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Pinnacle Life
Annual Report and Accounts
2010

The Directors of Taut Ltd are pleased to present the Annual Report and Financial Statements of The Pinnacle Life Insurance Partnership for the year ended 31st March 2010.

www.pinnaclelife.co.nz

PINNACLE LIFE

Contents

Annual General Meeting

The Annual General Meeting of the Partners of The Pinnacle Life Insurance Partnership will be held at 18.00 on Tuesday July 27th at the Offices of Pinnacle Life: Gillies Avenue Office Park - Level 2, 27 Gillies Ave Newmarket

The business of the meeting is to

- receive Apologies
- confirm the Minutes of the previous meeting
- receive and discuss the Annual Financial Statements
- approve the Business Strategy and Budget
- approve the basis of determination of a potential Bonus for Taut Ltd
- deal with any General Business.

The minutes, annual report, accounts, business strategy and budgets are attached.

N E Vaughan
2nd July 2010

Governance

The Directors of Taut Ltd, the managers of the Partnership, are

Gerry Rea FCA Chairman
Desmond Shaw
Jack Porus LLB
Noel Vaughan FIA FIAA FNZSA Managing Director

All of the Directors have held office for the full year and attended all four board meetings. They each own at least a partial share in the Partnership. The Directors remuneration is paid by Taut Ltd from the annual fee paid by the Partnership.

The Partnership is engaged in the business of underwriting risk based life covers and this has not changed in the last year. The management of the Partnership is contracted to Taut Ltd which receives both an annual fee and incentive bonus as set by the Partnership at each AGM. None of the eight employees of the Partnership earned salaries in excess of $100,000 during the year under review.

During the year the Partnership admitted six new Partners. Details of all partnership share movements for the year are held in the Partnership Register.

The Partnership pays a modest sum as sponsorship payments to access some data bases for advertising purposes. No donations have been paid to any third party.

The Directors are of the opinion that the state of affairs of the Partnership is satisfactory.

Summary Financials

	2008	2009	2010
PARTNER EQUITY			
Total Capital & Premiums	8,764,594	8,972,836	13,753,736
Deduct Premiums	2,470,819	2,614,960	5,828,396
Partner Subscribed Capital	6,293,775	6,357,876	7,925,340
TAX LOSS DISTRIBUTIONS			
Net Face Value	2,031 562	2,850,969	4,023,159
Estimated Value at Maximum personal tax rates	792,309	1,111,878	1,528,800
Tax Credit	---	52,270	---
Estimated Cash value	792.309	1,164,148	1,528,800
% Return on Last Year Share Price	4.86%	6.38%	5.66%
PARTNER'S INTERESTS			
Appraisal Value	18,082 016	21,695,804	32,182,748
Share Price	2.87	3.41	4.06
% Increase	10.81%	18.81%	19.06 %
Total Return For Year	**15.67%**	**25.19%**	**24.72%**

The statement of Partner's Interests is based on an assessment of the value of the in force 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 the appraisal addition has been prepared by Murray Hilder FIA FIAA FNZSA in a report dated 2th July 2010 using recognized embedded value and appraisal methods of valuation.

2009 – 10 Annual Report

The Chairman's Notes

We have had a very good year and have been given the capital to accelerate expansion

- I would particularly like to welcome those new Partners who have joined the Pinnacle family of investors. We have exciting times ahead. I am also very appreciative of the support we received from some of our long standing investors as together you have provided a platform for our future expansion.

- We will be using the increased capital to move our advertising activity towards TV as it is the medium that is likely to deliver the increased policy volume we seek. This move will be a cautious one as the Board believes that we need to experience the outworking as to sales before we make substantial commitments to the much higher exposure costs that are involved.

- Following confirmation of the available capital we have shifted offices and moved to employ additional staff to improve our policy issue and policy management capacities. For some years our staff have operated in very tight conditions and our new offices, again in Newmarket, are a step up from our more humble beginnings.

- Our staff has been the backbone of the business and I would like to thank them sincerely for their efforts on your behalf.

- Following a review by KPMG about the extent to which our accounts reflect current Accounting and IFRS Standards, this year's Balance Sheet has been recast to include the Insurance contract liabilities and their associated reassurance adjustments. The prior period comparatives have also been restated and the movement in these components is now also reflected in the Statement of Financial Performance. These welcome changes bring our formal reporting to the common standard of the Life Insurance Industry.

- Hannover Re, our reinsurer, has again provided wonderful support to our business both in its operations and in its quest for further growth. I would like to record my thanks to them both for their actions and the manner in which they have provided their support.

- Pinnacle's capital raising was bought to a conclusion as the year ended. In the event we received a sum of $4.35 million. This amount together with a facility Hannover Life Re has made available, estimated at about $2 million, is more than sufficient for the business to achieve the objectives set out in the information memorandum.

- The share value for this year has risen 19.06% from $3.41 to $4.06.
  The tax loss for the year increased by 41% over last year and on a starting share price of $3.41 represented a further return of 5.66%. This continues our recent year investment reward pattern of above 20% pa.

