		(3,503)
(6,131,130)			(6,896,752)
(881,476)	Net Cash Flows to Operating Activities	7	(864,737)
	Cash Flows from Investing Activities		
	Cash was provided from:		
38,952	Investments		503,859
	Cash was applied to:		
(153,412)	Fixed Assets		(253,362)
(114,460)	Net Cash Flows to Investing Activities		250,497
(995,936)			(614,240)
	Cash Flows from Financing Activities		
	Cash was provided from:		
250,625	Issue of Capital		64,101
383,594	Premiums Paid		144,141
634,219	Net Cash Flows from Financing Activities		208,242
(361,717)	Net Increase in Cash Held		(405,998)
2,160,246	Add Cash at Start of Year		1,798,529
1,798,529	BALANCE AT END OF YEAR		1,392,531

This statement is to be read with the Notes and Auditors Report attached

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Pinnacle Life Insurance Partnership was established under the Life Insurance Act 1908.

Pinnacle Life Insurance Partnership offers life insurance products to customers. All operations are performed in New Zealand within the insurance industry.

The significant accounting policies that have been adopted in the preparation of this financial report are:

BASIS FOR PRESENTATION

The financial report has been prepared in accordance with the New Zealand Equivalents to International Reporting Standards (NZIFRS), Companies Act 1993 and the Financial Reporting Act 1993. The financial statements have also been prepared on a historical cost basis except for financial assets that have been measured at fair value.

The financial statements are presented in New Zealand Dollars (NZD).

STATEMENT OF COMPLIANCE

The financial statements comply with Applicable Financial Reporting Standards which include New Zealand Equivalents to International Financial Reporting Standards ("NZIFRS"). Compliance with NZIFRS ensures that the financial statements comply with International Financial Reporting Standards ("IFRS").

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In applying the accounting policies of the partnership, management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the partnership.

In determining the policyholder liability at year end, significant assumptions have been made as documented in the Policyholder Liability Note.

Principles Underlying the Conduct of Life Insurance Business

The life insurance operations of the Partnership comprise the selling and administration of contracts which are classified only as insurance contracts.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness. Any products that do not meet the definition of a life insurance contract are classified as life investment contracts. The Partnership only sells insurance contracts.

Premium Revenue
Premiums on life insurance contracts are separated into their revenue and deposit components (if any). All the Partnership's contracts are recognised as revenue. Where policies provide for the payment of amounts of premiums on specific due dates, such premiums are recognised as revenue when due.

Claims Expense
Claims are recognised when the liability to a policyholder under a life insurance contract has been established or upon notification of the insured event. Claims on risk business are treated as an expense and are recognised when a liability to the policyholder is established.

Policy Acquisition Costs
The actuary, in determining the life insurance contract liabilities, takes account of any deferral and future recovery of acquisition costs which are capitalised by way of movement in life insurance contract liabilities, then amortised over the period in which they will be recoverable.

Outwards Reinsurance
Premiums ceded to the reinsurer under reinsurance contracts are recorded as an outwards reinsurance expense and are recognised over the period of indemnity of the reinsurance contract.

Life Insurance Contract Liabilities
Life insurance contract liabilities are ordinarily determined using a projection method, whereby estimates of policy cash flows (premiums, benefits, expenses and profit margins to be released in future periods) are projected into the future. The policy liability is calculated as the net present value of these projected cash flows using best estimate assumptions about the future.

Where the benefits are not linked to the performance of the backing assets, a risk free discount rate is used. The risk free discount rate is determined by the Actuary based on consideration of swap and government stock rates, depending on the term of the contract liabilities.

The assumptions used in the calculation of the policy liabilities are reviewed at each reporting date.

REVISIONS OF ACCOUNTING ESTIMATES

Revisions of accounting estimates are recognised prospectively in current and future periods only.

SPECIFIC ACCOUNTING POLICIES

The following specific accounting policies which materially affect the measurement of profit and the financial position have been applied.

Accounts Receivable
Accounts Receivable are stated at their expected realisable value.

