partnersLIFE
Rewarding partnership – for life

Partners Life Limited

Annual Report and Financial Statements

for the year ended
31 March 2017

“Rewarding partnership - for life”

Financial Statements

For the year ended 31 March 2017

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"protecting your way of life"

Approval of Annual Report

The Board of Directors ("the Board") are pleased to present the annual report, including the financial statements of Partners Life Limited ("the Company") for the year ended 31 March 2017.

For and on behalf of the Board

J R Minto
Chairman of the Board
5 July 2017

J M G Perry
Chairman of the Audit and Risk Committee
5 July 2017

“Life insurance for all kiwis”

Company Directory

As at 31 March 2017

Nature of Business	The provision and administration of life insurance and related products, including trauma insurance, disability insurance, total and permanent disability insurance and major medical insurance.
Registered Office	Level 1, 33–45 Hurstmere Road Takapuna Auckland 0622
Company Number	3072505
IRD Number	105-332-366
Directors	J R Minto (Chairman) N E Ballantyne I S Knowles P Chrystall J M G Perry L W Jenkins K K Moorjani J Van Der Wielen
Auditor	KPMG 18 Viaduct Harbour Avenue Auckland
Bankers	Westpac New Zealand Limited
Solicitors	Chapman Tripp 23 Albert Street Auckland

"offering true value for money"

Financial statements

Statement of Comprehensive Income

For the year ended 31 March *In thousands of New Zealand Dollars*	Note	2017	2016
Premium revenue			
Premium revenue	8	171,484	138,648
Less: Outward reinsurance expense	8	(103,309)	(83,342)
Net premium revenue		**68,175**	**55,306**
Reinsurance commission revenue	9	57,380	62,324
Investment revenue	10	2,588	1,738
Net revenue		**128,143**	**119,368**
Claims expense	11	70,989	57,964
Less: Reinsurance recoveries	11	(36,028)	(30,641)
Net claims expense		**34,961**	**27,323**
Net movement in insurance contract assets and liabilities	14	(34,382)	(28,602)
Commission and operating expenses	12	117,858	109,595
Total expenses including movement in insurance contracts		**118,437**	**108,316**
Profit before income tax		**9,706**	**11,052**
Income tax expense	13	-	-
Total comprehensive income	**1**	**9,706**	**11,052**
Underlying insurance profit (non statutory measure)			
Total comprehensive income		9,706	11,052
Less:			
Investment revenue	10	(2,588)	(1,738)
Changes to economic assumptions	6	8,469	1,557
One-off adjustments		(3,112)	1,700
Underlying insurance profit	**1**	**12,475**	**12,571**

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

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Statement of Financial Position

As at 31 March *In thousands of New Zealand Dollars*	Note	2017	2016
Assets			
Cash and cash equivalents	10	59,918	59,878
Trade and other receivables	15	23,841	21,325
Investments	10	50,000	-
Loans	16	1,390	1,005
Insurance contract assets	14	408,283	356,106
Property, plant and equipment	17	451	433
Intangible assets	18	2,258	2,251
Total Assets		**546,141**	**440,998**
Liabilities			
Trade and other payables	19	51,145	42,552
Insurance contract liabilities - reinsurance	14	187,141	170,446
Present value of future tax payable in insurance contract assets and liabilities	14	83,591	82,491
Total Liabilities		**321,877**	**295,489**
Net Assets		**224,264**	**145,509**
Equity			
Contributed capital	25	186,297	117,248
Retained earnings		37,967	28,261
Total Equity		**224,264**	**145,509**

For and on behalf of the Board who authorised the issue of this report on 5 July 2017.

J R Minto
Chairman of the Board

J M G Perry
Chairman of the Audit and Risk Committee

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

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Statement of Changes in Equity

For the year ended 31 March *In thousands of New Zealand Dollars*	Note	Contributed capital	Retained earnings	Total equity
Balance at 1 April 2016		**117,248**	**28,261**	**145,509**
Total comprehensive income		**-**	**9,706**	**9,706**
Transactions with owners of the Company				
Shares issued	25	68,300	-	68,300
Equity settled share based payments	25, 26	749	-	749
Total transactions with owners of the Company		**69,049**	**-**	**69,049**
Balance at 31 March 2017		**186,297**	**37,967**	**224,264**
Balance at 1 April 2015		**91,923**	**17,209**	**109,132**
Total comprehensive income		**-**	**11,052**	**11,052**
Transactions with owners of the Company				
Shares issued	25	25,000	-	25,000
Equity settled share based payments	25, 26	325	-	325
Total transactions with owners of the Company		**25,325**	**-**	**25,325**
Balance at 31 March 2016		**117,248**	**28,261**	**145,509**

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

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Statement of Cash Flows

For the year ended 31 March *In thousands of New Zealand Dollars*	Note	2017	2016
Cash flows from operating activities			
Premiums received		171,681	138,931
Reinsurance recoveries received		34,162	19,990
Reinsurance commission received		59,211	62,343
Interest received		2,037	1,532
Reinsurance premiums paid		(98,529)	(78,107)
Claims paid		(67,435)	(45,105)
Commission paid to advisers		(75,831)	(70,116)
Payments to suppliers and employees		(41,829)	(34,858)
Tax refunded		-	72
Net cash flow from operating activities	**23**	**(16,533)**	**(5,318)**
Cash flows from investing activities			
Net decrease in loans to advisers		136	272
Net increase in receivables from Group companies		(438)	(5)
Net decrease/(increase) in Investments		(50,000)	514
Acquisition of Property, plant and equipment	17	(206)	(190)
Acquisition of Intangible assets, net of disposal	18	(1,219)	(1,406)
Net cash flow from investing activities		**(51,727)**	**(815)**
Cash flows from financing activities			
Proceeds from issue of shares	25	68,300	25,000
Net cash flow from financing activities		**68,300**	**25,000**
Net increase in cash and cash equivalents		**40**	**18,867**
Cash and cash equivalents at 1 April		59,878	41,011
Cash and cash equivalents at 31 March		**59,918**	**59,878**
Being:			
On demand bank deposits		9,418	8,523
Short term bank deposits		50,500	51,355
Cash and cash equivalents at 31 March		**59,918**	**59,878**

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

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Notes to the Financial Statements

1. Sources of profit

For the year ended 31 March *In thousands of New Zealand Dollars*	Note	2017	2016
Profits emerging under the Margins on Services methodology were as follows:			
Planned margins of revenues over expenses		15,782	12,671
Interest on net insurance contract assets		2,552	2,927
Experience variances		(5,859)	(3,027)
Underlying insurance profit		**12,475**	**12,571**
Investment revenue	10	2,588	1,738
Changes to economic assumptions	6	(8,469)	(1,557)
One-off adjustments*		3,112	(1,700)
Total comprehensive income		**9,706**	**11,052**

*The one-off adjustment in 2017 related to the release of an options reserve that was no longer required. The one-off adjustment in 2016 related to a revision of disability income claim termination rates.

2. Reporting entity

The Company is a profit-oriented company domiciled in New Zealand and registered under the Companies Act 1993. The Company is 100% owned by Partners Group Holdings Limited ("PGHL").

The Company is a reporting entity for the purposes of the Companies Act 1993, the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013, and its financial statements comply with these Acts. The Company is a licenced life insurer under the Insurance (Prudential Supervision) Act 2010 ("IPSA") and its financial statements also comply with this Act.

The annual report was authorised for issue by the Board on 5 July 2017.

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3. Statement of compliance and reporting framework

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"), as a for-profit entity, and comply with International Financial Reporting Standards ("IFRS") and the New Zealand Equivalents to International Financial Reporting Standards (''NZ IFRS'').

4. Basis of preparation

The financial statements have been prepared on a going concern basis.

The financial statements have been prepared on a historical cost basis except for insurance contract assets and liabilities which are stated at actuarially assessed values. The Company has adopted all new and revised mandatory standards, amendments and interpretations in the current year. None had a material impact on these financial statements.

There are a number of standards, amendments and interpretations which have been approved but are not yet effective. The Company expects to adopt these when they become due for adoption, and is assessing their impact on the financial statements. The most significant of these is IFRS 17 *Insurance Contracts* which is effective for annual periods beginning on or after 1 January 2021. IFRS 17 establishes principles for the recognition, measurement, presentation, and disclosure of insurance contracts issued, and will supersede IFRS 4 *Insurance Contracts*.

Certain comparative figures have been adjusted to measure or present them on the same basis as the current year. The impact of any reclassification is immaterial.

5. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Insurance contract assets and liabilities

Insurance contract assets and liabilities are valued using actuarial methods that take into account the risks and uncertainties of the particular classes of insurance business written (refer note 6).

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5. Critical accounting judgements and key sources of estimation uncertainty (continued)

The key factors that affect the estimated value of the insurance contract assets and liabilities are:

- The cost of providing benefits and administering the insurance contracts.
- The costs incurred in acquiring the insurance policies (acquisition costs), including adviser commissions, underwriting and policy issue costs.
- Mortality and morbidity experience on life insurance products.
- Discontinuance experience which affects the ability to recover acquisition costs.
- Reinsurance arrangements and timing of future cash flows under these arrangements, which include reinsurance expense, reinsurance recoveries, and reinsurance commission revenue.
- Future premium rates.
- Use of tax losses and the ability to generate tax losses in the future.
- Other factors such as regulation, competition, interest rates, and general economic conditions used in the valuation of insurance contract assets and liabilities.

Share based payments

The value of shadow shares issued to advisers, and share options issued to executives, have been calculated using a binomial option pricing model which uses a number of assumptions. An independent opinion was received on the volatility and risk free rate assumptions which were applied in the model. Refer note 26.

