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FINANCIAL STATEMENTS : as at 26 SEPTEMBER 2013

Annual Report

Statement of Comprehensive Income	1
Statement of Financial Position	2
Statement of Cashflows	3
Statement of Changes in Partners' Equity	4
Notes to the Financial Statements	5 - 26
Auditors Report	27 - 28
Directory	29

**THE PINNACLE LIFE INSURANCE PARTNERSHIP**

**STATEMENT OF COMPREHENSIVE INCOME**

**26 SEPTEMBER 2013**

**13 months ended  
30 April 2013**

**Period Ended  
26 September 2013**

\$	Note	\$
14,004,233 <u>TOTAL OPERATING REVENUE</u>		-
<u>Underwriting Account</u>		
9,520,927 Gross Premiums Earned		-
9,520,927 <u>Premium Income</u>		-
(4,894,747) Less Gross Reinsurance Ceded		-
4,626,180 <u>Net Premium Income</u>		-
126,437 <u>Interest Income</u>		-
290,025 <u>Reinsurance Commission</u>		-
5,042,642 <u>Total Net Income</u>		-
<u>Direct Expenses</u>		
4,732,307 Gross Claims Incurred		-
(4,066,844) Less Reinsurance Recovered		-
665,463 <u>Net Claims Expense</u>		-
4,377,179 <u>Operating Revenue After Payments To Policyholders</u>		-
3,530,904 <u>Movement in Life Insurance Contracts</u>		-
<u>Other Operating Expenses</u>		
382,430 Policy Acquisition - Management Fees		-
111,028 Policy Maintenance - Management Fees		-
675,667 Management fees - Taut Ltd		-
1,334,016 Advertising Expenditure		-
382,625 Policy Acquisition Expenses		-
700,315 Employee Benefits Expense		-
3,135 Depreciation - Furniture & Fittings	5	-
37,469 Depreciation - Plant & Equipment	5	-
260,261 Amortisation of Intangibles	6	-
38,558 Audit Fees		-
204,854 Capital Raising & New Co. Costs		-
85,234 Rent Expense		-
257,230 Legal & Professional Fees		-
- Reinsurance Fee		-
52,584 Regulatory Charges		-
139,848 Repairs & Maintenance		-
137,304 Intangibles and Other Fixed Assets Written Off		-
121,330 Other Expenses		-
4,923,888 <u>Total Expenses</u>		-
2,984,195 <u>Net Operating Surplus/(Deficit)</u>	11	-
2,984,195 <u>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</u>		-

**THE PINNACLE LIFE INSURANCE PARTNERSHIP**

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 26 SEPTEMBER 2013**

30 April 2013 \$		Note	26 September 2013 \$
17,333,472	<u>Total Partners' Equity</u>	16	-
<hr/>			
Represented By:			
	<u>Assets</u>		
2,445,206	Cash and Cash Equivalents	9	-
35,120	Accounts Receivable		-
-	Reinsurance Commission Receivable		-
1,603,451	Reinsurance Recoveries Receivable		-
34,486,445	Life Insurance Contracts	11	-
47,498	Plant and Equipment	5	-
345,404	Intangible Assets	6	-
536,379	Investments	9	-
<hr/>			
39,499,503	<u>Total Assets</u>		-
	<u>Liabilities</u>		
732,772	Accounts Payable		-
13,166	Management fee payable to Taut Ltd		-
973,705	Premiums in Advance		-
9,076	Employee Entitlements		-
2,059,668	Claims Payable		-
26,000	Provision for Claims	17	-
18,351,644	Liabilities Ceded under Reinsurance	11	-
<hr/>			
22,166,031	<u>Total Liabilities</u>		-
<hr/>			
17,333,472	<u>Net Assets</u>		-
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Taut Ltd - DIRECTOR *Noel Langford*