Trade and Other Payables
Trade and other payables are stated at cost. The carrying value of trade and other payable are equal to the fair value.

Depreciation
All tangible non-current assets are depreciated by taking the depreciable amount and spreading this cost over the useful economic life of the asset on a straight-line basis. The depreciation amount represents the initial recognised cost at the date of acquisition, or that at the date when it becomes ready for use in the case of internally constructed assets, less any residual value.

Depreciation rates and methods are reviewed annually for appropriateness. Changes to depreciation rates and methods are reflected prospectively in current and future periods only. Depreciation is expensed through the Income Statement.

The depreciation rates used for each class of asset are as follows:

Furniture and Fittings	12.0% - 21.6% DV
Plant and Equipment	36.0% - 60.0% DV

Fixed Assets
Fixed Assets are recorded at cost and have been depreciated over their estimated useful lives.

Taxation
The Partnership has no liability for income tax. Accordingly, no account has been taken of the income tax consequences for the Partners of their investment in the Partnership.

Goods and Services Taxation
As the Partnership is in the business of providing Life Insurance Services, income and expenditure is accounted for on a GST inclusive basis. The percentage of GST claimable/payable in the GST return is 7.5% (2008 7.5%).

Financial Instruments
The Partnership has the following classes of financial instruments: bank accounts, receivables and payables, and long term investments. The financial instruments are valued at their estimated realisable value or settlement value.

Financial Assets
Financial assets, excluding cash and receivables, are classified at fair value through profit or loss in accordance with NZIAS 39. Financial assets are therefore initially recognised at cost in the balance sheet and subsequent remeasurement is at fair value. Purchases and sales of financial assets are accounted for at trade date. Unrealised profits and losses on subsequent remeasurement to fair value will be recognised in the income statement. Details of fair value for the different types of financial assets are listed below.

- Cash assets are carried at face value of the amounts deposited. The carrying amounts of cash assets approximate to their fair value. For the purposes of the statements of cash flows, cash includes cash on hand, deposits held at call with banks and investments in money market instruments.
- Trade receivables are accounted for as loans and receivables and are generally settled within 60 days and carried at amounts due. The collectability of debts is assessed at reporting date and specific provision is made for any doubtful accounts. The carrying amount of receivables approximates to their fair value.

Operating Leases
Leases are classified as operating leases when the lessor retains substantially all of the risks and benefits of ownership of the underlying asset. Payments made under operating leases are expenses on a straight-line basis over the term of the lease, except where an alternative basis would be more representative of the pattern of benefits to be derived form the leased property.

The underlying asset is not recognised on the balance sheet.

Impairment
If there is an indication that the carrying value of any asset exceeds its recoverable amount, an impairment review is performed to determine the deficit. Any resultant write-down is recognised as an expense in the reporting period in which it occurs unless the asset had previously been revalued, in which case the previous revaluation is written back with any excess being expenses.

Where a group of assets working together supports the generation of cash inflows, the recoverable amount is assessed in relation to that group of assets.

In assessing the value-in-use or non-current assets the relevant cash flows have been discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or group of assets.

Investments
Investments have been measured at amortised cost using the effective interest method, less any impairment losses.

Premiums Received
Premiums have been recognised in the Statement of Financial Performance in the period to which they relate.

Employee Benefit Expenses

Wages, Salaries and Annual Leave
Liabilities for short-term employee benefits expected to be settled within 12 months of the year end represent present obligations resulting from employees' services provided up to the reporting date. These amounts, including wages, salaries and annual leave, are recorded undiscounted and are based on expected remuneration rates at the reporting date.

Commissions Payable
20% of Commission entitlements on some broker-introduce policies are deferred for 12 months.

Critical Accounting Judgements and Estimates

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

The key factors that affect the estimation of these liabilities and related assets are:

- the cost of providing benefits and administering these insurance contracts;
- mortality and morbidity experience on life insurance products;
- discontinuance experience, which affects the company's ability to recover the cost of acquiring new business over the life of the contracts; and
- management.