6. Actuarial methods and assumptions

An actuarial report on insurance contract assets and liabilities, as at 31 March 2017, was prepared by A Gardiner ("the Actuary"), Fellow of the New Zealand Society of Actuaries ("FNZSA"), and signed on 5 July 2017. The report was reviewed by the Appointed Actuary, C Hett, FNZSA, and Fellow of the Institute and Faculty of Actuaries.

The actuarial report indicates that the Actuary was satisfied as to the accuracy of the data upon which the insurance contract assets and liabilities have been determined and the level of additional reserves for claims (net of reinsurance) included within Trade and other payables / Trade and other receivables.

Methods used in the valuation of insurance contract assets and liabilities

The Actuary certified that the value of insurance contract assets and liabilities, including reserves for claims, has been determined in accordance with methods and assumptions disclosed in the actuarial report and with New Zealand Society of Actuaries Professional Standard No 20: Determination of Life Insurance Policyholder Liabilities ("PS20").

6. Actuarial methods and assumptions (continued)

Insurance contract assets and liabilities were measured as the present value of expected future cash flows plus allowances for the cost of policyholders electing to exercise various options in the future.

The profit carrier, net claims, was used as the basis on which to spread the expected future profit.

There have been no changes to the valuation methods used in the prior year.

Actuarial assumptions used in the valuation of insurance contract assets and liabilities

a) Discount rates

Benefits under the insurance contracts are not contractually linked to the performance of assets held. As a result, the insurance contracts were discounted for the time value of money using risk-free discount rates derived from returns on NZ government bonds as at the valuation date.

The risk-free rates (before tax) applied in the valuation process were monthly forward rates. Equivalent annual rates are:

As at 31 March *Years from valuation date*	2017	2016
1	1.96%	2.05%
5	3.33%	2.76%
10	4.19%	3.79%
15	4.64%	4.27%
20	4.77%	4.54%

b) Acquisition expenses

Acquisition expense assumptions were based on the actual acquisition expenses incurred for the year ending 31 March 2017.

c) Maintenance expenses

Maintenance expense assumptions were based on the Company's business plan for the period to 31 March 2020, allowing for new business expected. After this time an assumed inflation rate of 2.00% per annum (31 March 2016: 2.25% per annum) was used.

d) Taxation

The future rate of taxation is assumed to be 28%, applicable after an initial period of 129 months (31 March 2016: 124 months) during which it was assumed $175 million of tax losses would be utilised (31 March 2016: $140 million).

This initial period was determined by projecting cash flows from business in force at balance date, together with cash flows from future new business the Company is expecting to write, and considering the probable use of past tax losses available to carry forward.

6. Actuarial methods and assumptions (continued)

e) Mortality and morbidity

Assumed mortality and morbidity rates vary by age, sex and smoking habits and have been based on the Company's experience and rates from reinsurer tables.

f) Lapses

Voluntary discontinuances were assumed to vary according to the age of the life insured and the length of time the policy has been in force, in line with the Company's expected experience taking into account other market information and matters specific to the Company.

The range of lapse rates for each related product group are tabled below:

As at 31 March *Related product group*	**2017**	**2016**
Life	3.25% - 16.00%	7.75% - 15.00%
Trauma	6.25% - 18.50%	9.25% - 17.25%
Total and permanent disability	5.25% - 22.75%	9.50% - 15.75%
Disability income	5.75% - 16.50%	8.25% - 14.50%
Medical	5.75% - 14.25%	6.75% - 10.75%

g) Indexation

Indexation of certain benefits (where applicable) was assumed to be 2.00% per annum (31 March 2016: 2.25% per annum), except for the calendar year 2017 where allowance was made for the rate of increase known to be applicable during that year.

h) Inflation

The inflation rate assumption was determined on a basis consistent with the medium to long term RBNZ inflation target of between 1% and 3%. The rate assumed was 2.00% per annum (31 March 2016: 2.25% per annum).

i) Premium increases

Premium rates are assumed to increase by 1.0% per annum for non-medical policies for the four years following the policies' next anniversary post 1 July 2017. This assumption is unchanged from the prior year.

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6. Actuarial methods and assumptions (continued)

Impact of changes in assumptions between 31 March 2016 and 31 March 2017

The following table shows the effect on the present value of planned profit margins and insurance contract assets and liabilities as at 31 March 2017 of changes in the actuarial assumptions. The effect is measured only on business in force at 31 March 2016, which remains in force at 31 March 2017.

For the year ended 31 March *In thousands of New Zealand Dollars*	Increase/(decrease) in the present value of future profit margins		Decrease in Net insurance contract assets and Total comprehensive income	
	2017	2016	2017	2016
Assumption category:				
Discount rates and indexation	(14,985)	(933)	(8,469)	(1,557)
Lapses	(17,953)	(3,292)	-	-
Expenses	2,347	(7,268)	-	-
Tax	6,755	2,688	-	-
Premium increases	-	18,223	-	-
Claims	8,403	-	-	-
Reinsurance	18,109	3,918	-	-
Model changes	(9,947)	-		-
Impact of changes in assumptions	**(7,271)**	**13,336**	**(8,469)**	**(1,557)**

7. Risk management

The financial condition and operating results of the Company are exposed to a number of risks, the primary risks being insurance, credit, liquidity and capital risk.

The Company's primary objective is to manage risks to minimise any potential impact on policyholders and shareholders and comply with the risk management requirements of IPSA.

A risk management strategy has been put in place to identify and control risks, and to put in place processes and procedures to mitigate risks. The Company's appetite for and exposure to risks is regularly monitored by the Board, who also oversees the control framework the Company has put in place in order to manage these risks.

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7. Risk management (continued)

The Board has established an Audit and Risk Committee ("ARC"), chaired by an independent, non-executive director.

The ARC is chartered to monitor and assess the Company's compliance with significant laws and regulations, the identification of key risks and initiation of actions to mitigate these risks in line with the Company's Risk Management Programme. The ARC also monitors the on-going management of these key risks.

The Company has formed an Asset and Liability Management Committee ("ALCO"), which meets on a regular basis to monitor and manage financial risks. The ALCO reports to the Board on a regular basis. A Statement of Investment Policy and Objectives ("SIPO") and Treasury Policy and a Capital Management Policy, both approved by the Board, establish parameters for the management of investment assets.

Insurance risk

Insurance risk is risk, other than financial risk, that is transferred from the holder of a contract to the issuer.

The Company's objectives in managing insurance risk are:

- To continuously meet internal and external solvency requirements.
- To utilise reinsurance to keep the retained portion of claims in line with the Company's risk appetite.
- To set premium rates, based on expected claims and expenses, that will ensure an appropriate return on capital.
- To maintain strong internal controls with respect to the underwriting of all new insurance business.
- To maintain claims management processes and controls to ensure that all valid claims are paid in a timely and accurate manner.

A number of variables give rise to insurance risk:

- Mortality and morbidity risk: Higher mortality rates and/or an increased incidence and duration of illness is likely to lead to higher claims expense, reducing profit and shareholders' equity.
- Discontinuance risk: The impact of a change in discontinuance rates depends upon the type of contract and duration in force, but generally an increase in the discontinuance rate will reduce profit and shareholders' equity.
- Expense risk: An increase in the level or growth of expenses over assumed levels will reduce profit and shareholders' equity.

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7. Risk management (continued)

The table below illustrates the sensitivity of profit and equity (after allowance for reinsurance but before any compensating changes to premium rates) to changes in insurance risk variables emerging over the year following the valuation date. The figures below exclude any capital losses that may be recognised.

As at 31 March *In thousands of New Zealand Dollars*	**Change**	**2017** Profit	**2017** Equity	**2016** Profit	**2016** Equity
Mortality and morbidity	+10%	(2,403)	(2,403)	(2,108)	(2,108)
	-10%	2,894	2,894	2,400	2,400
Discontinuance	+10%	(1,808)	(1,808)	(1,418)	(1,418)
	-10%	1,765	1,765	1,383	1,383
Maintenance expenses	+10%	(710)	(710)	(495)	(495)
	-10%	710	710	495	495

Insurance risk management

1. Reinsurance

The Company has entered into reinsurance treaties (the "treaties") with SCOR in respect of all insurance benefits sold, with the exception of medical benefits and group business (the latter being reinsured with a separate counterparty as set out below).

The treaties meet the definition of an insurance contract under NZ IFRS 4 as there is a significant transfer of insurance risk from the Company to SCOR through the reinsurance of an agreed percentage of insurance risks on all reinsured benefits up to automatic acceptance levels.

Further, SCOR bears lapse risk through the treaties. The treaties are designed to limit the Company's exposure to insurance risk to a level appropriate to its age and capital base.

Reinsurance premiums are paid to SCOR for benefits reinsured. A defined percentage of claims paid on reinsured benefits is recoverable from SCOR.

SCOR pays the Company a commission on the issue of new business covered by the treaties which contributes towards the costs of acquiring new insurance business in order that the Company can continue to write new business and continuously meet solvency standards.

Profits arising on the business reinsured are shared with the Company post experience account balance amortisation.

Treaty terms for new business are agreed periodically. If SCOR ceases to take new business under the treaties it remains on risk for policies previously reinsured.

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7. Risk management (continued)

The Company has entered into separate reinsurance treaties for group risk business written by the Company. There are no commissions payable or profit share arrangements under this treaty, its purpose is to limit the claims risk in respect of group risk business written.

The Company has entered into a Pandemic Aggregate Stop Loss Reinsurance treaty which mitigates the risk of significant losses arising from concentrations of insurance risk due to pandemic events.