DATE 27.8.2014

Taut Ltd - DIRECTOR *James Lane*

**THE PINNACLE LIFE INSURANCE PARTNERSHIP**

**STATEMENT OF CASH FLOWS**

**26 SEPTEMBER 2013**

30 April 2013	Note	26 September 2013 \$
<u>Cash Flows from Operating Activities</u>		
Cash was provided from:		
9,599,704 Premium Receipts from Customers		-
174,714 Interest Received		-
640,030 Reinsurance Commission Received		-
3,123,392 Reinsurance Recovered		-
37,000 GST Refunded		-
- Net Life Insurance Contracts		-
<hr/>		<hr/>
13,574,840		-
Cash was applied to:		
(8,063,151) Payments to Suppliers		-
(965,827) Payments to Taut Ltd		-
(3,671,653) Claims Paid		-
(711,174) Payments to Employees		-
<hr/>		<hr/>
(13,411,804)		-
<hr/>		<hr/>
163,035 Net Cash Flows to Operating Activities from Transfer of Business	10	-
<u>Cash Flows from Investing Activities</u>		
Cash was provided from:		
733,167 Investments		-
(329,040) Fixed and Intangible Assets		-
<hr/>		<hr/>
404,127 Net Cash Flows to Investing Activities from Transfer of Business		-
<hr/>		<hr/>
567,162		-
<u>Cash Flows from Financing Activities</u>		
Cash was provided from:		
50,054 Issue of Capital		-
- Cash received from transfer of the business	10 & 12	14,888,266
Cash was applied to:		
- Capital repayment		(17,333,472)
<hr/>		<hr/>
50,054 Net Cash Flows from Financing Activities		(2,445,206)
<hr/>		<hr/>
617,216 Net Increase in Cash Held		(2,445,206)
1,827,990 Add Cash at Start of Period		2,445,206
<hr/>		<hr/>
2,445,206 <u>BALANCE AT END OF PERIOD</u>		-
<hr/>		<hr/>

**THE PINNACLE LIFE INSURANCE PARTNERSHIP**

**STATEMENT OF CHANGES IN PARTNERS' EQUITY**

**AS AT 26 SEPTEMBER 2013**

**26 September 2013**

	Note	Accumulated Profit/Loss \$	Subscribed Capital \$	Accumulated Premiums \$	2013 Total Partners' Equity \$
Balance at Beginning of Period	16	3,508,251	8,148,916	5,676,305	17,333,472
Net Operating Surplus/(Deficit)		-			-
Total Comprehensive Income		-			-
Repayment		(3,508,251)	(8,148,916)	(5,676,305)	(17,333,472)
<b><u>TOTAL PARTNERS' EQUITY</u></b>	16	-	-	-	-

**30 April 2013**

	Note	Accumulated Profit/Loss \$	Subscribed Capital \$	Accumulated Premiums \$	2013 Total Partners' Equity \$
Balance at Beginning of Period		524,056	8,149,513	5,678,610	14,352,179
Net Operating Surplus/(Deficit)		2,984,195			2,984,195
Total Comprehensive Income		2,984,195			2,984,195
Issue Costs			(597)	(2,305)	(2,902)
<b><u>TOTAL PARTNERS' EQUITY</u></b>	16	3,508,251	8,148,916	5,676,305	17,333,472

Subscribed Capital and Accumulated Premiums represent the sums invested in Pinnacle Life Insurance Partnership by its Partners

## **THE PINNACLE LIFE INSURANCE PARTNERSHIP**

### **NOTES TO THE FINANCIAL STATEMENTS**

**26 SEPTEMBER 2013**

#### **1. REPORTING ENTITY**

Pinnacle Life Insurance Partnership (the "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.

#### **2. ACCOUNTING POLICIES**

##### **STATEMENT OF COMPLIANCE AND 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 the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements also comply with international financial reporting standards (IFRS).

The financial report has been prepared in accordance with NZIFRS, the Companies Act 1993, the Financial Reporting Act 1993 and the Insurance (Prudential Supervision) Act 2010.

On 1 May 2013, the business of Pinnacle Life Insurance Partnership was transferred to Pinnacle Life Limited (the "Company"), a company registered in New Zealand. This transfer occurred as a result of requirements of the Partnership's provisional licence, issued by the Reserve Bank of New Zealand in accordance with the Insurance (Prudential Supervision) Act 2010. The transfer occurred on 1 May 2013 using the book value of the Partnership at 30 April 2013.

The Partnership changed its year end from 31 March to 30 April for the previous period to align its balance date with the transfer of the business from a partnership to a company on 1 May 2013. Therefore the comparative amounts presented are for the 13 months ended 30 April 2013.

The going concern basis of preparing financial statements has not been applied because of the wind up of the Partnership. Accordingly, the financial statements have been prepared on a non-going concern basis. The Partnership continued to apply the requirements of NZ GAAP and in accordance with the accounting policies adopted below taking into account that the Partnership is not expected to continue as a going concern in the foreseeable future. The net assets are valued at their realisable value where applicable. On 26 September 2013, the Partnership is dissolved by Deed of Termination.

##### **CHANGE OF ACCOUNTING POLICIES, COMPARATIVE FIGURES AND BASIS OF MEASUREMENT**

The financial statements are presented in New Zealand Dollars (NZD), which is the functional currency.

##### **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 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.

## **THE PINNACLE LIFE INSURANCE PARTNERSHIP**

### **NOTES TO THE FINANCIAL STATEMENTS** **26 SEPTEMBER 2013**

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 life insurance contracts.

#### **3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in the financial statements other than for the fact that these financial statements have been prepared on a non-going concern basis.

##### **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 statement of comprehensive income 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 statement of comprehensive income when the liability to the policyholder has been established or upon notification of the insured event. Outstanding claims are recognised as Claims Payable in the statement of financial position to provide for the estimated costs of all claims notified, but not settled at reporting date. The estimated cost of claims incurred but not reported until after year end are separately recognised in the statement of financial position.