In addition, factors such as regulation, competition, interest rates, taxes, securities market conditions and general economic conditions affect the level of these liabilities. Details of specific actuarial policies and methods are set out below.

Actuarial Policies and Methods

The discount rate used, gross of tax on investment income, was 5.3% per annum. The discount rate was set by reference to the 10 year Government Stock rate as at 31 March 2009 of 5.3%. The profit carrier used for each product projected was the expected net premium income.

The future maintenance and investment expenses used were based on recent investigations on the company's experience. The long term expense inflation rate used was 2.5% per annum. Premiums increased as per age based premium scales.

Expenses		
Policy Maintenance:	Individual:	$5 per month
	Group:	$3 per month per member
Investment Management Expense:		Nil
Policy Acquisition:	Individual:	$2,200 per policy
	Online:	$850 per policy
	Funeral:	$1,200 per policy
Claims Expense:		Nil

Taxation was assumed to continue at the current rates and on the current conditions.
Mortality was assumed to be the net reinsurance rates for each class of business.
Future rates if discontinuance were based on the experience of the partnership and range from 3.0% to 8.5% per annum depending on the duration in force.
No policies have a surrender value.

Policy Acquisition Expenses

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 costs relate to the costs incurred in acquiring specific life insurance policies during the period.

Policy Maintenance Expenses

Maintenance costs are the fixed and variable costs of administering policies subsequent to sale and maintaining the Partnership'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.

Claims Recognition

Claims incurred that relate to insurance contracts, providing services and bearing risks including protecting business, are treated as expenses. Claims are recognised when the liability to the policyowner under the policy contract has been established, or upon notification of the insured event depending on the type of claim.

Reinsurance

Reinsurance agreements provide for indemnification of the company by the reinsurer against loss or liability. Reinsurance income and expense are recognised separately in the income statement when they become due and payable in accordance with the reinsurance agreement.

Liabilities

Policy liabilities are measured at net present values of estimated future cash flows or, where the result would not be materially different, as the accumulated benefits available to policyholders. Other liabilities are measured at net present values and changes in their net present values arising from changes in the measurement of net present values are recognised in the income statement as revenues or expenses in the financial year in which the changes occur.

Policyholder Liabilities

Provision for Policy Liabilities

New Zealand Equivalent to International Financial Reporting Standard NO.4 – Insurance Contracts (NZIFRS4) sets out the methodology for measuring policyholder liabilities.

The provision for policy liabilities has been calculated using the New Zealand Margin of Services (MoS) method as set out in the New Zealand Society of Actuaries Professional Standard NO. 3 "Determination of Life Insurance Policies Liabilities".

The MoS policy liabilities represent the amount, which together with future premiums and investment earnings, will:

(a) meet the expected payments of future benefits and expenses, and
(b) provide for the systematic release of profit as policy services are provided and income is received or recognised.

The amount of equity retained as solvency reserves (see Note 8) has been determined in the manner prescribed by the New Zealand Society of Actuaries Professional Standard No 5 "Life Insurance Company Prudential Reserving".

Provision for incurred Claims

Provision has been made for estimated liabilities that arise from claims notified but not settled at balance date. Inclusion of a particular claim in this provision does not signify any admission of liability.

The actuarial report on policy liabilities and solvency reserves was prepared by Murray Hilder FIA FIAA FNZSA as at 31 March 2009. The amount of policy liabilities has been determined in accordance with the standards of the New Zealand Society of Actuaries. The actuary is satisfied as to the accuracy of the date from which the amount of policy liabilities has been determined.

Partners Interests

NZIFRS, does not allow for the inclusion of the value of a policy portfolio within the Statement of Financial Position of a life insurance business. However, a parent entity is entitled to recognise such values in respect of its subsidiary's life insurance businesses. As this business has been structured as a partnership, the Statement of Partners' Interests as stated in note 13 recognises how the Partners might record their respective interests in the business.