Market conditions beyond the Company's control may impact the availability and cost of reinsurance. Accordingly, the Company may be forced to incur additional expenses for reinsurance or may be unable to obtain sufficient reinsurance on acceptable terms from SCOR or alternative reinsurers, in which case the Company would have to accept an increase in its exposure to insurance risk under new business, equity fund new business acquisition costs, reduce the amount of new business written or seek alternative arrangements.

2. Underwriting processes

Underwriting decisions are made in accordance with rules and procedures detailed in the Company's underwriting manual.

Such rules and procedures include limits to delegated authorities and signing powers for individual underwriters and limits over which individual cases must be referred to the Company's reinsurers for an underwriting decision.

Underwriting is monitored by the Chief Underwriter to ensure adequate controls are in place over the various processes and the effectiveness of those controls. The Company's reinsurers and Chief Underwriter carry out regular audits to ensure underwriting decisions made are in accordance with rules, limits and the Company's underwriting philosophy.

3. Claims management

Claims management procedures are in place to ensure the timely and accurate payment of all valid claims in accordance with policy conditions.

The Company has established a Claims Review Committee, comprising senior executives, to which claims staff are able to refer claims above their individual limits and any disputed claims for review.

Claims received over specified limits are also referred to the reinsurers for assessment and sign-off.

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7. Risk management (continued)

Concentration of insurance risk

Exposure to concentration of insurance risk is mitigated through surplus reinsurance provided by SCOR, which limits the Company's exposure to a maximum of $500 thousand per rider per life assured.

The table below illustrates the concentration of insurance risk based on six bands of life sums assured for each client.

As at 31 March	2017		2016	
Sum assured	Before reinsurance	After reinsurance	Before reinsurance	After reinsurance
$0 - $250,000	10.0%	23.4%	10.8%	24.0%
$250,001 - $500,000	30.2%	76.6%	32.2%	76.0%
$500,001 - $1,000,000	38.4%	0.0%	37.6%	0.0%
$1,000,001 - $2,000,000	15.9%	0.0%	14.5%	0.0%
$2,000,001 - $5,000,000	5.1%	0.0%	4.5%	0.0%
Greater than $5,000,000	0.4%	0.0%	0.4%	0.0%
	100.0%	**100.0%**	**100.0%**	**100.0%**

Credit risk

Credit risk is the risk of loss arising from the failure of a counterparty to meet their contractual obligations. The Company is exposed to credit risk from the investment of surplus capital, reinsurance arrangements, loans to advisers and trade receivables (amounts due from policyholders and advisers).

The maximum exposure to credit risk at balance date for each class of financial asset is the carrying amount of those assets as indicated in the Statement of Financial Position.

Credit risk management

The Company manages credit risk by adopting a conservative investment philosophy and spreading its exposures. The SIPO and Treasury Policy establishes minimum credit ratings and exposure limits for investment counterparties.

Currently, all surplus capital is invested in call and short and medium term deposit facilities, spread across a number of high credit quality registered banks.

Reinsurance credit risk is managed by considering the current and a potential reinsurer's credit quality, as evidenced by their credit rating and balance sheet strength as well as their reputation in the market for paying claims.

Loans to advisers are secured against all assets of the borrower, refer note 16. No other collateral exists for any of the investments held by the Company.

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7. Risk management (continued)

Commission recoveries due from advisers are regularly reviewed and provisions are raised where collection is considered doubtful. Amounts due from advisers are disclosed net of provisions in Trade and other receivables. The Company has a contingent liability arising from an introducer agreement with a third party lender (refer note 21).

Concentration of credit risk

Concentration of credit risk at balance date is shown in the table below:

In thousands of New Zealand Dollars	Credit risk	Standard & Poor's credit rating
Institution: **As at 31 March 2017**		
Westpac New Zealand Limited	21,374	AA-
Bank of New Zealand Limited	26,500	AA-
ANZ Bank New Zealand Limited	10,500	AA-
ASB Bank Limited	27,044	AA-
Kiwibank Limited	14,500	A
Rabobank New Zealand Limited	10,000	A
SCOR Global Life SE	18,295	AA-

In thousands of New Zealand Dollars	Credit risk	Standard & Poor's credit rating
Institution: **As at 31 March 2016**		
Westpac New Zealand Limited	14,721	AA-
Bank of New Zealand Limited	15,500	AA-
ANZ Bank New Zealand Limited	15,000	AA-
ASB Bank Limited	14,657	AA-
SCOR Global Life SE	17,397	AA-

Liquidity risk

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

A reinsurer's insolvency, inability or refusal to make timely payments under the terms of its treaty with the Company could have a materially adverse effect on the Company's liquidity.

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7. Risk management (continued)

Liquidity risk management

The Company monitors liquidity risk by forecasting future daily cash requirements and ALCO regularly reviews these projections.

Liquidity risk is managed by maintaining a highly liquid portfolio of assets so that the Company has the ability to meet its financial obligations as they fall due.

The SIPO and Treasury Policy establishes a minimum holding of liquid assets, a maximum overall portfolio duration, and limits the asset classes that may be considered for investment. Term bank deposits are structured so that investments are maturing at regular short term intervals to accommodate future obligations and mitigate cash flow volatility (e.g. higher than expected claims).

Concentration of liquidity risk

The table below summarises the undiscounted maturity profile of the Company's contractual financial liabilities at balance date:

In thousands of New Zealand Dollars	On demand	Less than 3 months	3 to 12 months	Greater than 1 year
At 31 March 2017 Financial Liabilities				
Expense creditors and accruals	-	2,412	978	-
Employee entitlements (excluding employee leave provisions)	-	-	2,703	-
Amounts due to Group companies	84	-	-	-
Claim accruals and provisions	-	24,256	3,337	4,170
Trade creditors	229	9,968	-	-

In thousands of New Zealand Dollars	On demand	Less than 3 months	3 to 12 months	Greater than 1 year
At 31 March 2016 Financial Liabilities				
Expense creditors and accruals	-	3,059	1,432	-
Employee entitlements (excluding employee leave provisions)	-	-	3,092	-
Amounts due to Group companies	84	-	-	-
Claim accruals and provisions	-	20,090	2,420	5,699
Trade creditors	64	3,962	-	-

Refer note 14 for the estimated timing of net cash inflows from insurance contract assets and liabilities.

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7. Risk management (continued)

Capital risk

The primary objectives of the Company in the management of capital is to ensure that;

(i) The Company continuously meets the requirements of the Solvency Standard for Life Insurance Business ("the Solvency Standard") released by the RBNZ as part of IPSA.

(ii) The interests of policyholders and creditors are protected.

(iii) Shareholder value is created.

The Company is required to retain actual solvency capital of at least $5 million and maintain a positive solvency margin in each fund under the Solvency Standard. The Company's reinsurance treaties also impose minimum solvency requirements.

Capital risk management

The Board maintains overall responsibility for the management and monitoring of capital and the determination of the level of "buffer" capital to be held in addition to the capital requirements of the Solvency Standard. A Target Solvency Capital ratio is established under the Capital Management policy for the purpose of monitoring and managing capital. Capital requirements are projected for the next three year period and are subjected to stress testing. ALCO regularly reviews these projections and reports to the Board.

During the years ended 31 March 2017 and 31 March 2016, the Company complied with all externally imposed capital requirements. As a means of protecting the interests of life insurance policyholders, IPSA requires licensed insurers to establish and maintain at least one statutory fund in respect of its life insurance business. The Company has established one statutory fund for its life insurance business. Medical insurance business and any other items that do not relate to contracts of life insurance are contained within the shareholder fund.

The solvency positions of the Company, the statutory fund and the shareholder fund determined under the requirements of the Solvency Standard are set out below.

At 31 March 2017 *In thousands of New Zealand Dollars*	**Total**	**Statutory fund**	**Shareholder fund**
Actual solvency capital	222,006	127,952	94,054
Minimum solvency capital	148,465	115,636	32,829
Solvency margin	**73,541**	**12,316**	**61,225**
Solvency ratio	**150%**	**111%**	**286%**

At 31 March 2016 *In thousands of New Zealand Dollars*	**Total**	**Statutory fund**	**Shareholder fund**
Actual solvency capital	143,258	104,934	38,324
Minimum solvency capital	117,699	94,677	23,022
Solvency margin	**25,559**	**10,257**	**15,302**
Solvency ratio	**122%**	**111%**	**166%**

KPMG

8. Net premium revenue

Premium revenue

Premiums for insurance contract business are recognised as revenue on an accrual basis. The unearned portion of premium revenue is recognised in the Statement of Financial Position in Trade and other payables and in Insurance contract assets.

Outward reinsurance expense

Premiums ceded to reinsurers under reinsurance contracts are recorded as Outward reinsurance expense and are recognised when they become due and payable in accordance with the terms and conditions of the reinsurance contracts. The prepaid portion of premiums ceded is recognised in the Statement of Financial Position in Trade and other receivables and in Insurance contract liabilities – reinsurance.

9. Reinsurance commission revenue

Reinsurance commission revenue is inwards reinsurance commission on issued policies containing reinsured benefits, net of commission repayable as a result of policy discontinuances. It is recognised as revenue on an accrual basis.

10. Investment revenue

For the year ended 31 March *In thousands of New Zealand Dollars*	**2017**	**2016**
Interest on cash and cash equivalents and investments	2,460	1,662
Interest on New Zealand Government Stock	-	1
Interest on Loans	128	75
Total investment revenue	**2,588**	**1,738**

Cash and cash equivalents comprise on demand deposits at bank and short-term bank deposits (under 5 months) subject to an insignificant risk of changes in value.

Investments comprise bank term deposits of 5 to 12 months in duration.