##### **Basis of expense apportionment**

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

##### **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 statement of comprehensive income. This expense in the statement of comprehensive income is then offset by the recognition in the statement of comprehensive income 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 the movement in life insurance contract liabilities/assets. These are then amortised over the period in which they will be recoverable, being recorded as part of movements in policy liabilities in the statement of comprehensive income.

## **THE PINNACLE LIFE INSURANCE PARTNERSHIP**

### **NOTES TO THE FINANCIAL STATEMENTS**

**26 SEPTEMBER 2013**

#### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **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 statement of comprehensive income at cost in the period to which they relate.

##### **Outwards Reinsurance**

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

##### **Life Insurance Contracts**

Life insurance contract 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.

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.

Tax attributable to the individual partners is explicitly allowed for in the projection in accordance with the grandfathering rules set out in the Income Tax Act. The future estimated tax payable based on the projected premiums, benefits, expenses and reinsurance costs is calculated and the present value determined. This tax liability is included within the policy liability. At present no allowance for tax is made in respect of initial expenses.

##### **Reinsurance Commission Income**

Commission income is recognised in the statement of comprehensive income 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 statement of comprehensive income offsets the upfront income recognition, with repayments to the reinsurer being amortised over the period of the contract.

##### **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 PINNACLE LIFE INSURANCE PARTNERSHIP**

### **NOTES TO THE FINANCIAL STATEMENTS**

**26 SEPTEMBER 2013**

#### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **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. An allowance has been made for unknown net claims as at the balance date. This allowance is based on the actual delay the company experiences between the date of death and the date of notification. This provision represents the current best estimate of the net claims IBNR as at the end of the month.

##### **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 Statement of Comprehensive Income.

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

Furniture and Fittings	NIL	(2013: 12.0% - 21.6% DV)
Plant and Equipment	NIL	(2013: 36.0% - 60.0% DV)

##### **Plant and Equipment**

Plant and equipment is recorded at cost and has been depreciated over its 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.

The amortisation rates used are as follows:

Software	NIL	(2013: 48% - 60% DV)
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##### **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% (2013: 7.5%).

## **THE PINNACLE LIFE INSURANCE PARTNERSHIP**

### **NOTES TO THE FINANCIAL STATEMENTS** **26 SEPTEMBER 2013**

#### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Financial Instruments**

The Partnership has the following classes of financial assets: cash and cash equivalents, receivables, and long term investments and the following financial liabilities, accounts payable, management fees payable, payables, claims payable and liabilities ceded under reinsurance.

##### **Recognition and de-recognition**

Financial instruments are recognised when the Partnership 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 the Partnership 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 statement of comprehensive income as Finance Income using the effective interest method taking into account the expected timing and amount of cash flows. Unrealised investment gains and losses represent the difference between the carrying value at the reporting date, and the value at the previous period end, or purchase value in the period.

##### **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 profit or 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 or loss recognised in the statement of comprehensive income.

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 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.

## **THE PINNACLE LIFE INSURANCE PARTNERSHIP**

### **NOTES TO THE FINANCIAL STATEMENTS**

**26 SEPTEMBER 2013**

#### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

Reinsurance recoveries arising from reinsurance contracts are computed using methods described below. 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 carrying 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 the Partnership 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 the Partnership expects some or all of a provision to be reimbursed, for example under the Partnership'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 were 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 from 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.

**THE PINNACLE LIFE INSURANCE PARTNERSHIP**

**NOTES TO THE FINANCIAL STATEMENTS**  
**26 SEPTEMBER 2013**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

**Partners' Equity**

Partners' subscribed capital and premiums paid thereon are classified as equity, with capital raising costs deducted from equity.

**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.

**NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE**

Standards and interpretations that have recently been issued or amended effective have not yet been adopted by the Partnership for the reporting period ended 26 September 2013, and are outlined in the table below.

Summary of Requirements	Standard, Amendment or interpretation	Effective Date
<p><b>Standard issued October 2010 (IFRS 9 (2010))</b> IFRS 9 Financial Instruments represents a change from the existing requirements of IAS 39 in respect the classification and measurement of financial assets.</p> <p>It also includes those paragraphs of IAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains as host that is not a financial asset, as well as the requirements of IFRIC 9 <i>Reassessment of Embedded Derivatives</i>.</p>	<i>NZIFRS 9 Financial Instruments</i>	<i>Tentatively effective 1 December 2018</i>

**THE PINNACLE LIFE INSURANCE PARTNERSHIP**

**NOTES TO THE FINANCIAL STATEMENTS**

**26 SEPTEMBER 2013**

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

**4. OPERATING LEASES**

	26 Sept 2013	30 Apr 2013
Lease commitments under non-cancellable operating leases:	\$	\$
0 – 1 years (2013: 11 months)	-	47,800
1 – 5 years	-	104,290