NEW STANDARDS ADOPTED AND INTERPRETATIONS NOT YET ADOPTED

The following standards and interpretations are not yet effective for the year ended 31 March 2009, and have not been applied in preparing these financial statements:

- NZ IFRS 8 - Operating Segments (application date: 1/1/09)
- NZ IAS 1 (revised) - Presentation of Financial Statements (application date: 1/1/09)

With reference to NZIAS 1 (revised), the amendments are expected to only affect the disclosure of the Partnership's financial statements and will not have a direct impact on the measurement and recognition of amounts within the financial statements. The Partnership has not determined at this stage whether to present the new statement of comprehensive income as a single or two statements. It is not expected that NZ IFRS 8 will have an impact on the financial statements.

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies. All policies have been applied on bases consistent with those used in previous years.

2. REINSURANCE

Assets arising from Reinsurance Contracts
Assets arising from reinsurance contracts are also computed using the methods described in Note 1 – Policyholder Liabilities. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the Partnership may not receive amounts due to it and these amounts can be reliably measured.

Commission
Included in the Partnership's income is Reinsurance Commission of Nil (2008 $5,000). The entitlement arises from contracts entered into prior to November 2004 and the arrangement has now expired. This entitlement from Hannover Life Re was on a non-recourse basis, other than out of the receipt of future premiums on the policies against which the advance has been made. Accordingly, it is not repayable in any way from the assets of the Partnership and has therefore been treated as income.

3. OPERATING LEASES

	31 March 2009	31 March 2008
Lease commitments under non-cancellable operating leases:		
0 – 1 years	23,367	21,846
1 – 5 years	9,736	30,948

4. FIXED ASSETS

	31 March 2009	31 March 2008
Furniture and Fittings (at cost)	7,548	5,108
Accumulated Depreciation	(3,055)	(2,393)
Closing Book Value	4,493	2,715
Plant and Equipment (at cost)	840,219	589,298
Accumulated Depreciation	(565,306)	(348,781)
Closing Book Value	274,913	240,517
Total Fixed Assets	$279,406	$243,232

5. FINANCIAL INSTRUMENTS

Credit Risks
Financial instruments which subject the Partnership to potential credit risk consist of cash, accounts receivable and long term investments. No collateral or other security is required to support any of these financial instruments.

Concentrations of Credit Risk
During the normal course of business, the Partnership incurs credit risk from accounts receivable and transactions with financial institutions.
The Partnership has one significant credit risk with a reinsurer which itself or through its parent organisation has a recognised credit rating of 'A' or above.

Currency and Interest Rate Risk
The Partnership has no exposure to currency risk.

Liquidity Risk
The Partnership is exposed to liquidity risk should it seek to rapidly sell down its portfolio on a large scale to meet policy cancellations.

Assets and Liabilities
There are no fair values of the Partnership's Assets and Liabilities which differ from the carrying values.

Counterparty Risk
Reinsurance Company.

Capital Risk Management
The Partnership's objectives when managing capital are to safeguard the Partnership's ability to continue as a going concern, so that it can continue to provide returns for partners and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Partnership may return capital to partners, issue new capital or sell assets to reduce debt.

6. INVESTMENT

Current
The investment in ANZ Bank Deposit has a face value of $200,000 (2008: $623,464) and matures on 5 May 2009.
The interest rate on this investment is fixed at 4.7%.

The investment in Westpac Bank Deposit has a face value of Nil (2008: $250,000)

The investment in Government Stock has a face value of $650,000 and matures on 15 July 2009.
The book value at 31 March 2009 is $653,859 (2008: $656,230).
The interest rate on this investment is fixed at 7.00%.
This investment is held by the Public Trustee for the benefit of the policyholders in terms of the Life Insurance Act 1908. ($500,000 of this is held in Investments).

The investment in BNZ Bank Deposit has a face value of $370,022 (2008: $350,000) and matures on 21 May 2009.
The interest rate on this investment is fixed at 7.4%.

These amounts are included in Investments and Cash and Cash Equivalents on the Balance Sheet.

