partnersLIFE
Rewarding partnership – for life

Partners Life Limited

Annual Report and Financial Statements

for the year ended 31 March 2018

Partners Life DUAL celebrated its 10th year. This event has always been close to our hearts and almost one hundred members of Partners Life staff and their families participated. The Partners Life DUAL event has been developed to help publicise the vision of the Motutapu Trust in restoring native ecosystems. After this years event, the total raised for Motutapu Restoration Trust reached $400,000.

Financial Statements

For the year ended 31 March 2018

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Gunther von Hagens'

BODY WORLDS VITAL

Partners Life chose to sponsor the acclaimed exhibition because it showcases the magnificence and fragility of the human body. The display explores how everything a person does – how they eat, whether they exercise, if they smoke or drink – affects their body. Two-thirds of visitors to the exhibition overseas have walked away and made positive changes to their health and wellbeing, and our hope is that we will see similar statistics in New Zealand.

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 2018.

For and on behalf of the Board

J R Minto
Chairman of the Board
20 June 2018

J M G Perry
Chairman of the Audit and Risk Committee
20 June 2018

PROUDLY SUPPORTING CURE KIDS

We recommitted ourselves for another year to the incredible research Cure Kids does and continue to fundraise towards their lifesaving work. We have trekked, baked and raced for Cure Kids and could not be prouder!

"We're thrilled Partners Life are supporting Cure Kids. The money raised through exciting events like the Partners Life Race Day will fund vital lifesaving research so that everyone can enjoy a healthy childhood."

Frances Benge, Cure Kids CEO

Just some of the reasons Partners Life supports Cure Kids

Approximately 10% of all PREGNANCIES ARE AFFECTED BY RESTRICTED GROWTH OF A BABY in a mother's womb

MORE THAN A QUARTER OF A MILLION NEW ZEALAND CHILDREN are currently overweight OR OBESE

CYSTIC FIBROSIS AFFECTS MORE THAN 500 NEW ZEALANDERS EACH YEAR

RESPIRATORY DISEASE IS THE FOURTH MOST COMMON CAUSE OF DEATH IN NEW ZEALAND CHILDREN

AN ESTIMATED 50 CHILDREN EACH YEAR IN NEW ZEALAND ARE AFFECTED BY THE BONE DISORDER, PERTHES DISEASE

AUTISM SPECTRUM DISORDER AFFECTS AROUND 1 in 68 CHILDREN IN NEW ZEALAND

APPROXIMATELY 150 CHILDREN ARE DIAGNOSED WITH A FORM OF CANCER EVERY YEAR

THERE ARE AROUND 320 STILLBIRTHS EACH YEAR IN NEW ZEALAND

NEW ZEALAND has the THIRD HIGHEST RATE OF OBESITY IN CHILDREN AND ADULTS among OECD countries

Company Directory

As at 31 March 2018

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 0740
Company Number	3072505
Directors	J R Minto (Chairman) N E Ballantyne J M G Perry T O Bennett P Chrystall R A Coon J A Fahey L W Jenkins K K Moorjani L D Parikh
Auditor	KPMG 18 Viaduct Harbour Avenue Auckland
Bankers	Westpac New Zealand Limited
Solicitors	Chapman Tripp 23 Albert Street Auckland

IBM **Best Workplaces**

Finalist 2017

Partners Life was named as a finalist in the Medium – Large Workplace category of the 2017 IBM Best Workplaces Awards, based on New Zealand's largest and longest running study of workplace climate and employee engagement.

DIVERSITAS

MAKE DIFFERENCE COUNT

2018 Lewers Research
Five Star Satisfaction Award
Partners Life New Zealand

we are proud to be the only company to receive a 5 star rating for the 8th year running, from

LEWERS
RESEARCH

Financial statements

Statement of Comprehensive Income

For the year ended 31 March *In thousands of New Zealand Dollars*	Note	2018	2017
Premium revenue			
Premium revenue	8	206,599	171,484
Less: Outward reinsurance expense	8	(123,130)	(103,309)
Net premium revenue		**83,469**	**68,175**
Reinsurance commission revenue	9	64,860	57,380
Investment revenue	10	4,953	2,588
Net revenue		**153,282**	**128,143**
Claims expense	11	85,768	70,989
Less: Reinsurance recoveries	11	(43,779)	(36,028)
Net claims expense		**41,989**	**34,961**
Net movement in insurance contract assets and liabilities	14	(72,656)	(34,382)
Commission and operating expenses	12	144,179	117,858
Total expenses including movement in insurance contracts		**113,512**	**118,437**
Profit before income tax		**39,770**	**9,706**
Income tax expense	13	-	-
Total comprehensive income	**1**	**39,770**	**9,706**
Underlying insurance profit (non-statutory measure)			
Total comprehensive income		**39,770**	**9,706**
Less:			
Investment revenue	10	(4,953)	(2,588)
Changes to economic assumptions	6	(12,832)	8,469
One-off adjustments		-	(3,112)
Underlying insurance profit	**1**	**21,985**	**12,475**