KPMG

11. Net claims expense

Claims expense

Claims expense is recognised when the liability to a policyholder has been established, or when the Company has been notified of a claim event. A provision is made for claims that have not yet been reported. The claims provision for disability income products is calculated as the present value of estimated payments.

Reinsurance recoveries

Reinsurance recoveries are recognised as revenue at the same time the claim expense is recognised if the underlying policy is reinsured. Reinsurance recovery provisions are established for claims that have not yet been reported. The reinsurance recovery provision for disability income products is calculated as the present value of recoverable amounts.

12. Commission and operating expenses

Commission paid to independent advisers, and the Company's operating expenses, have been apportioned between acquisition and maintenance costs which determines the timing of expense recognition.

Acquisition costs

Acquisition costs are the costs of acquiring new business, including adviser commission and similar distribution costs related to accepting, issuing and initially recording policies.

Acquisition costs are spread over the period in which insurance services are provided. The expense is recognised as a component of Net movement in insurance contract assets and liabilities in the Statement of Comprehensive Income. Unamortised acquisition costs are a component of insurance contract assets and liabilities in the Statement of Financial Position.

Maintenance costs

Maintenance costs are the costs of administering policies subsequent to sale including renewal and as earned commission and all other operating costs of the Company other than acquisition costs.

Maintenance costs are recognised on an accrual basis.

KPMG

12. Commission and operating expenses (continued)

For the year ended 31 March *In thousands of New Zealand Dollars*	Note	2017	2016
Acquisition costs			
Commission		58,101	57,066
Equity settled share based payments to advisers	26	-	(399)
Other acquisition expenses		27,040	25,656
Total acquisition costs		**85,141**	**82,323**
Maintenance costs			
Commission		17,527	13,445
Equity settled share based payments to executive staff	26	784	614
Other maintenance expenses		14,406	13,213
Total maintenance costs		**32,717**	**27,272**
Total commission and operating expenses		**117,858**	**109,595**

For the year ended 31 March *In thousands of New Zealand Dollars*	2017	2016
Commission to advisers (including share based payments)	75,628	70,112
Staff expenses	22,327	21,210
Operating lease costs	772	784
Other technology and occupancy expenses	4,913	5,181
Sales and marketing	6,637	5,741
Professional fees	2,312	2,092
Medical expenses	2,394	2,073
Other operating expenses	2,875	2,402
Total commission and operating expenses	**117,858**	**109,595**

There were fees paid and payable to the Company's auditor, KPMG, of $228 thousand for the audit of financial statements (31 March 2016: $310 thousand) and $33 thousand for the review of regulatory reporting (31 March 2016: $35 thousand).

KPMG

13. Taxation

The discounted tax cash flows embedded in the Insurance contract assets and Insurance contract liabilities - reinsurance balances are netted and disclosed separately in the Statement of Financial Position as Present value of future tax payable in insurance contract assets and liabilities.

The movement in Present value of future tax payable is included in Net movement in insurance contract assets and liabilities reported in the Statement of Comprehensive Income.

For the year ended 31 March *In thousands of New Zealand Dollars*	**2017**	**2016**
Reconciliation of prima facie income tax		
Profit before income tax	9,706	11,052
Income tax expense at statutory income tax rate of 28%	2,718	3,095
Reduction in income tax expense due to non-assessable net income	(9,316)	(7,881)
Income tax effect of changes in temporary differences not recognised	(185)	146
Income tax effect of net reinsurance items taxed under the financial arrangements regime	(2,929)	(8,155)
Income tax effect of current period tax losses not recognised	9,712	12,795
Income tax expense reported in the Statement of Comprehensive Income	-	-

The Company has income tax losses available to carry forward of $315 million (31 March 2016: $280 million).

The availability of income tax losses carried forward is subject to statutory requirements being met, including shareholder continuity rules. Future availability of tax losses could therefore be adversely affected by significant changes in ownership.

The Company has unrecognised deductible temporary differences of $4 million (31 March 2016: $4 million).

The Company has imputation credits available of $21 thousand (31 March 2016: $21 thousand).

KPMG

14. Insurance contract assets and liabilities

Insurance contracts transfer significant insurance risks from the policyholder to the insurer. The methodology used to determine the value of life insurance contract assets and liabilities is referred to as Margin on Services ("MoS"), as set out in PS20.

MoS is designed to recognise profits on insurance as services are provided to policyholders and income is received. Profits are deferred and recognised over the life of the insurance policies, whereas losses are recognised immediately as they arise. Insurance contract assets and liabilities reflect the present value of expected future premiums, claims, taxes and expenses, including profit margins to be released when earned in future periods. The movement in insurance contract assets and liabilities during the period is recognised in the Statement of Comprehensive Income.

Details of the actuarial assumptions used in the calculation of insurance contract assets and liabilities are set out in Note 6.

As at 31 March *In thousands of New Zealand Dollars*	**2017**	**2016**
Net insurance contract assets contain the following components:		
Present value of future policy benefits	(789,032)	(700,675)
Present value of future expenses (including reinsurance)	(510,841)	(454,033)
Present value of future planned margins of revenues over expenses	(301,742)	(256,649)
Future tax payable	(83,591)	(82,491)
Present value of future premiums	1,825,979	1,602,473
Business valued using an accumulation model	(3,222)	(5,456)
Net insurance contract assets	**137,551**	**103,169**
Disclosed as:		
Insurance contract assets	408,283	356,106
Insurance contract liabilities - reinsurance	(187,141)	(170,446)
Present value of future tax payable within net insurance contract assets	(83,591)	(82,491)
Net insurance contract assets	**137,551**	**103,169**
Estimated discounted net cash inflows from net insurance contract assets		
Less than one year	(18,308)	(15,128)
One year to five years	(42,611)	(45,518)
Later than five years	198,470	163,815
Net insurance contract assets future net cash inflows	**137,551**	**103,169**

The table above shows the discounted cash flows that comprise the insurance contract assets and liabilities, net of reinsurance and including profit margins.

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14. Insurance contract assets and liabilities (continued)

Reconciliation of movements in insurance contract assets and liabilities

For the year ended 31 March *In thousands of New Zealand Dollars*	2017	2016
Insurance contract assets		
Opening Insurance contract assets	356,106	290,469
Movement recognised in the Statement of Comprehensive Income	52,177	65,637
Closing Insurance contract assets	**408,283**	**356,106**
Expected maturity within 12 months	39,490	29,572
Expected maturity greater than 12 months	368,793	326,534
Insurance contract assets	**408,283**	**356,106**
Insurance contract liabilities - reinsurance		
Opening Insurance contract liabilities - reinsurance	(170,446)	(148,435)
Movement recognised in the Statement of Comprehensive Income	(16,695)	(22,011)
Closing Insurance contract liabilities - reinsurance	**(187,141)**	**(170,446)**
Expected maturity within 12 months	(57,798)	(44,700)
Expected maturity greater than 12 months	(129,343)	(125,746)
Insurance contract liabilities - reinsurance	**(187,141)**	**(170,446)**
Present value of future tax payable within net insurance contract assets		
Opening Present value of future tax payable	(82,491)	(67,467)
Movement recognised in the Statement of Comprehensive Income	(1,100)	(15,024)
Closing Present value of future tax payable within net insurance contract assets	**(83,591)**	**(82,491)**
Expected maturity within 12 months	-	-
Expected maturity greater than 12 months	(83,591)	(82,491)
Present value of future tax payable within net insurance contract assets	**(83,591)**	**(82,491)**
Reconciliation of movements in net insurance contract assets and liabilities		
Net insurance contract assets		
Opening net insurance contract assets	103,169	74,567
Movement recognised in the Statement of Comprehensive Income	34,382	28,602
Closing net insurance contract assets	**137,551**	**103,169**

KPMG

15. Trade and other receivables

As at 31 March *In thousands of New Zealand Dollars*	**Note**	**2017**	**2016**
Sundry debtors and prepayments		1,590	1,045
Accrued investment income		828	279
Amounts due from related parties	22	-	67
Reinsurance premiums paid in advance		1,027	797
Reinsurance recoverable on accrued claims		18,472	17,397
Trade receivables:			
Due from reinsurers		15	3
Due from advisers		546	560
Due from policy holders		1,363	1,177
Trade and other receivables		**23,841**	**21,325**
Expected maturity within 12 months		20,621	16,609
Expected maturity greater than 12 months		3,220	4,716
Trade and other receivables		**23,841**	**21,325**

Amounts due from advisers are shown net of a $137 thousand (31 March 2016: $308 thousand) provision for doubtful debts being management's assessment of amounts due where collection is doubtful. The gross amount of the impaired receivables is $158 thousand (31 March 2016: $321 thousand).

16. Loans

As at 31 March *In thousands of New Zealand Dollars*	**2017**	**2016**
Loan to PGHL	505	-
Secured loans to advisers	885	1,005
Total Loans	**1,390**	**1,005**
Expected maturity within 12 months	1,235	590
Expected maturity greater than 12 months	155	415
Total Loans	**1,390**	**1,005**

The loan to PGHL is an interest bearing loan which was made on an arm's length basis. The loan will be repaid by 30 June 2017.

KPMG

16. Loans (continued)

From time to time the Company will enter into loan agreements with advisers. The majority of loans are for a maximum term of three years, with interest charged at market rates. Loans are secured against all of the assets of the borrower and most are also subject to personal guarantees. Loans are shown net of a $43 thousand (31 March 2016: $59 thousand) provision for doubtful debts being management's assessment of amounts due where collection is doubtful. The gross amount of the impaired receivables is $50 thousand (31 March 2016: $78 thousand).