7. RECONCILIATION OF NET LOSS WITH CASH INFLOW FROM OPERATING ACTIVITIES

	2009	2008
Reported Deficit After Taxation	(1,504,601)	(1,117,799)
Less Non-cash item – Depreciation	217,188	184,620
Less Non-cash item – Revaluation of Investments	2,371	2,378
	(1,285,042)	(930,801)
Movements in Working Capital:		
(Increase) Decrease in Accounts Receivable	23,093	(32,104)
(Increase) Decrease in Reinsurance Recoveries Receivable	(206,288)	(26,823)
(Increase) Decrease in GST Due	(3,503)	(5,718)
Increase (Decrease) in Accounts Payable	80,313	(120,811)
Increase (Decrease) in Management Fee Payable to Taut Ltd	220,000	200,000
Increase (Decrease) in Premiums in Advance	75,524	63,500
Increase (Decrease) in Claims Payable	206,288	(83,177)
Increase (Decrease) in Employee Entitlements	4,925	10,009
Increase (Decrease) in Reserve for Claims	25,000	31,503
Increase (Decrease) in Deferred Commissions	(5,047)	12,946
Net Cash Flow used in Operating Activities	$(864,737)	$(881,476)

8. ACTUARIAL ANALYSIS

(a) Policy liabilities

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

The key factors that affect the estimation of these liabilities and related assets are:

- the cost of providing benefits and administering these insurance contracts;
- mortality and morbidity experience on life insurance products;
- discontinuance experience, which affects the company's ability to recover the cost of acquiring new business over the life of the contracts; and
- management.

In addition, factors such as regulation, competition, interest rates, taxes, securities market conditions and general economic conditions affect the level of these liabilities. Details of specific actuarial policies and methods are set out in note 1.

(b) Assets arising from Reinsurance Contracts

Assets arising from reinsurance contracts are also computed using the above methods. In addition, the recoverability of these assets is assessed on a periodic basis to ensure that the balance is reflective of the amounts that will ultimately be received, taking into consideration factors such as counterparty and credit risk. Impairment is recognised where there is objective evidence that the Partnership may not receive amounts due to it and these amounts can be reliably measured.

Life Insurance Contract Liabilities

Value of policy liabilities – projection method	2009 $000s	2008 $000s
Future policy benefits	25,416	20,743
Future expenses	1,854	1,451
Reinsurance	7,664	6,002
Future profit margins	6,277	4,623
Future premiums	(47,539)	(38,122)
Net Policy Liabilities	**(6,328)**	**(5,303)**

Reconciliation of Movements in Life Insurance Contract Policy Liabilities

	2009 $000s	2008 $000s
Gross life insurance liabilities as at 1 April 2008	(11,305)	(6,247)
Acquired insurance contract liabilities	(2,562)	(699)
Increase / (decrease) in liabilities ceded under reinsurance	902	(4,560)
Increase / (decrease) in liabilities recognized in the income statement	(1,025)	201
Gross life insurance contract liabilities as at 31 March 2009	**(13,990)**	**(11,305)**

Liabilities ceded under reinsurance and life insurance contract liabilities recognised in the income statement for 2008 were restated to achieve consistency with disclosure in the current year.

Analysis of life insurance contract results

Life Insurance Contract	2009 $000s	2008 $000s
Planned profit margins	436	309
Experience profits / (losses)	(1,079)	(1,816)
Investment earnings on assets in excess of policy liabilities	163	181
Margin on Service Profit	(480)	(1,326)
Commission Due	-	5
Change in Additional Provisions	(1,025)	203
Operating profit after tax attributable to partners arising from the life insurance contracts	**(1,505)**	**(1,118)**

(c) Solvency requirements of life fund

The minimum equity required to be retained to meet solvency requirements over and above the policy liabilities for the partnership is shown below. The partner equity retained in the life insurance partnership exceeds these minimum requirements (refer note 14).