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

**THE PINNACLE LIFE INSURANCE PARTNERSHIP**

**NOTES TO THE FINANCIAL STATEMENTS**  
**26 SEPTEMBER 2013**

**5. PLANT AND EQUIPMENT**

	26 Sept 2013	30 Apr 2013
	\$	\$
<b>Furniture and Fittings</b>		
Net book value at start of period	14,266	16,576
Transfer to Pinnacle Life Limited	(14,266)	825
Depreciation Charge	-	(3,135)
	<hr/>	<hr/>
Net Book Value at end of period	-	14,266
	<hr/>	<hr/>
At Cost	-	27,617
Accumulated Depreciation	-	(13,351)
	<hr/>	<hr/>
Net Book Value at end of period	-	14,266
	<hr/>	<hr/>
<b>Plant and Equipment</b>		
Net book value at start of period	33,232	79,986
Transfer to Pinnacle Life Limited	(33,232)	(9,285)
Depreciation Charge	-	(37,469)
	<hr/>	<hr/>
Net Book Value at end of period	-	33,232
	<hr/>	<hr/>
At Cost	-	175,919
Accumulated Depreciation	-	(142,687)
	<hr/>	<hr/>
Net Book Value at end of period	-	33,232
	<hr/>	<hr/>
<b>Total Plant and Equipment</b>	-	47,498
	<hr/>	<hr/>

**6. INTANGIBLE ASSETS**

	26 Sept 2013	30 Apr 2013
	\$	\$
<b>Software</b>		
Net Book Value at start of period	345,404	405,469
Transfer to Pinnacle Life Limited	(345,404)	200,196
Amortisation Expense	-	(260,261)
	<hr/>	<hr/>
Net Book Value at end of period	-	345,404
	<hr/>	<hr/>
At Cost	-	925,518
Accumulated Amortisation	-	(580,114)
	<hr/>	<hr/>
Net Book Value at end of period	-	345,404
	<hr/>	<hr/>

## **THE PINNACLE LIFE INSURANCE PARTNERSHIP**

### **NOTES TO THE FINANCIAL STATEMENTS**

**26 SEPTEMBER 2013**

#### **7. FINANCIAL RISK MANAGEMENT**

Financial instruments which potentially subject the Partnership to financial risk consist principally of cash and bank deposits, government securities and receivables including reinsurers.

##### **Credit Risks**

The risk is that the counterparty to a transaction will fail to perform according to the terms and conditions of the contract. In the normal course of business the Partnership incurs credit risk from debtors and financial institutions.

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.

##### **Counterparty Risk**

To the extent the Partnership has a receivable from another party, there is a credit risk in the event of non-performance by the counterparty. Financial instruments which potentially subject the Partnership to credit risk principally consist of bank deposits, receivables and investments in government securities.

The Partnership manages its exposure to credit risk by placing its cash and investments with high credit quality financial institutions and sovereign bodies. The Partnership reinsurance policies are with an A rated international reinsurer (Standard & Poors). The Partnership continuously monitors the credit quality of all institutions that are counterparties to its financial instruments, and does not anticipate non-performance by the counterparties. The Partnership further minimises its credit exposure by limiting the amount of funds placed in or invested with any one institution at any one time.

##### **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 Risk**

The Partnership has no exposure to currency risk. All reinsurance contracts, accounts receivable, cash and cash equivalents and investments are held in New Zealand dollars.

##### **Interest Rate Risk**

The Partnership has exposure to interest rate risk to the extent that it invests for a fixed term at fixed rates. Cash deposits are subject to market risk in the event of changes in interest rates. As these securities are carried at net market value, the effective interest rate is reflected in the market price. By investing with banks and short term government stock the partnership minimises the impact of interest rate fluctuations. A \$16,875 loss is the impact of a 1.75% uplift on the government stock. A \$18,665 gain is the impact of a 1.75% downward movement.

##### **Liquidity Risk**

The Partnership is exposed to liquidity risk, being unable to meet creditor and policy holder payments as they fall due. This could arise should it seek to rapidly sell down its portfolio on a large scale to meet significant policy cancellations.

**THE PINNACLE LIFE INSURANCE PARTNERSHIP**

**NOTES TO THE FINANCIAL STATEMENTS**  
**26 SEPTEMBER 2013**

**7. FINANCIAL RISK MANAGEMENT (continued)**

	Total Reinsurance Outgo 26 September 2013 \$	Total Reinsurance Outgo 30 April 2013 \$
Year 1	-	1,411,589
Year 2	-	1,742,732
Years 3,4,5	-	5,822,002
Greater than 5	-	15,631,596
Total	-	24,607,919

Note:  
The values are not discounted.

**Fair Values of Assets and Liabilities**

There are no fair values of the Partnership's Assets and Liabilities which differ from the carrying values. Refer to Note 8.