- The tax paid return for the year inclusive of the tax loss, on a base share price of $3.41 is 24.72%. The budget expectation was for 22.67%. For those who placed further funds with us at $3.00 the investment return will exceed 40%.

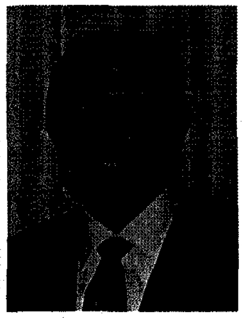
- We have had a solid year of growth. Total new policy volumes were up by 47.5%. Online sales being up by a spectacular 65%.

- We reached an earned premium milestone of over $5 million for the year. An increase of 24.9% for the year and 1.25% ahead of budget. It has taken us 11 years to build to this milestone but such is our foundation and new capital resources that we aim to double that number in the next three years.

- The increased capital will allow us to move our advertising activities to TV. As the year ended plans to cautiously launch into TV were well advanced. This is expected to allow us to continue to grow new policy sales for the next few years at rates close to 30% a year.

- Government interventions, which your Board has monitored closely, continued to move to implementation stages as the year concluded. We do not envisage any serious difficulty complying with the new requirements.

Management Review



- Earned Premium income for the year just completed amounted to $5,001,414 which was just over 101 % of the budget estimate. New policy premiums at an annualized $1,225,000 million exceeded 1 million for the first time.

	2008	2009	2010
Premium Revenue	3,337,185	4,009,138	5,001,414
New Policy premiums	509,401	871,132	1,216,173

- Claims: Pinnacle paid $3,081,012 in 17 claims during the year. This was well up on the previous year's total.

	2008	2009	2010
Claims paid gross	1,889,940	2,216,363	3,081,012
Reinsurance recovery	1,724.940	1,964,783	2,665,895
Net cost to Pinnacle	165,000	251,580	415,117

This year's claims exceeded the premium allowance and the claims reserve was called upon to pay the excess.

- Exits: The recession was responsible for a surge in those lapsing or cancelling their policies. The rate was noticeably higher in the earlier part of the year but returned to more normal levels as the year progressed. It remains higher among those policies purchased online. This same early year surge pattern was noticed among those who missed a standard monthly premium.

- Pinnacle's Online standing remains the area of excitement. We targeted our advertising spending towards attracting such policies and the volume increase at 67% was impressive. We added some additional policy types to our mix but these have been modest sellers, and our strategy to attract additional premiums from these additions has been recast as the new year commences.

- As the year ended and the quantum of new capital became obvious we moved to have DraftFCB, our advertising agency, commission three TV commercials. In addition we were able to place ads for the two months of May and June. Placing subsequent months of TV exposure was delayed pending analysis of the initial impact. The current view is that we should continue on the TV3, Prime, SKY mix that we commenced with.

- We have during this period moved to using the new commercial message on Radio as we did not want to abandon the base we had created in this medium. Radio ads date and we experienced this as the year drew to a close.

- Financially we spent slightly more than the approved budget (102%) The major excess spending occurred in support advertising and commission payments which were related to our above budget gains in business volumes.

- The disappointment of the year was the decline in the average premium received on new policies. We had expected an increase but online policies generally carry smaller premiums than those who qualify for our "20% off" offer and with the weight of new policies coming from online sources the average declined. We had expected our Serious Illness product to counter this impact but it failed to do so and its positioning on the Website has been changed to help get the growth we expect.

- Government Intervention moved from plans to specific legislation during the year. The tax position has been finalized and will come into force from 1st July 2010. We have increased our new policy prices by 10% from this date with a further three years of annual 3% increases to follow. There is a small subsidy involved in this package as the full impact is just under 20% but the delay is necessary to ensure that we remain the lowest cost provider in the market. With the major offices mostly also subsidizing their future new policies we felt it prudent to follow the pattern they had established. Most existing policies have some grandfathered protection but will equally need to have their post five year premiums increased. Our overarching strategy has been to ensure that the policyholders pay the increased impost although for timing reasons Partners will see some impact during the first few years.

- Further interventions include new prudential and financial supervision - the Bill has just been reported back from the Select Committee. This will have a modest impact on our management and governance activities. It will require us to acquire a rating and we have commenced discussions with AM Best to achieve this. We will also need to join industry bodies and dispute resolution services. It will add some modest additional compliance costs and divert some time to servicing the requirements. It is unlikely to have any impact on our financial or solvency standards.

- Finally there is the Financial Advisers Legislation. The recent amending legislation has been reported back and it appears that Pinnacle Life can now be categorized as a Category II provider. The impact means that our compliance costs with this legislation will be modest, as our online distribution model is not structured towards providing advice to consumers.