17. Property, plant and equipment

In thousands of New Zealand Dollars	Leasehold improvements	Office furniture and equipment	Computer equipment	Total
Gross carrying value				
Balance at 1 April 2016	185	310	634	1,129
Additions	26	15	165	206
Disposals and write-offs	-	-	(204)	(204)
Balance at 31 March 2017	**211**	**325**	**595**	**1,131**
Accumulated depreciation				
Balance at 1 April 2016	32	213	451	696
Depreciation expense	30	43	115	188
Disposals and write-offs	-	-	(204)	(204)
Balance at 31 March 2017	**62**	**256**	**362**	**680**
Net carrying value at 31 March 2017	**149**	**69**	**233**	**451**

In thousands of New Zealand Dollars	Leasehold improvements	Office furniture and equipment	Computer equipment	Total
Gross carrying value				
Balance at 1 April 2015	159	287	544	990
Additions	26	24	140	190
Disposals and write-offs	-	(1)	(50)	(51)
Balance at 31 March 2016	**185**	**310**	**634**	**1,129**
Accumulated depreciation				
Balance at 1 April 2015	9	155	426	590
Depreciation expense	23	59	75	157
Disposals and write-offs	-	(1)	(50)	(51)
Balance at 31 March 2016	**32**	**213**	**451**	**696**
Net carrying value at 31 March 2016	**153**	**97**	**183**	**433**

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18. Intangible assets

Computer software is recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over the period for which benefits are expected to be derived, which is assessed to be three or five years. Cost comprises all directly attributable costs necessary to purchase, create, produce and prepare the asset to be capable of operating in the manner intended by management.

In thousands of New Zealand Dollars	Computer software	Other intangible assets	Total
Gross carrying value			
Balance at 1 April 2016	8,437	192	8,629
Additions	1,181	75	1,256
Disposals and write-offs	-	(37)	(37)
Balance at 31 March 2017	**9,618**	**230**	**9,848**
Accumulated amortisation			
Balance at 1 April 2016	6,288	90	6,378
Amortisation expense	1,131	81	1,212
Balance at 31 March 2017	**7,419**	**171**	**7,590**
Net carrying value at 31 March 2017	**2,199**	**59**	**2,258**

In thousands of New Zealand Dollars	Computer software	Other intangible assets	Total
Gross carrying value			
Balance at 1 April 2015	8,248	192	8,440
Additions	1,406	33	1,439
Disposals and write-offs	(1,217)	(33)	(1,250)
Balance at 31 March 2016	**8,437**	**192**	**8,629**
Accumulated amortisation			
Balance at 1 April 2015	5,775	28	5,803
Amortisation expense	1,507	62	1,569
Disposals and write-offs	(994)	-	(994)
Balance at 31 March 2016	**6,288**	**90**	**6,378**
Net carrying value at 31 March 2016	**2,149**	**102**	**2,251**

KPMG

19. Trade and other payables

As at 31 March *In thousands of New Zealand Dollars*	Note	2017	2016
Expense creditors and accruals		3,509	4,672
Employee entitlements		3,709	4,062
Amounts due to related parties	22	84	84
Claim accruals and provisions		31,763	28,209
Unearned premiums		1,883	1,499
Trade creditors:			
Due to advisers		2,262	2,523
Due to reinsurers		7,935	1,503
Trade and other payables		**51,145**	**42,552**
Expected maturity within 12 months		46,915	36,732
Expected maturity greater than 12 months		4,230	5,820
Trade and other payables		**51,145**	**42,552**

20. Commitments

Capital commitments

The Company has commitments for the purchase of Intangible assets and Property, plant and equipment at 31 March 2017 of nil (31 March 2016: $31 thousand).

Lease commitments

Operating leases relate to office facilities with lease terms of 4 years and an option to extend for a further 4 years, and office equipment with a lease term of 4 years.

Future minimum rentals payable under non-cancellable operating leases are as follows:

As at 31 March *In thousands of New Zealand Dollars*	2017	2016
Less than one year	885	864
Between one and five years	958	1,830
Lease commitments	**1,843**	**2,694**

KPMG

21. Contingent Liabilities

The Company has a contingent liability to a third party lender of $20 thousand at 31 March 2017 (31 March 2016: $4 thousand). The contingent liability arises from an agreement by the Company to compensate the third party for any bad debt write offs incurred on loans advanced by it to advisers that were introduced by the Company. The contingent liability is a maximum of 5% of the annual weighted average loan value.

22. Related parties

Transactions

The remuneration of directors and key management personnel (being those persons having authority and responsibility for planning, directing and controlling the activities of the Company) during the year was as follows:

For the year ended 31 March *In thousands of New Zealand Dollars*	**Note**	**2017**	**2016**
Short-term employee benefits		7,441	6,735
Share based payments	26	784	614
Fees paid to non-executive directors		280	200
Total compensation		**8,505**	**7,549**

Details of transactions between the Company and other related parties are disclosed below.

For the year ended 31 March *In thousands of New Zealand Dollars*	**Note**	**2017 Received/(paid)**	**2016 Received/(paid)**
PGHL			
Equity contribution	25	69,049	25,325
Loan	16	(505)	-

The Company pays all fees for the audit of financial statements on behalf of PGHL and its subsidiaries.

As at 31 March *In thousands of New Zealand Dollars*	**Note**	**2017 Receivable/ (payable)**	**2016 Receivable/ (payable)**
Balances with related parties			
Partners Group Holdings Limited	16	505	67
Unique Solutions and Advice Limited (fellow subsidiary)	19	(84)	(84)

KPMG

23. Reconciliation of net profit after tax to cash flows from operating activities

For the year ended 31 March *In thousands of New Zealand Dollars*	2017	2016
Net profit after tax	9,706	11,052
Non-cash items and non-operating items:		
Depreciation	188	157
Amortisation of Intangible assets	1,212	1,569
Loss on disposal of Intangible assets	-	223
Equity settled share based payments	749	325
Provision for doubtful debts on Loans	(16)	59
Movement in insurance contract assets and liabilities:		
Movement in Insurance contract assets	(52,177)	(65,637)
Movement in Insurance contract liabilities - reinsurance	16,695	22,011
Movement in Present value of future tax payable within net insurance contract assets and liabilities	1,100	15,024
Movements in working capital:		
Increase in Trade and other receivables	(2,583)	(7,209)
Increase in Trade and other payables	8,593	17,108
Net cash flows from operating activities	**(16,533)**	**(5,318)**

KPMG

24. Disaggregated information

IPSA requires a life insurer to allocate the operating profit or loss of a statutory fund (in accordance with the Insurance (Prudential Supervision) Regulations 2010) and identify any capital payments made to, or distributions from, a statutory fund. The table below presents disaggregated information in compliance with these requirements. There were no distributions made from the statutory fund in the current year (31 March 2016: nil).

Solvency information for the Company's statutory and shareholder funds is disclosed in the Capital risk section of note 7.

In thousands of New Zealand Dollars	Statutory fund	Shareholder fund	Total
For the year ended 31 March 2017			
Premium revenue	140,858	30,626	171,484
Investment revenue	864	1,724	2,588
Claims expense	49,804	21,185	70,989
Commission and other operating expenses	99,278	18,580	117,858
Profit before tax	9,326	380	9,706
Profit after tax	9,326	380	9,706
Capital payments made to funds	13,692	55,357	69,049
As at 31 March 2017			
Investment assets	35,392	74,526	109,918
Insurance contract assets	373,687	34,596	408,283
Other assets	21,201	6,739	27,940
Insurance contract liabilities - reinsurance	187,141	-	187,141
Other liabilities	115,187	19,549	134,736
Retained profits / (losses) directly attributable to shareholder	66,962	(28,995)	37,967
Contributed capital	60,990	125,307	186,297

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24. Disaggregated information (continued)

In thousands of New Zealand Dollars	Statutory fund	Shareholder fund	Total
For the year ended 31 March 2016			
Premium revenue	113,693	24,955	138,648
Investment revenue	1,255	483	1,738
Claims expense	41,841	16,123	57,964
Commission and other operating expenses	95,024	14,571	109,595
Profit /(loss) before tax	14,577	(3,525)	11,052
Profit /(loss) after tax	14,577	(3,525)	11,052
Capital payments made to funds	20,873	4,452	25,325
As at 31 March 2016			
Investment assets	32,598	27,280	59,878
Insurance contract assets	331,070	25,036	356,106
Other assets	19,669	5,345	25,014
Insurance contract liabilities - reinsurance	170,446	-	170,446
Other liabilities	107,957	17,086	125,043
Retained profits / (losses) directly attributable to shareholder	57,636	(29,375)	28,261
Contributed capital	47,298	69,950	117,248

25. Contributed capital

For the year ended 31 March	2017	2016	2017	2016
	In thousands of shares		*In thousands of New Zealand Dollars*	
Ordinary capital				
Balance at 1 April	110,230	85,230	117,248	91,923
Shares issued	68,300	25,000	68,300	25,000
Equity settled share based payments to executive staff	-	-	749	724
Equity settled share based payments to advisers	-	-	-	(399)
Total contributed capital	**178,530**	**110,230**	**186,297**	**117,248**

All shares have equal voting rights, share equally in dividends and surplus on winding up, and have no par value.

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26. Share-based payments

Shadow share scheme with advisers

The Company has a shadow share scheme for eligible independent financial advisers which provides additional commission payments on a deferred basis. It is designed to encourage advisers to write high quality business to enable the Company to maintain strong persistency over a number of years. The entitlements carry no voting rights as they do not represent an ownership interest in the Company. Entitlements earned are equal to the notional gain in the value of shares in PGHL between the allocation date and the date when the entitlement is paid. The entitlements will be settled in cash.