**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 policy holders and 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. Refer to Note 11 for minimum capital requirements. Management and the Board have prepared a risk management policy which sets out minimum additional solvency target capital of \$600,000 as at April 2013.

On 1 May 2013, the Partnership was restructured as a company. Pinnacle Life Limited received its full licence from the Reserve Bank of New Zealand on 29 April 2013 and is subject to the capital requirements of the Insurance (Prudential Supervision) Act 2010 ("the IPSA"). As a result, the Partnership's objectives were transferred to the Company, whereby its objectives when managing capital are to safeguard the Company's ability to continue as a going concern so that it can provide returns to shareholders, and benefits for policyholders and other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

**8. 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 classifies its 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 PINNACLE LIFE INSURANCE PARTNERSHIP**

**NOTES TO THE FINANCIAL STATEMENTS**  
**26 SEPTEMBER 2013**

**8. FAIR VALUE (continued)**

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:

**26 September 2013:**

<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Balance</b>
	\$	\$	\$	\$
Financial Assets at Fair value Through Profit or Loss:	-	-	-	-
<b>Total</b>	-	-	-	-

**30 April 2013:**

<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Balance</b>
	\$	\$	\$	\$
Financial Assets at Fair value Through Profit or Loss:	536,379	-	-	536,379
<b>Total</b>	<b>536,379</b>	-	-	<b>536,379</b>

**9. INVESTMENTS AND CASH AND CASH EQUIVALENTS**

The investment in Government Stock has a face value of \$NIL (2013: \$500,000). The book value at 26 September 2013 is NIL (2013: \$536,379). The interest rate on this investment is fixed at NIL% (2013: 6.0%)

The investment in ANZ Bank Deposit has a face value of \$NIL (2013: \$556,612). The interest rate on this investment is fixed at NIL%. (2013: 4.2%)

The Partnership also holds balances of \$NIL (2013: \$1,888,594) in bank and current accounts.

All of the above institutions hold a credit rating of A or above.

# **THE PINNACLE LIFE INSURANCE PARTNERSHIP**

## **NOTES TO THE FINANCIAL STATEMENTS** **26 SEPTEMBER 2013**

### **10. RECONCILIATION OF NET LOSS WITH CASH INFLOW FROM OPERATING ACTIVITIES**

	26 Sept 2013	13 Months Ended 30 Apr 2013
	\$	\$
Reported Profit(Deficit) After Taxation	-	2,984,195
Plus Non-cash item – Depreciation/Amortisation	-	300,865
Less Non-cash item – Disposal/Writeoff	-	137,304
Less Movement in Gross Contract Liabilities	-	(3,530,904)
	<hr/>	<hr/>
	-	(108,540)
Movements in Working Capital:		
(Increase) Decrease in Accounts Receivable	-	48,276
(Increase) Decrease in Reinsurance Commission Receivable	-	350,005
(Increase) Decrease in Reinsurance Recoveries Receivable	-	(943,451)
(Increase) Decrease in GST Due	-	18,479
Increase (Decrease) in Accounts Payable	-	9,175
Increase (Decrease) in Management Fee Payable to Taut Ltd	-	(290,160)
Increase (Decrease) in Premiums in Advance	-	53,212
Increase (Decrease) in Claims Payable	-	1,099,386
Increase (Decrease) in Employee Entitlements	-	(10,859)
Increase (Decrease) in Reserve for Claims	-	(38,732)
Increase (Decrease) in Deferred Commissions	-	(23,756)
	<hr/>	<hr/>
<b>Net Cash Flow used in Operating Activities</b>	-	163,035
	<hr/>	<hr/>

The Partnership transferred all working capital at book value to Pinnacle Life Limited on 1 May 2013. Cash received from the transaction is included in the statement of cash flows.

### **11. 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 Partnership's ability to recover the cost of managing and acquiring new business over the life of the contracts.

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

**THE PINNACLE LIFE INSURANCE PARTNERSHIP**

**NOTES TO THE FINANCIAL STATEMENTS**  
**26 SEPTEMBER 2013**

**11. ACTUARIAL ANALYSIS (continued)**

**(b) Assets and Liabilities 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 balances are reflective of the amounts that will ultimately be received or paid, taking into consideration factors such as counterparty credit risk and interest risk.