Business Strategy

The strategy recommended by the Directors is to: look for systematic and deliberative growth through:

- Moving the advertising activity strongly into a mix of TV and Radio exposures.
- Focusing on utilizing the potentially very economically efficient Online distribution channel.
- Using the additional capital sparingly in the quest to expand the business uniformly over the next few years.
- Lifting the premium revenue to broadly neutralize the impact of the changes to the tax position of Life Insurance.
- Keeping the "20% off" offer as a flagship promotion as the industry navigates the tax induced premium adjustments.
- Maintaining compliance with the various new acts as they become effective.

If we can achieve these outcomes we expect both another year of growth, and to achieve our objective of investor reward above 20% for the year.

That reward will include a further year of tax losses at a similar level to that achieved this year.

Management Fee

The Partnership Deed currently specifies the terms of the base fee payable to the Manager Taut Ltd. That fee for this year has been $360,000 and it will increase by 7.3% to $386,238 this year in accordance with the provisions of the Deed.

The Deed further requires that any incentive Bonus paid to the Manager be determined on a basis agreed by Partners at the previous Annual General Meeting.

- Last year the bonus was set at 7.5% of the base fee for each 1% by which the investor return exceed 15% for the year. Where investor return includes the value of the tax loss distribution at the maximum personal tax rate.

This basis produced a bonus excluding GST of $262,386 for the year to March 2010.

It is proposed that the Bonus for the year ahead be set on exactly the same terms. You will note that should the return for the year drop below 15% the bonus will be nil. If the investor return achieves a similar result as this year the bonus would emerge with a similar 7% increase over the level just paid.

Budget

The report follows.

N.E. Vaughan

N E VAUGHAN
Managing Director
Taut Ltd Managers of the Pinnacle Life Insurance Partnership.

Pinnacle Life Budgets

	2010 Actual	2011 Budget	2012 Budget
Earned premiums	5006153	6345454	8173785
Reassurance premiums paid	2827602	3436237	4224388
OPERATIONAL REVENUE			
Balance earned premiums	1806410	2481114	3457413
Retained claim reserve revenue	372141	192843	240062
Net claims paid	-415117	-146000	-160000
Increase in "premiums in advance"	73605	78000	84000
Interest	82260	139690	150350
Sub Total operational revenue	1919299	2745647	3771826
PAYMENTS			
GST refund	-25722	-35000	-40000
Advertising and promotion	951172	1800003	2200000
Foregone premiums	12324	14000	21000
Salaries	567929	751000	852500
Online direct costs	456144	358632	503716
New policy commission paid	427437	403000	412000
Compliance Public &Perpetual Trust; Company's Office. Insurance; Ratings	344711	75000	90000
Consultants Audit; Accounting; Tax; Actuarial; Legal	237095	145000	170000
Rentals	219361	66000	72000
Maintenance		108000	114000
Bank fees	16375	20950	27450
Telephone postage stationery	57810	73200	73500
Other management costs	41944	52000	62000
Management fees	836378	732377	658602
Subtotal expenditure excluding claims	4142958	4564161	5216768
OPERATIONS revenue less expenses plus claims	-2223659	-1818515	-1444941
CAPITAL MOVEMENTS			
New capital subscribed	4780900	309941	402824
Reinsurance commission received	0	1423331	292437
Quota share premium debt repayments	0	14233	17158
Capital purchases	155634	160000	155000
Net capital for year	4625266	1559039	523102
NON CASH OTHER EXPENSES			
Non cash depreciation	226191	243000	225000
Deferred commission accrued	14594	10000	0
Management bonus Accrual	-190929	-95000	200000
DEDUCTABLE EXPENSES	4192814	4787161	5616768
Investment income	82260	139690	150350
Underwriting Income 20% risk	48791	265829	473863
Underwriting Income mortality profit	-243957	46843	80062
Underwriting income discontinuance profit	10569	12000	12000
other adjustments	271992	1691	783237
TAX LOSS Estimate	4023159	4324490	4117256
Tax loss per share			
Cash equivalent @ max personal rate	0.19290	0.19206	0.16840
Value as % share price	5.66	4.73	3.56

Pinnacle Life Balance Sheet Projections

	2010 Actual	2011 Budget	2012 Budget
LIABILITIES			
Net claim reserve	57024	125000	150000
premiums in advance	630704	852222	1011987
trade creditors	300208	150000	175000
Consultant creditors +Taut bonus	299073	269073	444073
reinsurance premiums due	256680	325774	407012
deferred commission	84537	40000	40000
other plus employee	93505	20000	25000
subtotal	1721731	1782069	2253070
ASSETS			
Bank + bank deposits	3086697	2872046	2000292
Others + reinsurance recovery	247699	30000	25000
Fixed Assets	208849	125849	55849
Government stock	1307411	1251875	1160305
subtotal	4850656	4275272	3296669
Assets less Current Liabilities	3128925	24373040	968531
Value Policy Book	13737078	18181189	23622385
less adjustments -includes Hannover commitments	612448	1843274	2327941
EMBEDDED VALUE	16253555	18810955	22262975
APPRAISAL ADDITION	15929193	19027443	24279833
APPRAISAL VALUE	32182748	37838399	46542808
CAPITAL SUBSCRIBED	7925340	7993496	8068399
SHARE PRICE Capital value per $	4.06	4.73	5.77
Embedded	2.05	2.35	2.76
Appraisal	2.01	2.38	3.01