The number of shadow shares granted is calculated in accordance with scheme rules and includes performance factors such as: production net of lapses, issued annual premium and persistency levels.

PGHL, through a Deed of Agreement with the Company, has undertaken to bear the liability to advisers arising under the scheme. PGHL will utilise the proceeds of new shares issued to discharge the liability. The Company has no obligation to reimburse or repay PGHL. The option fair value of shadow shares at grant date is recognised as a commission expense with a corresponding increase in equity. No shadow shares were issued during the year ended 31 March 2017 (31 March 2016: nil). Tranches 1 and 2 of the shadow share scheme were paid out during the year ended 31 March 2017. The remaining tranches have not yet vested so the intrinsic value at balance date is nil (31 March 2016: $1,326 thousand).

The grant information for shadow share based payment arrangements in existence for the year ended 31 March 2017 was as follows:

Shadow share tranches	Number in thousands of shares	Grant date	Exercise price	Option fair value at grant date
Tranche 3	1,349	31/03/2014	$3.75	$1.30
Tranche 4	885	31/03/2015	$4.00	$1.32
Shadow shares granted	**2,234**			

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26. Share-based payments (continued)

Movements in shadow shares during the year

The following table reconciles the shadow shares outstanding at the beginning and end of the year:

For the year ended 31 March	2017		2016	
Movements in shadow shares during the year	*Number in thousands of shares*	*Weighted average exercise price*	*Number in thousands of shares*	*Weighted average exercise price*
Balance at beginning of year	4,609	$3.26	4,609	$3.26
Paid during the year	(2,375)	$2.70	-	-
Balance at end of year	**2,234**	**$3.86**	**4,609**	**$3.26**
Weighted average remaining term until settlement	17 months		18 months	

Value of shadow shares granted

The option fair value of shadow shares granted were valued using the binomial option pricing model, which utilises the same underlying theoretical framework as the Black-Scholes option pricing model, but allows for adjustment to the end "payoff" to reflect conditional outcomes applicable to the scheme at balance date.

The inputs used in the option fair value at grant date were as follows:

Inputs into the model at grant date	Tranche 3	Tranche 4
Grant date share price of PGHL	$3.75	$4.00
Exercise price	$3.75	$4.00
Expected volatility	50%	45%
Time to maturity	3 years	3 years
Dividend yield	0%	0%
Risk-free interest rate	4.08%	3.16%

The exercise price is based on the value of the shares of PGHL, as determined by the Board, at grant date.

The expected volatility is the expected volatility of the PGHL share price. The volatility assumption has been determined by considering comparable share price volatilities of Australasian and international insurance companies. The Company's maturity and regulatory environment has also been considered.

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26. Share-based payments (continued)

Share-based payment schemes with employees

Equity settled share based payments to employees are measured as the option fair value at grant date.

The option fair value determined at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in equity.

Executive long term incentive plan

The executive long term incentive plan is designed to incentivise and retain key executives and to encourage a focus on long term results and the Company's strategic plan.

Shares in PGHL were issued to key executives in July 2012, at an issue price of $2.25, funded by an interest free loan from PGHL. Shares issued to key executives are held on trust by PGH Shareplan Trustee Limited. The shares for which service conditions and performance targets are met will be transferred to the executives on repayment of the loan. Any shares which are not transferred will be put back to PGHL at the issue price in repayment of the loan.

The vesting conditions comprise completion of a defined period of service, growing the share price of PGHL to a defined level and an equity raising hurdle.

The vesting criteria has been met for all 1,025 thousand of the share entitlements and these shares are to be held in escrow until 31 July 2018.

Movements in executive long term entitlements during the year

There were no executive long term entitlements granted or exercised during the year ended 31 March 2017 (31 March 2016: nil).

Value of executive long term entitlements granted

The option fair value of entitlements granted were valued using the binomial option pricing model, which utilises the same underlying theoretical framework as the Black-Scholes option pricing model, but allows for adjustment to the end "payoff" to reflect conditional outcomes applicable to the plan at balance date.

The value of each entitlement at grant date was $0.60. Performance terms were subsequently modified in a prior year. The weighted average value of each entitlement at modification date was $0.64.

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26. Share-based payments (continued)

The inputs used in the measurement of the option value of executive long term entitlements granted were as follows:

Inputs into the model at grant date	
Grant date share price of PGHL	$2.25
Exercise price	$2.25
Expected volatility	50%
Time to maturity	3 years
Dividend yield	0%
Risk-free interest rate	2.63%

The exercise price is based on the value of the shares of PGHL as determined by the Board at grant date.

The expected volatility is the expected volatility of the PGHL share price. The volatility assumption has been determined by considering comparable share price volatilities of Australasian and international insurance companies. The Company's maturity and regulatory environment has also been considered.

Executive share option plan

The Executive share option plan is designed to retain targeted senior executives and align the incentives of the participants with the interests of the PGHL shareholders. Invited participants are issued with options to subscribe for ordinary shares in PGHL under the rules of the plan.

The plan rules contain a performance hurdle in respect of the PGHL future share price on a defined date. If the performance hurdle is met, the participants have the right to exercise their options to purchase ordinary shares in PGHL at a defined exercise price. Participants also have the option to select a net settlement alternative whereby they will be issued a number of shares which reflects the difference between the exercise price and the value of PGHL shares at the time the options are exercisable for nil consideration.

The vesting conditions comprise the achievement of performance hurdles set by the Board, and the participant remaining employed by the Company at the exercise date.

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26. Share-based payments (continued)

The grant information for executive option share based payment arrangements in existence as at 31 March 2017 was as follows:

Executive share option tranches	Number in thousands of options	Grant date	Exercise price	Option fair value at grant date
Tranche 1	1,190	18/10/2013	$3.00	$0.79
Tranche 2	45	31/07/2014	$3.00	$1.27
Tranche 3	310	17/09/2015	$3.25	$0.97

Movements in executive share options during the year

The performance hurdle has been met for the tranche 1 and tranche 2 share options and participants have until 31 July 2018 to exercise these options to purchase ordinary shares in PGHL at an exercise price of $3.00.

The following table reconciles the executive share options outstanding at the beginning and end of the year:

For the year ended 31 March	2017		2016	
Movements in executive share options during the year	*Number in thousands of options*	*Weighted average exercise price*	*Number in thousands of options*	*Weighted average exercise price*
Balance at beginning of year	1,455	$3.05	1,190	$3.00
Granted during the year	-	-	310	$3.25
Excercised during the year	(270)	$3.00	-	-
Forfeited during the year	(41)	$3.25	(45)	$3.00
Balance at end of year	**1,144**	**$3.06**	**1,455**	**$3.05**
Weighted average remaining term until options vest	3 months		8 months	

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26. Share-based payments (continued)

Value of executive share options granted

The options granted were valued using the binomial option pricing model, which utilises the same underlying theoretical framework as the Black-Scholes option pricing model, but allows for adjustment to the end "payoff" to reflect conditional outcomes applicable to the plan at balance date.

The inputs used in the measurement of the option value at grant date were as follows:

Inputs into the model at grant date	Tranche 1	Tranche 2	Tranche 3
Grant date share price of PGHL	$3.00	$3.75	$3.25
Exercise price	$3.00	$3.00	$3.25
Expected volatility	50%	50%	45%
Time to maturity	2.75 years	2 years	3 years
Dividend yield	0%	0%	0%
Risk-free interest rate	3.33%	3.89%	2.63%

The exercise price is based on the value of the shares of PGHL at grant date.

The expected volatility is the expected volatility of the PGHL share price. The volatility assumption has been determined by considering comparable share price volatilities of Australasian and international insurance companies. The Company's maturity and regulatory environment has also been considered.

Senior employee share acquisition plan

The senior employee share acquisition plan is designed to incentivise and retain key executives. 99 thousand shares in PGHL were issued to key executives in September 2015 at an issue price of $3.25, which was the price for a PGHL ordinary share issue occurring at that time. An additional 8 thousand shares were issued due to the operation of a price protection mechanism on 9 September 2016 for all shareholders holding price protected ordinary shares. 4 thousand shares have been forfeited. Shares issued to key executives are held on trust by PGH Shareplan Trustee Limited. The shares for which the defined period of service conditions are met will fully vest to the executives. The remaining term to maturity is 12 months (31 March 2016: 24 months).

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27. Events after reporting date

PGHL received the second tranche of capital from Blackstone Tactical Opportunities on 28 June 2017. The Company issued additional capital of $71.5 million to PGHL on the same day.

Corporate Governance Statement

The Board recognises the importance of good corporate governance, particularly its role in protecting the interests of all stakeholders and delivering improved performance.

Directors are appointed by PGHL. In turn, directors of PGHL are appointed or ratified by the shareholders of PGHL.

Responsibilities of the Board

The Board is responsible for establishing, monitoring and updating the Company's corporate governance framework, and is committed to carrying out this role in accordance with best practice and all applicable laws and regulations.

The Board has the dual responsibilities of controlling and monitoring the operations of the Company on behalf of the shareholders of PGHL, and the protection of the Company's policyholders. The Board's performance is reviewed annually.

A Board Charter sets out the Board's role and responsibilities and regulates Board procedures.