**(c) Life Insurance Contracts Liabilities**

Value of policy liabilities – projection method	26 Sept 2013	30 Apr 2013
	\$	\$
Future policy benefits	-	56,340,433
Future expenses	-	9,316,305
Future taxes	-	2,650,525
Future Reinsurance	-	18,351,644
Future profit margins	-	18,784,505
Future premiums	-	(121,578,213)
<b>Net Policy Liabilities</b>	<b>-</b>	<b>(16,134,801)</b>

**(d) Reconciliation of Movements in Life Insurance Contract Policy Liabilities**

	26 Sept 2013	30 Apr 2013
	\$	\$
Gross Life Insurance Liabilities as at 1 May	(34,486,455)	(28,145,676)
New Life Insurance Liabilities acquired	-	(7,011,232)
Increase / (decrease) in liabilities ceded under reinsurance	-	2,809,865
Adjustment for experience differences	-	(2,139,402)
Transfer to Pinnacle Life Limited	34,486,455	-
<b>Gross Life Insurance Liabilities as at 26 September and 30 April respectively</b>	<b>-</b>	<b>(34,486,445)</b>

**(e) Reconciliation of Movements in Reinsurance**

Life Insurance Contract	26 Sept 2013	30 Apr 2013
	\$	\$
Opening Balance	18,351,644	15,541,779
Movement in Reinsurance	-	2,809,865
Transfer to Pinnacle Life Limited	(18,351,644)	-
<b>Closing Balance</b>	<b>-</b>	<b>18,351,644</b>

**THE PINNACLE LIFE INSURANCE PARTNERSHIP**

**NOTES TO THE FINANCIAL STATEMENTS**  
**26 SEPTEMBER 2013**

**11. ACTUARIAL ANALYSIS (continued)**

**(f) Analysis of life insurance contract results**

<b>Life Insurance Contract</b>	<b>26 Sept 2013 \$</b>	<b>30 Apr 2013 \$</b>
Planned profit margins	-	995,803
Income on Liability	-	711,391
Investment earnings on assets in excess of policy liabilities	-	126,437
Effects of changes in underlying assumptions	-	1,150,564
Other	-	-
<b>Operating profit after tax attributable to partners arising from life insurance contracts</b>	<b>-</b>	<b>2,984,195</b>

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

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 exceeds these minimum requirements by the amount of intangible assets of \$NIL (2013: 345,404)

<b>Solvency Standard</b>	<b>26 Sept 2013</b>	<b>30 Apr 2013</b>
	<b>\$</b>	<b>\$</b>
Capital	-	17,333,472
Less Intangible asset	-	(345,404)
<b>Actual Solvency Capital</b>	<b>-</b>	<b>16,988,068</b>
Insurance Risk Capital Charge	-	3,814,386
Catastrophe Risk Capital Charge	-	393,707
Asset Risk Capital Charge	-	-
Resilience Risk Capital Charge	-	-
Credit, Equity and Property Capital Charge	-	26,959
Foreign Currency Risk Capital Charge	-	-
Impact of Interest Changes	-	16,975
Asset Concentration Risk Capital Charge	-	-
Reinsurance Recovery Risk Capital Charge	-	32,069
<b>Total Solvency Requirement</b>	<b>-</b>	<b>4,284,096</b>
<b>Policy Liabilities plus Other Liabilities</b>	<b>-</b>	<b>(12,320,415)</b>
<b>Minimum Solvency Capital</b>	<b>-</b>	<b>16,604,511</b>
<b>Excess Solvency Capital</b>	<b>-</b>	<b>383,557</b>
<b>Solvency Ratio</b>	<b>-</b>	<b>1.02</b>

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

The effective date of the policy liabilities and solvency reserves calculation is 30 April 2013. The Actuary, Murray Hilder, FIA, FIAA, FNZSA has calculated policy liabilities for Pinnacle Life Insurance Partnership. 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.

## THE PINNACLE LIFE INSURANCE PARTNERSHIP

### NOTES TO THE FINANCIAL STATEMENTS

26 SEPTEMBER 2013

#### 11. ACTUARIAL ANALYSIS (continued)

##### (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

**THE PINNACLE LIFE INSURANCE PARTNERSHIP**

**NOTES TO THE FINANCIAL STATEMENTS**  
**26 SEPTEMBER 2013**

11.

**ACTUARIAL ANALYSIS (continued)**

(ii) **Disclosure of assumptions (as at 30 April 2013)**

The following table summarises the key assumptions used in the calculation of policy liabilities, together with notes on any significant changes in the assumptions:

<b>Required Assumption</b>	<b>Basis of Assumption</b>	<b>Significant Changes</b>
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: Apr 2013 – 3.2%
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.	Increased to \$120 for policies (2013: \$120)
Taxation	Rates of taxation have been set with regard to current tax laws.	28% (2013: 28%)
Mortality	Risk product mortality rates based on Reinsurance rates smoker/non-smoker adjusted for expenses	The mortality rates used were: Reinsurance rates for the particular related product group adjusted for expense and profit margins.
Discontinuances	Discontinuance rates have been assumed consistent with the recent Pinnacle Life experience. Assumed discontinuance rates vary by related product group and vary according to the length of time business has been in-force.	Long term lapse rates assumed are: Underwritten 7% Transferred 10% OnLine 8.5%
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 30 April 2013.

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

**THE PINNACLE LIFE INSURANCE PARTNERSHIP**

**NOTES TO THE FINANCIAL STATEMENTS**

**26 SEPTEMBER 2013**

11.