THE PINNACLE LIFE INSURANCE PARTNERSHIP

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2010

2009		2010
6,137,315	TOTAL OPERATING REVENUE	8,176,457
	Underwriting Account	
4,009,138	Gross Premiums Earned	5,001,414
4,009,138	Premium Income	5,001,414
2,388,610	Less Gross Reinsurance Ceded	2,830,397
1,620,528	Net Premium Income	2,171,017
163,394	Finance Income (net)	82,260
1,783,922	Total Income	2,253,277
	Direct Expenses	
2,206,363	Gross Claims Incurred	3,477,096
1,964,783	Less Reinsurance Recovered	3,092,784
25,000	Provision for Claims	(42,976)
266,580	Net Claims Expense	341,336
1,517,342	Operating Revenue After Payments To Policyholders	1,911,941
1,024,747	Movement in Gross Contract Liabilities	2,575,051
	Other Operating Expenses	
100,204	Policy Acquisition - Management Fees	128,064
29,092	Policy Maintenance - Management Fees	37,180
716,125	Management fees - Taut Ltd	702,878
490,468	On-Line	736,352
586,982	Policy Acquisition Expenses	764,210
575,800	Employee Benefits Expense	850,728
662	Depreciation - Furniture & Fittings	770
46,225	Depreciation - Plant & Equipment	45,827
170,301	Amortisation Expense	179,594
28,414	Audit Fees	23,613
30,794	Rent Expense	54,093
246,874	Other Expenses	401,004
3,021,942	Total Expenses	3,924,313
(479,853)	Net Operating Surplus/(Deficit)	562,679
-	Other Comprehensive Income	-
(479,853)	TOTAL COMPREHENSIVE INCOME FOR THE YEAR	562,679

THE PINNACLE LIFE INSURANCE PARTNERSHIP

STATEMENT OF CHANGES IN PARTNERS' EQUITY FOR THE YEAR ENDED 31 MARCH 2010

2009		Note	Partners' Equity	Subscribed Capital	Accumulated Premiums	2010 Total
1,924,998	Balance at Beginning of Year	14	(2,016,699)	6,357,876	2,614,960	6,956,137
5,302,750	Effect of Change in accounting policy					-
(479,853)	Total Comprehensive Income		562,679			562,679
(479,853)	Total Recognised Revenue and Expenses		562,679			562,679
64,101	Capital Introduced			1,567,464		1,567,464
144,141	Premium Paid				3,213,436	3,213,436
-	Capital Raising Costs				(268,243)	(268,243)
6,956,137	TOTAL PARTNERS' EQUITY		(1,454,020)	7,925,340	5,560,153	12,031,473

THE PINNACLE LIFE INSURANCE PARTNERSHIP

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2010

01/04/2008 Restated	31/03/2009 Restated			2010
7,227,748	6,956,137	Total Partners' Equity	14	12,031,473
		Represented By:		
		Current Assets		
1,798,529	1,392,530	Cash & Cash Equivalents		3,092,937
63,386	43,797	Accounts Receivable		247,699
26,823	233,111	Reinsurance Recoveries Receivable		397,787
1,888,738	1,669,438	Total Current Assets		3,738,422
		Current Liabilities		
633,769	509,034	Accounts Payable		702,391
-	420,000	Management fee payable to Taut Ltd		260,000
444,708	520,232	Premiums in Advance		630,704
12,902	17,827	Employee Entitlements		17,851
46,823	253,111	Claims Payable		457,787
75,000	100,000	Provision for Claims	15	57,024
1,213,202	1,820,204	Total Current Liabilities		2,125,756
675,536	(150,766)	Net Current Assets		1,612,666
		Non-Current Asset		
11,305,068	13,991,847	Life Insurance Contract Liabilities	9	17,145,883
243,232	68,845	Fixed Assets	3	50,133
-	210,561	Intangible Assets	4	158,715
1,006,230	500,000	Investments	7	1,307,411
13,230,066	14,620,487			20,274,808
		Non-Current Liabilities		
6,002,318	7,664,350	Liabilities Ceded under Reinsurance	9	8,243,335
7,227,748	6,956,137	NET ASSETS		12,031,473

MANAGER .... DATE 2.7.10

MANAGER ....