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

KPMG

Statement of Financial Position

As at 31 March *In thousands of New Zealand Dollars*	Note	2018	2017
Assets			
Cash and cash equivalents	10	60,536	59,918
Trade and other receivables	15	32,805	23,841
Investments	10	100,000	50,000
Loans	16	1,312	1,390
Insurance contract assets	14	531,959	408,283
Property, plant and equipment	17	515	451
Intangible assets	18	3,932	2,258
Total Assets		**731,059**	**546,141**
Liabilities			
Trade and other payables	19	71,177	51,145
Insurance contract liabilities - reinsurance	14	199,539	187,141
Present value of future tax payable in insurance contract assets and liabilities	14	122,213	83,591
Total Liabilities		**392,929**	**321,877**
Net Assets		**338,130**	**224,264**
Equity			
Contributed capital	25	260,393	186,297
Retained earnings		77,737	37,967
Total Equity		**338,130**	**224,264**

For and on behalf of the Board who authorised the issue of this report on 20 June 2018.

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 2017		**186,297**	**37,967**	**224,264**
Total comprehensive income		**-**	**39,770**	**39,770**
Transactions with owners of the Company				
Shares issued	25	71,500	-	71,500
Equity settled share based payments	25, 26	2,596	-	2,596
Total transactions with owners of the Company		**74,096**	**-**	**74,096**
Balance at 31 March 2018		**260,393**	**77,737**	**338,130**
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**

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	2018	2017
Cash flows from operating activities			
Premiums received		207,080	171,681
Reinsurance recoveries received		34,063	34,162
Reinsurance commission received		61,961	59,211
Interest received		4,426	2,037
Reinsurance premiums paid		(118,279)	(98,529)
Claims paid		(71,021)	(67,435)
Commission paid to advisers		(92,352)	(75,831)
Payments to suppliers and employees		(43,832)	(41,829)
Net cash flow from operating activities	**23**	**(17,954)**	**(16,533)**
Cash flows from investing activities			
Net (increase) / decrease in loans to advisers		(396)	136
Net decrease / (increase) in receivables from group companies		505	(438)
Net increase in investments		(50,000)	(50,000)
Net acquisition of property, plant and equipment	17	(273)	(206)
Net acquisition of intangible assets	18	(2,764)	(1,219)
Net cash flow from investing activities		**(52,928)**	**(51,727)**
Cash flows from financing activities			
Proceeds from issue of shares	25	71,500	68,300
Net cash flow from financing activities		**71,500**	**68,300**
Net increase in cash and cash equivalents		**618**	**40**
Cash and cash equivalents at 1 April		59,918	59,878
Cash and cash equivalents at 31 March		**60,536**	**59,918**
Being:			
On demand bank deposits		5,036	9,418
Short term bank deposits		55,500	50,500
Cash and cash equivalents at 31 March		**60,536**	**59,918**

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	2018	2017
Profits emerging under the Margin on Services ("MoS") methodology were as follows:			
Planned margins of revenues over expenses		19,771	15,782
Interest on net insurance contract assets		3,273	2,552
Experience variances		(1,059)	(5,859)
Underlying insurance profit		**21,985**	**12,475**
Investment revenue	10	4,953	2,588
Changes to economic assumptions	6	12,832	(8,469)
One-off adjustments*		-	3,112
Total comprehensive income		**39,770**	**9,706**

*The one-off adjustment in 2017 related to the release of an options reserve that was no longer required.

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, and the Financial Markets Conduct 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 20 June 2018.

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 NZ IFRS 17 Insurance Contracts ("NZ IFRS 17") which is effective for annual periods beginning on or after 1 January 2021. NZ IFRS 17 establishes principles for the recognition, measurement, presentation, and disclosure of insurance contracts issued, and will supersede NZ IFRS 4 Insurance Contracts ("NZ IFRS 4"). Disclosure and measurement under NZ IFRS 17 differs significantly from NZ IFRS 4 and as such the Company is not yet able to reasonably estimate the impact of NZ IFRS 17 on its financial statements. IFRS 17 will also result in changes to presentation in the statement of financial performance.

NZ IFRS 9 Financial Instruments has an application date for the Company of 1 April 2018 and therefore will first affect the financial statements for 31 March 2019. Based on the Company's balance sheet as at 31 March 2018, there will be no material change to the recognition, measurement and disclosure of the Company's financial instruments.