**ACTUARIAL ANALYSIS** (continued)

Assumption Change	Change in future profit margins (\$'s)	Change in next Financial Year's Planned Profit (\$'s)	Change in Current Period Contract Liability (\$'s)	Change in Current Period Profit (\$'s)
Mortality	-	-	-	-
Discontinuances	-	-	-	-
Expenses	-	-	-	-
Taxation	-	-	-	-

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.

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 Pinnacle Life 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 or suffering serious illness. 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.

## THE PINNACLE LIFE INSURANCE PARTNERSHIP

### NOTES TO THE FINANCIAL STATEMENTS 26 SEPTEMBER 2013

#### 11. ACTUARIAL ANALYSIS (continued)

##### (iii) **Sensitivity Analysis (as at 30 April 2013)**

The liabilities included in the reported results are calculated using certain assumptions about key variables as disclosed above. Sensitivity analysis is conducted to assess the Movements in any key variable will impact the profit and equity of Pinnacle Life.

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

- A 10% adverse change in respect of mortality decreases future margins by \$981,000 or \$68,000 per annum.
- A 10% adverse change in respect of discontinuances decreases future margins by \$2,753,000 or \$120,000 per annum.
- A 10% adverse change in respect of expenses decreases future margins by \$888,000 or \$66,000 per annum.

##### (iv) **Solvency Requirements (as at 30 April 2013; not applicable thereafter)**

Separate to the policy liabilities recognised in the financial statements, life insurance companies are required to maintain sufficient capital to meet solvency requirements. These are amounts required to provide protection against the impact of fluctuations and unexpected adverse circumstances on the life insurance businesses.

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

##### (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.

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 Directors of the Manager.

##### *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.



## **THE PINNACLE LIFE INSURANCE PARTNERSHIP**

### **NOTES TO THE FINANCIAL STATEMENTS**

**26 SEPTEMBER 2013**

#### **11. ACTUARIAL ANALYSIS (continued)**

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 that are fixed and guaranteed and not at the discretion of the issuer.	Benefits, defined by the insurance contract are determined by the contract and not directly affected by the performance of underlying assets or the performance of the contracts as a whole.	Mortality, morbidity, lapses and expenses.

#### **(vi) Concentration of insurance risk**

The 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 risk business. The Partnership uses reinsurance to limit the insurance risk exposure for any one individual.

#### **12. RELATED PARTY TRANSACTIONS**

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

Management fees of \$NIL (2013: \$675,667) were charged by Taut Limited, a company in which Mr Noel Vaughan is a shareholder. The balance unpaid as at 26 September 2013 is \$NIL (2013: \$13,166).

Advertising fees of \$NIL (2013: \$770,169) were charged by Draft FCB Ltd, a company of which Mr Des Shaw was a Senior Consultant and Brian van den Hurk is employed. The balance unpaid as at 26 September 2013 is \$NIL (2013: \$55,343).

Advertising fees of \$NIL (2013: \$63,250) were charged by Leighton Smith Productions Ltd, a company of which Leighton Smith is the sole director.

Legal fees of \$NIL (2013: \$19,706) were charged by Patterson Hopkins, a Partnership of which Bill Patterson is a partner.

Legal fees of \$NIL (2013: \$79,145) were charged by Glaister Ennor, a Partnership of which Jack Porus is a partner.

The Partnership paid software management services and management fee of \$NIL (2013: \$493,458) to Intelligent Life Ltd (previously Fifteen01 NZ Ltd). This entity is associated with Edwin Saul and Steven de Jong, investors in the Partnership.

On 1 May 2013, the business of Pinnacle Life Insurance Partnership was transferred to Pinnacle Life Limited, a company registered in New Zealand. This transfer occurred as a result of requirements of the partnership's provisional licence, issued by the Reserve Bank of New Zealand in accordance with the Insurance (Prudential Supervision) Act 2010. The transfer occurred on 1 May 2013 using the book value of the partnership at 30 April 2013. These financial statements have been prepared on a non-going concern basis as the partnership has been wound up. Since the transfer occurred at book value, the value of assets and liabilities recognised under New Zealand International Financial Reporting Standards are the realisable values of the partnership at 30 April 2013.