THE PINNACLE LIFE INSURANCE PARTNERSHIP

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2010

2009			2010
	Cash Flows from Operating Activities		
	Cash was provided from:		
4,084,662	Receipts from Customers		5,111,885
188,858	Interest Received		61,016
1,758,495	Reinsurance Recovered		2,928,108
6,032,015			8,101,009
	Cash was applied to:		
(3,826,173)	Payments to Suppliers		(4,803,914)
(496,125)	Payments to Taut Ltd		(862,880)
(2,000,075)	Claims Paid		(3,272,420)
(570,876)	Payments to Employees		(850,704)
(3,503)	GST Paid		(10,297)
(6,896,752)			(9,800,215)
(864,737)	Net Cash Flows to Operating Activities	8	(1,699,206)
	Cash Flows from Investing Activities		
	Cash was provided from:		
503,859	Investments		(807,411)
	Cash was applied to:		
(253,362)	Fixed & Intangible Assets		(155,634)
250,497	Net Cash Flows to Investing Activities		(963,045)
(614,240)			(2,662,251)
	Cash Flows from Financing Activities		
	Cash was provided from:		
64,101	Issue of Capital		1,517,464
144,141	Premiums Paid		2,845,193
208,242	Net Cash Flows from Financing Activities		4,362,657
(405,998)	Net Increase in Cash Held		1,700,406
1,798,529	Add Cash at Start of Year		1,392,531
1,392,531	BALANCE AT END OF YEAR		3,092,937

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 OF PREPARATION

The Partnership is a profit oriented entity for the purposes of complying with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). The financial statements have been prepared in accordance with NZ GAAP. They comply with NZ IFRSs, and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities.

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 been prepared under the historical cost convention, as modified by the revaluation of certain assets and liabilities at fair value through profit loss and policyholder liabilities which are at net present 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").

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.

NEW ACCOUNTING STANDARDS ADOPTED

The accounting policies adapted are consistent with those of the previous financial year except as follows:

The Pinnacle Life Insurance Partnership has adapted the following new and amended New Zealand Equivalents to International Financial Reporting Standards and interpretations as of 1 April 2009:

- NZ IAS 1: Presentation of Financial Statements (revised 2007) effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is 'non owner changes in equity') in the statement of changes in equity, requiring 'non owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Pinnacle have elected to present one statement: the Statement of Comprehensive Income.

- NZ IFRS8: Operating Segments. NZ IFRS8 replaces IAS 14 "Segment Reporting", and requires a 'management approach' effective 1 January 2009. This means the segments need to be presented on the same basis as that used for internal reporting purposes. This has not had a significant impact on disclosure on the basis that the Partnership only operates in one segment.

- NZ IFRS 7 Financial Instruments Disclosures effective 1 January 2009. This requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption results in additional disclosures but does not have an impact on the Partnership's financial position or performance.

- Improvements to NZ IFRSs May 2009 effective 1 January 2009.

SPECIFIC ACCOUNTING POLICIES

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

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. Unpaid premiums are only recognised as revenue during the days of grace and are not recognised where policies are deemed to have lapsed at balance date. Premiums received in advance of due date are deferred and carried as current liabilities in the balance sheet as Premiums in Advance and amortised to the income statement over the period of the services provided under the insurance contract.

Claims Expense

Claims incurred that relate to the provision of services and bearing of risks are recognised as an expense in the income statement 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, together with the estimated cost of claims incurred but not reported until after year end.

Basis of expense apportionment

All operating expenses have been apportioned between policy acquisition and policy maintenance expenses. These are further explained under actuarial policies and methods.

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 in the income statement. This expense in the income statement is then offset by the recognition in the income statement of movements in policy liabilities. The Actuary determines the life insurance contract liabilities and the movements therein, taking account of any deferral and future recovery of acquisition costs which are capitalised by way of movement in life insurance contract liabilities. These are then amortised over the period in which they will be recoverable, being recorded as part of movements in policy liabilities in the income statement.

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. Maintenance expenses are recognised in the income statement at cost in the period to which they relate.

Outwards Reinsurance

Reinsurance agreements provide for indemnification of the Partnership by the reinsurer against loss or liability. Premiums ceded to the reinsurer under reinsurance contracts are recorded as an outwards reinsurance expense in the income statement and are recognised over the period of indemnity of the reinsurance contract. Reinsurance rebates on the reinsurance premium are recognised as part of outwards reinsurance premium in the income statement. Reinsurance recoveries are recognised separately in the income statement when the related incurred claim is recognised.

Life Insurance Contract Liabilities

Life insurance contact liabilities are determined using the Margin on Services, ("MoS") methodology in accordance with New Zealand Society of Actuaries Professional Standard 3 "Determination of Life Insurance Policy Liabilities of the New Zealand Society of Actuaries, 2007".

MoS is designed to recognise profits on life insurance as services are provided to policyholders and income is received. Profits are deferred and amortised over the life of policies, whereas losses are recognised immediately as they arise.

A projection method is used, whereby estimates of policy cash flows (premiums, benefits, expenses, reinsurance premiums, reinsurance repayments and profits 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, or where the result would not be materially different, as the accumulated benefits available to policyholders.

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.

Other liabilities

Other liabilities are measure 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.

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 diminishing value 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.

Intangible Assets

Intangible Assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a diminishing value basis over their estimated useful lives. The estimated useful lives, residual value and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

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% (2009 7.5%).

Financial Instruments

The Partnership has the following classes of financial assets: bank accounts, receivables, payables, and long term investments.