	2009 $000s	2008 $000s
Solvency Requirement	480	450
Represented by		
Policy liabilities	-	-
Other liabilities	-	-
Solvency reserve	480	450
Solvency Requirement	**480**	**450**
Assets available to meet Solvency Reserve	629	1,925
Excess assets above required	**149**	**1,475**
Required solvency reserve %	**76.4%**	**23.4%**

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

The effective date of the policy liabilities and solvency reserves calculation is 31 March 2009. The Actuary, Murray Hilder, FIA, FIAA, FNZSA has calculated policy liabilities for Pinnacle Life. The actuary is satisfied as to the accuracy of the data from which the policy liabilities have been determined.

This note summarises the assumptions made and the methods adopted for the calculations of Policy Liabilities and Solvency Requirements.

(i) Policy Liabilities
Policy liabilities for life insurance business have been determined in accordance with Professional Standard No.3 "Determination of Life Insurance Policy Liabilities" issued by the New Zealand Society of Actuaries for Pinnacle Life. This standard requires that policy 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 Policy Liabilities
Policy liabilities comprise the amount required to pay the expected future benefits and expenses after receiving expected future premiums and investment earnings.

The value of policy 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 partnership.

The partnership 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 Policy Liabilities - Projection method
The projection method uses expected cash flows (premiums, investment income, redemptions or benefit payments, expenses and profits) to establish the value of policy 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	Profit Carrier
Transferred yearly renewable and level term	Projection	Net premium
Underwritten yearly renewable and level term	Projection	Net premium
On line yearly renewable term	Projection	Net premium
Group life	Projection	Premium
Funeral Policy	Projection	Premium

(ii) Disclosure of assumptions
The following table summarises the key assumptions used in the calculation of policy 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 government bond rates, depending on the term of the contract liabilities.	The discount rates used were: March 2008 – 6% March 2009 – 5.3%
Inflation – all product groups	Determined based on economists forecasts.	Unchanged at 2.5%
Future Expense	Future renewal expense have been set based on experience analyses conducted by the partnership as well as the actuary's expectation of future expense levels, with an allowance for future inflation.	Unchanged at $60 for policies and $36 for group life.
Taxation	Rates of taxation have been set with regard to current tax laws.	Unchanged at 30%
Mortality	Risk product standard mortality rates New Zealand Insured Life 1997 adjusted for partnership experience and smoker non-smoker status or Reinsurance rates adjusted for expenses	The mortality rates used were: March 2008 – reinsurance rates for the particular related product group adjusted for expense and profit margins. March 2009 – as above for 2008
Discontinuances	Discontinuance rates have been assumed to consistent with the recent partnership 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. The long term assumptions for transferred and underwritten business are unchanged
Surrender Value	No policies have surrender values.	
Participation	No policies participate in profits.	

Effect of changes in actuarial assumptions during the reporting period

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

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

The impact of the 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 Change	Change in future Partnership profit margins $000	Change in next Financial Year's Partnership planned Profit $000	Change in Current Period Contract Liability $000	Change in Current Period Partnership Profit $000
Non-market related economic assumptions	-	-	-	-
Mortality and Morbidity	43	5	-	-
Discontinuances	7	1	-	-
Expenses	-	-	-	-

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

There were no material changes in the life insurance contract liabilities due to assumption changes for the year ended 31 March 2009.

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 partner equity.
Interest rate risk	Depending on the profile of the investment portfolio, the investment income of the partnership 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 partner 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 partner 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 partner equity. However, due to the interplay between the factors, there is not always an adverse outcome from an increase in discontinuance rates.
Market risk	For benefits which are not contractually linked to the underlying assets, the partnership is exposed to market risk

(iii) Sensitivity Analysis

The liabilities included in the reported results are calculated using certain assumptions about key variables as disclosed above. Sensitivity analysis is conducted to assess the impact of actual experience being different to that assumed in the calculation of liabilities. Movements in any key variable will impact the profit and partner equity of the partnership.

The tables below describe how a change in actual experience relative to that expected will affect next financial year's expected partner profit.