**THE PINNACLE LIFE INSURANCE PARTNERSHIP**

**NOTES TO THE FINANCIAL STATEMENTS**  
**26 SEPTEMBER 2013**

12.	<b><u>RELATED PARTY TRANSACTIONS (continued)</u></b>		
		<b>26 Sept 2013</b>	<b>30 Apr 2013</b>
	Auditors remuneration is as follows:	\$	\$
	Audit fees	-	38,588
	Solvency fees	-	17,820
	Trust deed reporting	-	7,460
	Tax and accounting advice	-	21,865
		<hr/>	<hr/>
	Total	-	85,733
		<hr/>	<hr/>
	There were no related party debts forgiven during the year.		
13.	<b><u>NUMBER OF POLICIES IN FORCE</u></b>		
		<b>26 Sept 2013</b>	<b>30 Apr 2013</b>
	Total Policies in Force	-	9,490
		<hr/>	<hr/>
14.	<b><u>CAPITAL COMMITMENTS</u></b>		
	There were no capital commitments at balance date (2013: \$Nil).		
15.	<b><u>CONTINGENT LIABILITIES</u></b>		
	There were no contingent liabilities at balance date (2013: \$Nil).		
16.	<b><u>PARTNERS' EQUITY</u></b>		
		<b>26 Sept 2013</b>	<b>30 Apr 2013</b>
		\$	\$
	Opening Partners' Subscribed Capital	8,148,916	8,149,513
	Less Capital repaid	(8,148,916)	-
	Less Issue Costs	-	(597)
		<hr/>	<hr/>
	Closing Partners' Subscribed Capital	-	8,148,916
		<hr/>	<hr/>
	Opening Accumulated Premiums	5,676,305	5,678,610
	Less Premiums repaid	(5,676,305)	-
	Less Issue Costs	-	(2,305)
		<hr/>	<hr/>
	Closing Accumulated Premiums	-	5,676,305
		<hr/>	<hr/>
	Total Capital and Premiums	-	13,825,221
		<hr/>	<hr/>
	Accumulated Surplus (Deficit)	-	3,508,251
		<hr/>	<hr/>
	Closing Partners' Equity	-	17,333,472
		<hr/>	<hr/>
	Total Solvency Requirement	-	16,604,511
		<hr/>	<hr/>
	Equity available for distribution and wholly attributable to the partners	-	728,961
		<hr/>	<hr/>

**THE PINNACLE LIFE INSURANCE PARTNERSHIP**

**NOTES TO THE FINANCIAL STATEMENTS**  
**26 SEPTEMBER 2013**

**17. PROVISION FOR CLAIMS**

The Claims provision represents an estimate of claims payable based on the Partnership portion of claims retained.

	26 Sept 2013	30 Apr 2013
	\$	\$
Balance at beginning of year	26,000	64,732
Movement in provision	(26,000)	(38,732)
	<hr/>	<hr/>
Balance at end of year	-	26,000
	<hr/>	<hr/>

**18. CREDIT RATINGS**

The Partnership had a "B" Financial Strength rating issued by AM Best on 13 July 2012. This credit rating was withdrawn by AM Best on 1 May 2013 when the Partnership ceased operating as an insurer. A "B" Financial Strength Rating was concurrently issued to Pinnacle Life Limited.

**19. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

In applying the accounting policies of the Partnership, management 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 30 April 2013, significant assumptions have been made as documented in the Policyholder Liability Note 11.





## Independent auditor's report

### To the investors of Pinnacle Life Insurance Partnership

#### Report on the financial statements

We have audited the accompanying financial statements of Pinnacle Life Insurance Partnership ("the Partnership") on pages 1 to 26. The financial statements comprise the statement of financial position as at 26 September 2013, the statements of comprehensive income, changes in partners' equity and cash flows for the period then ended, and a summary of significant accounting policies and other explanatory information.

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

The directors are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand (NZ GAAP) that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

#### *Auditor's responsibility*

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

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

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

Our firm has also provided other services to the partnership in relation to taxation, general accounting and advisory services. Subject to certain restrictions, partners and employees of our firm may also deal with the partnership on normal terms within the ordinary course of trading activities of the business of the partnership. These matters have not impaired our independence as auditor of the partnership. The firm has no other relationship with, or interest in, the partnership.



### ***Opinion***

In our opinion the financial statements on pages 1 to 26:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the financial position of the partnership as at 26 September 2013 and of its financial performance and cash flows for the period then ended.

### ***Going Concern***

We draw attention to Note 2 to the financial statements which describes that the going concern basis of preparing the financial statements has not been used because the Partnership has been wound up. The financial statements have been prepared on a non – going concern basis applying the requirements of NZ GAAP taking into account that the Partnership is not expected to continue as a going concern in the foreseeable future. Our opinion is not qualified in respect of this matter.

### **Report on other legal and regulatory requirements**

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by Pinnacle Life Insurance Partnership as far as appears from our examination of those records.

KPMG

27 August 2014  
Auckland

**THE PINNACLE LIFE INSURANCE PARTNERSHIP**

**DIRECTORY**

BUSINESS ADDRESS	27 Gillies Ave Newmarket, Auckland
PRINCIPAL BUSINESS	Life Insurance
ACCOUNTANTS	MGI Auckland Limited
TAX ACCOUNTANTS	Brian Ashwell BCA CA FTIA
ACTUARY	M A Hilder FIA FIAA FNZSA
AUDITORS	KPMG
SOLICITORS	Patterson Hopkins Glaister Ennor
BANKERS	ASB Banking Group Bank of New Zealand ANZ Bank of New Zealand Westpac