Recognition and de-recognition

Financial instruments are recognised when Pinnacle becomes a party to the contractual provisions of a particular instrument. Financial assets are de-recognised when the rights to receive future cash flows from the assets have expired, or have been transferred, and Pinnacle has transferred substantially all risks and rewards of ownership. A financial liability is de-recognised when the liability is extinguished, that is, when the obligation specified in the contract is discharged, cancelled or expired.

Interest income

Interest income is recognised in the income statement as Finance Income using the effective interest method taking into account the expected timing and amount of cash flows.

Financial Assets

(i) Classification

Investments, which are financial assets backing life insurance liabilities, are designated as fair value through profit and loss to eliminate or reduce any inconsistency that would otherwise arise from measuring assets and liabilities.

Cash and cash equivalents, accounts receivable and reinsurance recoveries receivable are classified as loans and receivables.

(ii) Initial recognition

When financial assets are recognised initially they are measured at fair value, plus directly attributable transaction costs, in respect of instruments not classified as fair value through the profit loss. Purchases and sales of financial assets are accounted for at trade date.

(iii) Subsequent measurement

Financial assets as fair value through profit and loss are subsequently stated at fair value, with any resultant gain of loss recognised in the income statement.

Cash and account receivables are subsequently measured at amortised cost less impairment losses. Trade receivables are generally settled within 60 days and carried at amount due. The collectability of debts is assessed at reporting date and specific provision is made for any doubtful accounts. The carrying amount of receivables 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.

Reinsurance recoveries arising from reinsurance contracts are computed using methods described in Policy 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.

(iv) Fair value

Fair values of investments are determined by reference to quoted bid prices.
Given the short term nature of cash and receivables the carrying value approximates fair value.

Financial liabilities

All accounts payable and claims payable are initially recognised at fair value less directly attributable costs. After initial recognition, they are subsequently measured at amortised cost using the effective interest method. Given the short settlement period for accounts payable and claims payable, no discounting is required, with the carry values approximating fair values.

The present value of future reinsurance repayments payable by the Partnership in accordance with the reinsurance agreements is computed using methods described in Policy Liabilities and is recognised separately from policy liabilities in the statement of financial position.

Provisions

Provisions are recognised when Pinnacle has a current legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation. Where Pinnacle expects some or all of a provision to be reimbursed, for example under Pinnacle's reinsurance arrangement, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. If the effect of discounting provisions is material, provisions are discounted. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Future operating costs or losses are not provided for.

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 expensed 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 in the statement of financial position.

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 expensed.

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

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.

Commission Income

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

Critical Accounting Judgments and Estimates
We have calculated policy liabilities based on assumptions and using sensitivity analysis as referred to in note 9 (d).

Insurance Contract Liabilities (Assets)
Insurance contracts 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 9.

Liabilities arising from Reinsurance Contracts

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

Provision for incurred Claims

Provision has been made for estimated liabilities that arise from claims notified but not settled at balance date. There has been no allowance made for unknown claims at balance date as life insurance claims are generally lodged promptly and are therefore known at the time of the financial statement preparation. 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 dated 2nd June 2010. 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.

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE

The following issued standards, Interpretations and Amendments have not been applied by the Partnership:

NZ IFRS 9 – Financial Instruments, effective date 1 January 2013. The standard is not expected to have an impact on management's current classification of financial assets of the Partnership. Applicable date, 1 April 2013.

CHANGES IN ACCOUNTING POLICIES

The opening retained earnings at 1 April 2008 and the 2009 comparatives have been restated to recognise policyholder liabilities in the statement of financial position, and the movement in policyholder liabilities in the income statements. These were not previously included.

2. OPERATING LEASES

	31 March 2010	31 March 2009
Lease commitments under non-cancellable operating leases:		
0 – 1 years	59,127	23,367
1 – 5 years	117,328	9,736

Operating lease payments represent the future rentals payable for office space under current leases. The office lease is for 3 X 3 years with rental rates reviewed every 2 years.

3. FIXED ASSETS

	31 March 2010	31 March 2009
Furniture and Fittings		
Net book value 1 April 2009	4,493	2,715
Additions	-	2,440
Depreciation Charge	(770)	(662)
Net Book Value 31 March 2010	3,723	4,493
At Cost	7,548	7,548
Accumulated Depreciation	(3,825)	(3,055)
Net Book Value 31 March 2010	3,723	4,493
Plant and Equipment		
Net book value 1 April 2009	64,352	82,692
Additions	27,885	27,885
Depreciation Charge	(45,827)	(46,225)
Net Book Value 31 March 2010	46,410	64,352
At Cost	179,357	151,472
Accumulated Depreciation	(132,947)	(87,120)
Net Book Value 31 March 2010	46,410	64,352
Total Fixed Assets	$50,133	$68,845

In the 2010 year, software assets have been re-categorised from plant and equipment to intangible assets, including the comparatives.