	Change in next financial year's partnership profit	
Variable	**Movement**	**Net of Reinsurance ($000)**
Mortality	Worsening by 10%	(36)
Discontinuances	Worsening by 10%	(95)
Renewal expense	Worsening by 10%	(28)

(iv) Solvency Requirements

Separate to the policy liabilities recognised in the Balance Sheet, life insurance businesses 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 "Professional Standard No. 5 Solvency Reserving for Life Insurance Business " issued by the New Zealand Society of Actuaries.

(v) Life Insurance Risk

The life insurance business of the partnership involves a number of non-financial risks concerned with the pricing, acceptance and management of the mortality, morbidity and longevity risks accepted from policyholders. Financial risks involving the partnership are in note 5.

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 through a contractual agreement with the reinsurer. Individual policies carrying insurance risk are underwritten on their merits and are not issued without having been examined and underwritten individually. Group risk insurance policies are underwritten on the merits of an employee group as a whole, subject to certain limits for individual members.

Claims Management Procedures

Claims are admitted in association with the reinsurer and specific policy conditions. Claims experience is reviewed regularly and appropriate actuarial reserves are established.

Reinsurance Management Procedures

The partnership holds appropriate reinsurance arrangements to limit exposure to individual and catastrophe risks. All reinsurance arrangements are approved by the managers.

Terms and conditions of life insurance contracts

The nature of the terms of the insurance contracts written by the partnership 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 Cash Flows
Life insurance contracts with fixed and guaranteed terms (Term Life and Disability including renewable term)	Guaranteed benefits paid on death, permanent and temporary disablement or maturity 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 affected by the performance of underlying assets or the performance of the contracts as a whole	Mortality, morbidity, lapses, expenses and market earnings on assets backing the liabilities

(vi) Concentration of insurance risk

The partnership 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 and group risk business. The partnership uses reinsurance to limit the insurance risk exposure for any one individual.

9. RELATED PARTY TRANSACTIONS

The Partnership has had related party transactions with the following investors in The Pinnacle Life Insurance Partnership:

Management fees of $716,125 (2008 $635,210) were charged by Taut Limited, a company in which Mr Noel Vaughan is a shareholder (balance unpaid as at 31 March 2009 $420,000 (2008 $200,000).

Advertising fees of $392,306 (2008 $222,994) were charged by Draft FCB Ltd, a company to which Mr Des Shaw is a Senior Consultant (balance unpaid as at 31 March 2009 $38,231 (2008 $25,219).

Legal fees of $5,034 (2008 $17,256) were charged by Patterson Hopkins, a Partnership of which Bill Patterson is a partner (balance unpaid as at 31 March 2009 Nil (2008 $Nil).

Capital Raising fees of Nil (2008 $37,424) were paid to Glaister Ennor, a Partnership of which Jack Porus is a Senior Partner (balance unpaid as at 31 March 2009 Nil (2008 $10,000).

The Partnership paid the following to Fifteen01 NZ Limited: advertising and promotion $60,309, management fees $90,450, reinvestment bonus $158,242, staff bonus $94,401 and other expenses $16,527 (2008 Nil) (balance unpaid as at 31 March 2009 $41,887 (2008 Nil). The Partnership also purchased management services and contract fees from Kabbalah Limited for Nil (2008 $192,526), and management fees from Fifteen01 Trust of $39,600 (2008 Nil). These entities are associated with Edwin Saul and Steven de Jong, investors in the Partnership, who were also paid salaried remuneration of $30,000 each (2008 $30,000) during the year. (Balance unpaid as at 31 March 2009 Nil (2008 $7,051).

All related party transactions are at arms length with standard trade terms.

There were no related party debts forgiven during the year.

10. NUMBER OF POLICIES IN FORCE

	2009	**2008**
Total Policies in Force	4,444	3,515

11. CAPITAL COMMITMENTS

There are no capital commitments at balance date (2008 $Nil).

12. CONTINGENT LIABILITIES

There were no contingent liabilities at balance date (2008 $Nil).