Specific responsibilities of the Board include:

- Ensuring the Company continuously meets the requirements for licensed insurers set by the RBNZ.
- Setting strategic goals and establishing business plans, as well as monitoring performance against those goals and plans.
- Monitoring the performance of the Managing Director and the senior management team.
- Setting delegated levels of authority for the Managing Director and senior management team.
- Overseeing the financial position of the Company, including capital management and approving and monitoring capital expenditure.
- Ensuring all appropriate policies, controls, systems and procedures are in place to manage business risks and to ensure compliance with all regulatory, prudential and ethical standards.
- Approving annual and half yearly accounts and other regulatory reporting (such as solvency returns).
- Identifying risks and initiating action to mitigate and manage risks in line with the Company's Risk Management Programme and reporting any material changes in that programme to the RBNZ as required.

Responsibilities of the Board (continued)

- Maintaining the highest business standards and ethical behaviour.
- Reviewing and approving remuneration policy and incentive programmes for employees.
- Completing fit and proper assessments for all directors and relevant officers (Managing Director, Chief Financial Officer and Appointed Actuary) in accordance with the Company Fit and Proper Person Policy and the RBNZ fit and proper requirements.

Structure of the Board

The Board comprises one executive director and seven non-executive directors.

The Board's collective experience includes a balance of insurance, management, financial, investment, administrative and market expertise appropriate for the requirements of the Company.

All directors are certified under the RBNZ fit and proper requirements, in line with the Company's Fit and Proper Person Policy.

Half of the directors are independent (as defined in the RBNZ Governance Guidelines for Licensed Insurers), as noted in the table below which sets out the qualifications and experience of each director.

Director	Roles	Biography
Jim Minto *Appointed 1 Feb 2017*	Chairman and Non-Executive Director (Independent) Chairman of Nominations Committee Member of ARC and Human Resources and Remuneration Committee	Jim Minto is an experienced director with a demonstrated history of working at Chief Executive Officer and Managing Director level in the New Zealand, Australian and Asian financial services industries for over 26 years. Jim retired in 2015 as the Group Chief Executive Officer and Managing Director of TAL (formerly Tower Australia). TAL is 100% owned by Dai-ichi Life, a major global Japanese-based life insurer. Jim has an intimate understanding and passion for life insurance. Jim is a director of Singapore based Dai-ichi Life Asia Pacific, Chair of the Life Insurance in Superannuation Industry Working Group (Australia), director of National Disability Insurance Agency (Australia) and non-executive director of EQT Holdings. Jim is a fellow of the Australian and New Zealand Institute of Accountants and graduate member of the Australian Institute of Company Directors.

Structure of the Board (continued)

Director	Roles	Biography
Naomi Ballantyne *Appointed 14 Dec 2010*	Managing Director	Naomi Ballantyne was a founding employee of Sovereign and helped lead its corporate culture during her time there. Naomi founded Club Life in 2001 and continued to lead the company for five years after she sold it to ING (NZ) Ltd in 2004, during which time ING Life experienced rapid growth to become the second largest life insurance company in New Zealand by new business market share. Naomi left ING Life in September 2009 to build a new, nationwide advisory business called US Advice. US Advice was acquired by PGHL in August 2011 to become the base for the Group's adviser services arm. Naomi was awarded the New Zealand Order of Merit (ONZM) in 2017 for services to the insurance industry.
Sam Knowles *Appointed 19 Feb 2012*	Non-Executive Director (Independent) Member of ARC and Nominations Committee	Sam Knowles has had a successful career in the Australian and New Zealand financial sector with more than 25 years' experience at senior management levels. Sam was Chief Executive Officer of Kiwibank from startup to October 2010. Prior to that, he was Chief Executive Officer of At Work Insurance. Since leaving Kiwibank he has focused on governance roles in young growth companies. He is currently Chair of OnBrand and Adminis and is also a director of Trustpower, Synlait Milk, Rangatira, Umajin, and Opus. Sam holds a Bachelor of Science from Waikato University and a Master of Science from the University of Canterbury.
Paul Chrystall *Appointed 5 Nov 2012*	Non-Executive Director	Paul Chrystall is the Managing Director of the private equity firm Maui Capital Limited. As part of this role he sits on the boards of various Maui Capital investments. Before co-founding Maui Capital in 2008, Paul was Head of Private Equity at Goldman Sachs JB Were (New Zealand) where he founded and managed the Hauraki Private Equity Funds. Prior to his career in private equity, Paul held a number of senior positions across diversified industries in New Zealand and the United Kingdom. In these positions he focused on finance management, restructure and turn around, mergers and acquisitions, valuation and investment, performance management and investment strategy. Paul holds a Bachelor of Commerce from the University of Auckland.

Structure of the Board (continued)

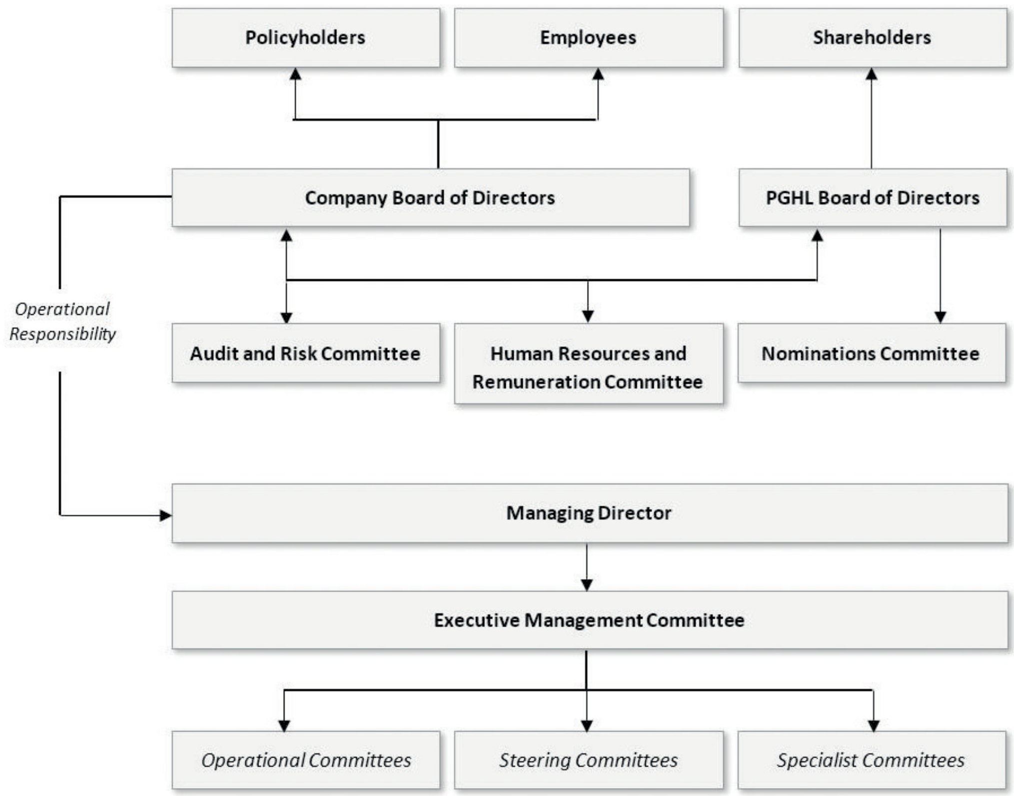
Director	Roles	Biography
Joanna Perry *Appointed 1 May 2011*	Non-Executive Director (Independent) Chairman of ARC Member of Human Resources and Remuneration Committee and Nominations Committee	Joanna Perry is Chairman of the IFRS Advisory Council. She is a non-executive director of Genesis Energy, Trade Me Group, Kiwi Property Group and Regional Facilities Auckland. Joanna was previously a partner at KPMG, a member of the Securities Commission, Chair of the Financial Reporting Standards Board and a member of the Australian Accounting Standards Board. Joanna was awarded Membership of the New Zealand Order of Merit (MNZM) for services to accounting. She holds a Master of Arts, Economics, from Cambridge University qualified as a member of the Institute of Chartered Accountants in England and Wales and is a fellow of the New Zealand Institute of Chartered Accountants.
Lance Jenkins *Appointed 4 Sep 2013*	Non-Executive Director (Independent) Chairman of Human Resources and Remuneration Committee Member of ARC	Lance Jenkins is a partner and executive director of Waterman Capital, a New Zealand private company investor. He has over 20 years of financial markets experience having worked in New York, Sydney and Auckland. Prior to joining Waterman, he held senior roles with Goldman Sachs JBWere in New York and more latterly as CEO and Managing Director of Goldman Sachs JBWere New Zealand. He is a non-executive director of the New Zealand meal-kit business, My Food Bag, and the Australian listed investment company, Whitefield. He was previously a non-executive director of Spicers Portfolio Management Limited. Lance holds an MBA from New York University (Stern) and an LLB and BCA from Victoria University of Wellington.

Structure of the Board (continued)

Director	Roles	Biography
Kishore Moorjani *Appointed 9 Sep 2016*	Non-Executive Director	A Blackstone nominee, with experience in private equity, Kishore Moorjani is a Senior Managing Director and leads the Asia efforts for Blackstone's Tactical Opportunities Group. Prior to joining Blackstone, Kishore was the Founder and Chief Investment Officer of Credit Asia Capital, an Asian special situations investment firm he established in partnership with the Blackstone Strategic Alliance Fund. Prior to that, Kishore was Co-Head of Asia at D.B. Zwirn, a $5 billion special situations investment firm, where he was involved in launching the Asian investment business. From 1998 to 2004, Kishore was with Colony Capital, where he held various positions across several of the firm's offices, including serving as the CEO of Colony Capital Taiwan. Kishore received an MBA and a BBA (Honours) from the Schulich School of Business at York University in Toronto, where he serves on the Dean's Advisory Council.
John Van Der Wielen *Appointed 9 Sep 2016*	Non-Executive Director Member of ARC, Human Resources and Remuneration Committee and Nominations Committee	A Blackstone nominee, John Van Der Wielen has over 25 years of experience in Wealth Management, Private Banking, and Investments and Insurance, including executive positions within several global financial services groups. John is currently CEO of HBF Health, one of Australia's largest private health insurers, and also Chairman of Kyckr, a newly listed Australian technology company. John was the CEO of Friends Life UK and International in London between 2011 and 2015, and prior to this was the Managing Director of ANZ Wealth in Australia and CEO of OnePath. John holds an MBA from the University of Western Australia. He has also studied at the London Business School and Oxford University and is a fellow of the Australian Institute of Company Directors.