4. INTANGIBLE ASSETS

	31 March 2010	31 March 2009
Software		
Net Book Value 1 April 2009	210,560	157,824
Additions at Cost	127,749	223,037
Amortisation Expense	(179,594)	(170,301)
Net Book Value 31 March 2010	158,715	210,560
At Cost	816,496	688,747
Accumulated Impairment Losses	(657,781)	(478,187)
Net Book Value 31 March 2010	158,715	210,560

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. FAIR VALUE

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective fair values, determined in accordance with the Partnership's accounting policies.

The Partnership adopted the amendment to IFRS 7, effective 1 January 2009. This requires the Partnership to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability. The determination of what constitutes 'observable' requires significant judgement by the Partnership. The Partnership considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following table analyses within the fair value hierarchy the Partnership's financial assets and liabilities (by class) measured at fair value:

March 2010:

Assets	Level 1	Level 2	Level 3	Total Balance
Financial Assets at Fair value Through Profit or Loss:		1,307,411		1,307,411
Total		**1,307,411**		**1,307,411**

7. **INVESTMENTS**

Current
The investment in ANZ Bank Deposit has a face value of $207,333 (2009: $200,000) and matures on 5 September 2010.
The interest rate on this investment is fixed at 5.0%.

The investment in Westpac Bank Deposit has a face value of $175,000 (2009: NIL) and matures on 2 July 2010.
The interest rate on this investment is fixed at 4.6%

The investment in Government Stock has a face value of $1,250,000 and matures on 15 April 2013.
The book value at 31 March 2010 is $1,307,411 (2009: $653,859).
The interest rate on this investment is fixed at 6.5%.

Part of the investment is held by the Public Trustee for the benefit of the policyholders in terms of the Life Insurance Act 1908.

The investment in BNZ Bank Deposit has a face value of $399,504 (2009: $370,022) and matures on 14 June 2010.
The interest rate on this investment is fixed at 4.6%.

These amounts are included in Investments and Cash and Cash Equivalents in the Statement of Financial Position.

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

	2010	2009
Reported Profit(Deficit) After Taxation	562,679	(479,854)
Less Non-cash item – Depreciation/Amortisation	226,191	217,188
Less Non-cash item – Revaluation of Investments	-	2,371
Less Movement in Gross Contract Liabilities	(2,575,051)	(1,024,747)
	(1,786,181)	(1,285,042)
Movements in Working Capital:		
(Increase) Decrease in Accounts Receivable	(43,607)	23,093
(Increase) Decrease in Reinsurance Recoveries Receivable	(164,676)	(206,288)
(Increase) Decrease in GST Due	(10,295)	(3,503)
Increase (Decrease) in Accounts Payable	178,762	80,313
Increase (Decrease) in Management Fee Payable to Taut Ltd	(160,000)	220,000
Increase (Decrease) in Premiums in Advance	110,472	75,524
Increase (Decrease) in Claims Payable	204,676	206,288
Increase (Decrease) in Employee Entitlements	25	4,925
Increase (Decrease) in Reserve for Claims	(42,976)	25,000
Increase (Decrease) in Deferred Commissions	14,594	(5,047)
Net Cash Flow used in Operating Activities	$(1,699,206)	$(864,737)

9. 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	2010 $000s	2009 $000s
Future policy benefits	29,175	25,416
Future expenses	5,717	1,854
Reinsurance	8,243	7,664
Future profit margins	8,740	6,277
Future premiums	(60,778)	(47,539)
Net Policy Liabilities	**(8,903)**	**(6,328)**

Reconciliation of Movements in Life Insurance Contract Policy Liabilities

	2010 $000s	2009 $000s
Gross life insurance liabilities as at 1 April 2009	(13,992)	(11,305)
Reinsurance change	579	1,662
New business acquired	(4,309)	(2,562)
Adjustment for experience differences	576	(1,787)
Gross life insurance contract liabilities as at 31 March 2010	**(17,146)**	**(13,992)**

Analysis of life insurance contract results

Life Insurance Contract	2010 $000s	2009 $000s
Planned profit margins	608	436
Experience profits / (losses)	(397)	(1,079)
Investment earnings on assets in excess of policy liabilities	82	163
Margin on Service Profit	293	(480)
Operating profit after tax attributable to partners arising from the life insurance contracts	**293**	**(480)**

(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).

	2010 $000s	2009 $000s
Solvency Requirement	800	480
Represented by		
Policy liabilities	-	-
Other liabilities	-	-
Solvency reserve	800	480
Solvency Requirement	**800**	**480**
Assets available to meet Solvency Reserve	3,129	629
Excess assets above required	**2,329**	**149**
Required solvency reserve %	**25.6%**	**76.4%**

The Life Insurance Contract–asset of $8,902k ($6,327k in 2009) has been taken as zero for the purpose of this determination by the actuarial standards.