13. STATEMENT OF PARTNERS' INTERESTS

	2009	2008
Reported Surplus/(Deficit) after Taxation	(1,504,601)	(1,117,799)
Total Partners' Equity	628,639	1,924,998
Less: Fixed Assets	(279,406)	(243,232)
Plus: Policy Valuation		
- Value of Policy Book	9,610,802	7,978,457
- Appraisal Addition	13,235,769	8,421,793
Less: Capital Required	(1,500,000)	-
Total Partners' Interests	$21,695,804	$18,082,016

The policy values above are an assessment of the value of the inforce business and the net worth of the Partnership over time or in the event of the sale of the business. The value of the Policy Book and Appraisal Addition has been prepared by Murray Hilder FIAA FNZSA in a report dated June 11th 2009, using the embedded value and appraisal methods of valuation.

14. PARTNERS' EQUITY

	2009	2008
Opening Partners' Subscribed Capital	6,293,775	6,043,150
Plus Capital Introduced:	64,101	250,625
Closing Partners' Subscribed Capital	6,357,876	6,293,775
Opening Accumulated Premiums	2,470,819	2,087,225
Plus New Premiums Paid	144,141	383,594
Closing Accumulated Premiums	2,614,960	2,470,819
Total Capital and Premiums	8,972,836	8,764,594
Accumulated Deficit	(8,344,197)	(6,839,596)
Closing Partners' Equity	$628,639	$1,924,998
Equity retained for solvency purposes	480,000	450,000
Equity available for distribution and wholly attributable to the partners	148,639	1,474,998

15. STATEMENT OF PARTNER'S SHARE VALUE

	2009	2008
Total Partners' Interests	21,695,804	18,082,016
Closing Partners' Capital	6,357,876	6,293,775
Value per dollar of Partners' Capital	$3.41	$2.87

16. PROVISION FOR CLAIMS

The Claims provision represents an estimate of claims payable based on the Partnership portion of claims payable in respect of premiums received.

	2009	2008
Balance at beginning of year	75,000	43,497
Claims provided for:	307,084	196,503
Reversal of unused amount:	(20,504)	
Claims paid:	(261,580)	(165,000)
Balance at end of year	$100,000	$75,000

17. SEGMENT INFORMATION

The Partnership operates in the insurance industry in one geographical area – New Zealand.

18. DEFERRED ACQUISITION CHARGES

The Partnership has never recorded any charge for deferred acquisition costs.

19. RATINGS

The Partnership does not have an independent rating as it is not required to do so under any New Zealand Legislation.

WHK Gosling Chapman

AUDITORS' REPORT

TO THE READERS OF THE FINANCIAL STATEMENTS OF

THE PINNACLE LIFE INSURANCE PARTNERSHIP

We have audited the financial statements on pages 2 to 22. The financial statements provide information about the past financial performance of the partnership and its financial position as at 31 March 2009. This information is stated in accordance with the accounting policies set out on pages 6 to 12.

Manager's Responsibilities

The manager is responsible for the preparation of the financial statements which give a true and fair view of the financial position of the partnership as at 31 March 2009 and of the results of operations and cashflows for the year ended on that date.

Auditors' Responsibilities

It is our responsibility to express to you an independent opinion on the financial statements presented by the manager.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the manager in the preparation of the financial statements; and
- whether the accounting policies are appropriate to the partnership's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary, in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than our capacity as auditor we have no other relationship or interests in the partnership.

WHK Gosling Chapman

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the partnership as far as appears from our examination of those records; and

- the financial statements on pages 2 to 22

  - comply with generally accepted accounting practice in New Zealand; and

  - give a true and fair view of the financial position of the partnership as at 31 March 2009 and the results of its operations and cashflows for the year ended on that date.

Our audit was completed on 15 June 2009 and our unqualified opinion is expressed as at that date.

WHK Gosling Chapman Partnership

Auckland, New Zealand

CHARTERED ACCOUNTANTS