Corporate governance structure

The corporate governance structure of PGHL and the Company is set out as follows:



The Board has approved the delegation of certain responsibilities to the Managing Director and the senior management team via a formal Delegation of Authority policy.

The senior management team are responsible for the implementation of strategies approved by the Board, providing recommendations to the Board on business strategies, the management of business risk and the overall day-to-day management of the Company.

The Board undertakes an annual strategic planning process and approves the annual budget prepared by management based on the strategic direction set by the Board.

The Board monitors the actual performance of the Company against budget on a regular basis.

Evaluations of the Managing Director and the senior management team are based on set criteria, including the overall performance of the business, the achievement of key performance measurements, the accomplishment of strategic goals and other non-quantitative objectives agreed at the beginning of each financial year, such as the delivery of specific projects.

Corporate governance structure (continued)

The Company has Directors' and Officers' Liability insurance to cover risks arising out of acts or omissions of directors and employees whilst acting in such a capacity. This cover does not extend to dishonest, fraudulent, malicious or wilful acts or omissions.

Deeds of Indemnity have been given to directors and certain senior managers in relation to potential liabilities and costs they may incur for acts or omissions in their capacity as directors and senior managers.

The Board has established a number of sub-committees to assist it in discharging its responsibilities. Each committee has its own charter. Committees can advise and make recommendations but final decision making rests with the Board.

Ethical conduct

The Board maintains a high standard of ethical conduct and the Managing Director is charged with the responsibility of ensuring these high standards are maintained by all staff throughout the organisation.

Audit and Risk Committee ("ARC")

The ARC is chaired by an independent, non-executive director and has a different Chairman to the Board.

The members of the ARC are Joanna Perry (chair), Jim Minto, John Van Der Wielen, Lance Jenkins, Sam Knowles, and Richard Coon (director of PGHL). All Board members receive ARC papers, and are welcome to attend any meeting.

The primary responsibilities of the ARC are:

- Review and make recommendations to the Board on the accounting policies of the Company, the effect of any changes in accounting policies and related reporting issues.
- Independently review the external financial reporting and other regulatory reporting (such as solvency returns) that require Board approval and make recommendations to the Board relating to the approval of these documents and associated attestations.
- Review annually the performance and independence of the external auditor and make recommendations, for the approval of shareholders, to the Board for the appointment of the external auditor and the quantum of their fees.
- Review and agree the annual audit plan with the external auditor.
- Discuss with the external auditor any audit issues encountered in the course of their duties and ensure any significant findings and recommendations made by the external auditor are acted on appropriately by management.
- Review annually the performance and independence of the Appointed Actuary and make recommendations to the Board for the appointment of the Appointed Actuary and the quantum of their fees.

Audit and Risk Committee ("ARC") (continued)

- Discuss with the Appointed Actuary any issues encountered in the course of their duties and ensure any significant findings and recommendations made by the Appointed Actuary are acted on appropriately by management.
- Review any related party transactions.
- Consider and review with management and the external auditor the adequacy of the Company's internal controls and risk management programme.
- Monitor and assess the Company's compliance with significant laws and regulations.

Human Resources and Remuneration Committee

The purpose of the Human Resources and Remuneration Committee is to oversee the Company's human resource policies and the remuneration of directors and senior executives.

It is chaired by an independent, non-executive director and has a different Chairman to the Board.

The members of the Human Resources and Remuneration Committee are Lance Jenkins (Chair), Joanna Perry, Jim Minto and John Van Der Wielen.

The primary responsibilities of the Human Resources and Remuneration Committee are:

- Implement a formal and transparent process for the regular review of director remuneration and make recommendations with respect to director remuneration to the Board (subject to shareholder approval where appropriate).
- Recommend to the Board the remuneration of the Managing Director and their direct reports.
- Recommend to the Board performance objectives for the Managing Director and their direct reports, and review the level of achievement against these objectives.
- Review the Company's remuneration framework including components of remuneration, the rules and principles for short and long term incentive plans and performance review and annual remuneration review principles.
- Provide governance over Health and Safety Policy and ensure there is clear expectations by holding management to account.
- Consider such other matters relating to remuneration and human resources as may be referred to the Committee by the Board.

Nominations Committee

The Nominations Committee has the role of identifying suitable prospective directors for shareholder selection and preparing those directors for their role within the Company.

The members of the Nominations Committee are Jim Minto (Chair), Sam Knowles, Joanna Perry and John Van Der Wielen.

The primary responsibilities of the Nominations Committee are:

- Provide assurance and make recommendations to the Board as to the Board's size, composition, diversity and desirable expertise appropriate for the discharge of its responsibilities and duties in accordance with the law and with the strategic direction of the Company.
- Review the criteria for the selection of directors and recommend to the Board any necessary alterations to that criteria to ensure the Company has a formal and transparent process for the selection and appointment of new directors.
- Develop and implement a plan for identifying and assessing director competencies.
- Where there is a vacancy or pending vacancy, recommend appropriate candidates to the Board based on the approved criteria and process for consideration.
- Implement adequate succession plans for key roles such as Chairman and the Chairs of the various Board committees, in order that the effective composition, size and expertise of the Board is maintained.
- Monitor and report to the Board on director independence.
- Undertake a review of the Committee's effectiveness and report on the actions of that review to the Board.

Policies

The following policies have been approved by the Board:

- Risk Management Programme
- Capital Management
- Statement of Investment Policy and Objectives, and Treasury Policy
- Fit and Proper Persons
- Conflicts of Interest
- Health and Safety
- Privacy
- Whistle Blower
- Financial Model Risk
- Crisis Management
- Delegations of Authority
- Code of Conduct
- Policy Governance Framework.

Independent Auditor's Report

To the shareholder of Partners Life Limited

Report on the financial statements

Opinion

In our opinion, the accompanying financial statements of Partners Life Limited (the company) on pages 9 to 46:

i. present fairly in all material respects the company's financial position as at 31 March 2017 and its financial performance and cash flows for the year ended on that date; and

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

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 31 March 2017;
- the statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

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

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

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

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

Other Information

The Directors, on behalf of the company, are responsible for the other information included in the entity's financial statements. Other information includes the Corporate Governance Statement and Annual Report. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

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

The Annual Report is expected to be made available to us after the date of this Independent Auditor's Report. Our responsibility is to read the Annual Report when it becomes available and consider whether the other information it contains is materially inconsistent with the financial statements, or our knowledge obtained in the audit, or otherwise appear misstated. If so, we are required to report such matters to the Directors.

Use of this Independent Auditor's Report

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

Responsibilities of The Directors for the financial statements

The Directors, on behalf of the company, are responsible for:

— the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;

— implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and

— assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the financial statements

Our objective is:

— to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and

— to issue an Independent Auditor's Report that includes our opinion.

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

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

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

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page6.aspx.

This description forms part of our Independent Auditor's Report.

Paul Herrod

For and on behalf of

KPMG
Auckland

7 July 2017

Deloitte.

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5 July 2017

The Directors
Partners Life Limited
AUCKLAND

Dear Directors,

Report under Section 78 of the Insurance (Prudential Supervision) Act 2010
Review of *actuarial information* for Partners Life Limited as at 31 March 2017

a) This report has been prepared by Charles Hett; FIA, FNZSA for the purpose of Section 78 of Insurance (Prudential Supervision) Act 2010 ("IPSA"). It has been included in the Partners Life Limited ("PLL") financial statements.

b) The report provides information to the Directors and management of PLL regarding a review of the actuarial information (Section 77 of IPSA) contained in the 31 March 2017 PLL financial statements and provides an opinion as to its appropriateness. This report has not been prepared with any other additional purposes in mind.

c) My review of the actuarial information included the following:

- Review of the policy liability valuation report prepared by the PLL Chief Actuary, Anton Gardiner "Report on the Valuation of Policy Liabilities as at 31 March 2017" dated 29 June 2017. This report included the following actuarial information:
  i. Insurance contract assets (policy liabilities before reinsurance);
  ii. Insurance contract liabilities – reinsurance (policy liabilities in respect of reinsurance);
  iii. Present value of future tax payable in insurance contract assets and liabilities.

- Review of the calculations determining the solvency position of the company, statutory fund and shareholder fund.

d) I have a contract arrangement with Deloitte and act as Appointed Actuary for PLL under a separate contract for services between Deloitte and PLL. I have no financial interests in PLL.

e) There were no restrictions or limitations placed on my work or on my report. I obtained all the information I required.

f) In my opinion and from an actuarial perspective:
- The actuarial information contained in the 31 March 2017 PLL financial statements has been appropriately included in those financial statements; and
- The actuarial information used in the preparation of the 31 March 2017 PLL financial statements has been appropriately used in those financial statements.

g) In my opinion and from an actuarial perspective PLL maintained a solvency margin as at 31 March 2017 that complies with the Solvency Standard for Life Insurance Business issued by the Reserve Bank of New Zealand. This has been maintained at both an overall company level and for the statutory fund and shareholder fund.

Charles Hett; FNZSA FIA
Appointed Actuary
Partners Life Limited

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