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

The effective date of the policy liabilities and solvency reserves calculation is 31 March 2010. 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
Serious Illness yearly renewable	Projection	Net 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 2010 – 6.0% 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
Taxation	Rates of taxation have been set with regard to current tax laws.	30% changing to 28% from 1 April 2011
Mortality	Risk product mortality rates based on Reinsurance rates smoker/non-smoker adjusted for expenses	The mortality rates used were: March 2009 and 2010 – reinsurance rates for the particular related product group adjusted for expense and profit margins.
Discontinuances	Discontinuance rates have been assumed 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 assumption for transferred business has been increased. The underwritten business assumptions 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	-	-	-	-
Discontinuances	(263)	(24)	121	121
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 2010 other than the change to the long term transfer business lapse rate.

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.
Morbidity rates	The cost of health-related claims depends on the incidence of policyholders becoming totally and permanently disabled. Higher than expected incidence would increase claim costs, 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.

(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%	(49)
Discontinuances	Worsening by 10%	(116)
Renewal expense	Worsening by 10%	(39)

(iv) Solvency Requirements

Separate to the policy liabilities recognised in the Financial Statements, 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 by a separate department with underwriting limits in place to enforce appropriate risk selection criteria. The Partnership 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 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 directly affected by the performance of underlying assets or the performance of the contracts as a whole	Mortality, morbidity, lapses, investment earnings and expenses

(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.

10. RELATED PARTY TRANSACTIONS

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

Management fees of $702,878 (2009 $591,691) were charged by Taut Limited, a company in which Mr Noel Vaughan is a shareholder (balance unpaid as at 31 March 2010 $260,000 (2009 $420,000).

Advertising fees of $656,712 (2009 $392,306) were charged by Draft FCB Ltd, a company to which Mr Des Shaw was a Senior Consultant and Brian van den Hurk is employed (balance unpaid as at 31 March 2010 $64,358 (2009 $38,231).

Legal fees of $11,936 (2009 $5,034) were charged by Patterson Hopkins, a Partnership of which Bill Patterson is a partner.

Capital Raising fees of $11,927 (2009 NIL) were paid to Glaister Ennor, a Partnership of which Jack Porus is a Senior Partner (balance unpaid as at 31 March 2009 $7,889 (2009 NIL).

The Partnership paid management fees and a bonus to Fifteen01 NZ Ltd of $90,450 (2009: $90,450) and $301,094 (2009: $178,023) respectively. It further paid $39,600 (2009: $39,600) for management services from the Fifteen01 Trust. 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 (2009: $30,000) during the year along with a cash bonus totaling $145,000 (2009: $84,022). There were no balances unpaid as at 31 March 2010.

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

There were no related party debts forgiven during the year.

11. NUMBER OF POLICIES IN FORCE

	2010	2009
Total Policies in Force	5,767	4,444

12. CAPITAL COMMITMENTS

There are no capital commitments at balance date (2009 $Nil).

13. CONTINGENT LIABILITIES

There were no contingent liabilities at balance date (2009 $Nil).

THE PINNACLE LIFE INSURANCE PARTNERSHIP

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST MARCH 2010

14. PARTNERS' EQUITY

	2010	2009
Opening Partners' Subscribed Capital	6,357,876	6,293,775
Plus Capital Introduced:	1,567,464	64,101
Closing Partners' Subscribed Capital	7,925,340	6,357,876
Opening Accumulated Premiums	2,614,960	2,470,819
Plus New Premiums Paid	3,213,436	144,141
Less Capital Raising Costs	(268,243)	-
Closing Accumulated Premiums	5,560,153	2,614,960
Total Capital and Premiums	13,485,493	8,972,836
Accumulated Deficit	(1,454,020)	(2,016,699)
Closing Partners' Equity	$12,031,473	$6,956,137
Equity retained for solvency purposes	800,000	480,000
Equity available for distribution and wholly attributable to the partners	11,231,473	6,476,137

15. 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.

	2010	2009
Balance at beginning of year	100,000	75,000
Claims provided for:	372,141	307,084
Reversal of unused amount:	-	(20,504)
Claims paid:	(415,117)	(261,580)
Balance at end of year	$57,024	$100,000

16. SEGMENT INFORMATION

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

17. RATINGS

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

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.

WHK

AUDITORS' REPORT

TO THE READERS OF THE FINANCIAL STATEMENTS OF

THE PINNACLE LIFE INSURANCE PARTNERSHIP

We have audited the financial statements on pages 14 to 36. The financial statements provide information about the past financial performance of the partnership and its financial position as at 31 March 2010. This information is stated in accordance with the accounting policies set out on pages 18 to 24.

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 2010 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.

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 14 to 36
  - 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 2010 and the results of its operations and cashflows for the year ended on that date.

Our audit was completed on 2 July 2010 and our unqualified opinion is expressed as at that date.

WHK Auckland

Auckland, New Zealand

CHARTERED ACCOUNTANTS

The Pinnacle Life Insurance Partnership Directory

Business address	Level 2 Gillies Avenue Office Park 27 Gillies Avenue Newmarket, Auckland
Principal Business	Life Insurance
Accountants	MGI Auckland Ltd
Actuary	M A Hilder FIA FIAA FNZSA
Auditors	WHK Auckland
Solicitors	Patterson Hopkins
Bankers	ASB East Auckland Commercial