NZ IFRS 16 Leases ("NZ IFRS 16") has an application date for the Company from 1 April 2019 and will therefore first affect the financial statements for 31 March 2020. NZ IFRS 16 requires a lessee to recognise its right to use the underlying leased asset, as a right-of-use asset and obligation to make lease payments as a lease liability. Accounting for the Company's existing lease contracts under the new standard is not expected to materially impact the financial statements. The impact of any new or renewed leases will be assessed when they occur.

Certain disclosure formats have been adjusted and where applicable comparative figures have been aligned to the new disclosure format.

The accounting policies adopted are consistent with the previous year.

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).

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 which are 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. Independent external advice was received on the volatility and risk free rate assumptions which were applied in the model. (Refer note 26).

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6. Actuarial methods and assumptions

An actuarial report on insurance contract assets and liabilities, as at 31 March 2018, was prepared by A Gardiner ("the Actuary"), Fellow of the New Zealand Society of Actuaries ("FNZSA"), and signed on 20 June 2018. The report was reviewed by the Appointed Actuary, Alan Merten, Fellow of the Actuaries Institute Australia.

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").

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*	2018	2017
1	1.76%	1.96%
5	2.91%	3.33%
10	3.71%	4.19%
15	4.16%	4.64%
20	4.37%	4.77%

6. Actuarial methods and assumptions (continued)

b) Acquisition expenses

Acquisition expense assumptions were based on the actual acquisition expenses incurred for the year ending 31 March 2018.

c) Maintenance expenses

Maintenance expense assumptions were based on the Company's business plan for the period to 31 March 2021, allowing for new business expected. After this time an assumed inflation rate of 2.00% per annum (31 March 2017: 2.00% per annum) was used.

d) Taxation

The future rate of taxation is assumed to be 28%, applicable after an initial period of 120 months (31 March 2017: 129 months) during which it was assumed $214 million of existing tax losses would be utilised (31 March 2017: $175 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.

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*	**2018**	**2017**
Life	3.28% - 16.26%	3.25% - 16.00%
Trauma	3.83% - 24.06%	6.25% - 18.50%
Total and permanent disability	3.45% - 25.50%	5.25% - 22.75%
Disability income	3.45% - 17.10%	5.75% - 16.50%
Medical	4.50% - 12.89%	5.75% - 14.25%

g) Indexation

Indexation of certain benefits (where applicable) was assumed to be 2.00% per annum (31 March 2017: 2.00% per annum), except for the calendar year 2018 where allowance was made for the rate of increase known to be applicable during that year.

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6. Actuarial methods and assumptions (continued)

h) Inflation

The inflation rate assumption was determined on a basis consistent with the medium to long term Reserve Bank of New Zealand ("RBNZ") inflation target of between 1% and 3%. The rate assumed was 2.00% per annum (31 March 2017: 2.00% per annum).

i) Premiums

Premium rates for non-medical policies are assumed to increase by 2.0% in October 2019 and 1.0% in October 2020. (31 March 2017: 1.0% per annum for non-medical policies for the four years following the policies' next anniversary post 1 July 2017).

i) Reinsurance

The cost of reinsurance is based on future expected mortality, morbidity and lapse assumptions and the commercial terms of the reinsurance treaties. The profit margins have changed by the movement in future cost of reinsurance due to changes in assumptions and actual experience.

Impact of changes in assumptions between 31 March 2017 and 31 March 2018

The following table shows the effect on the present value of planned profit margins and insurance contract assets and liabilities as at 31 March 2018 of changes in the actuarial assumptions. The effect is measured only on business in force at 31 March 2017, which remains in force at 31 March 2018.

For the year ended 31 March *In thousands of New Zealand Dollars*	**Increase/(decrease) in the present value of future profit margins**		**Increase/(decrease) in Net insurance contract assets and Total comprehensive income**	
	2018	**2017**	**2018**	**2017**
Assumption category:				
Discount rates and indexation	16,797	(14,985)	12,832	(8,469)
Lapses	(15,382)	(17,953)	-	-
Expenses	(2,987)	2,347	-	-
Tax	1,544	6,755	-	-
Premiums	(1,017)	-	-	-
Claims	550	8,403	-	-
Reinsurance	15,021	18,109	-	-
Model changes	2,934	(9,947)	-	-
Impact of changes in assumptions	**17,460**	**(7,271)**	**12,832**	**(8,469)**

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7. Risk management

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

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 and solvency capital.

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.

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7. Risk management (continued)

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 shareholder's 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 shareholder's equity.
- Expense risk: An increase in the level or growth of expenses over assumed levels will reduce profit and shareholder's equity.

The table below illustrates the sensitivity of this year's profit and equity (before any compensating changes to premium rates) to changes in insurance risk variables.

As at 31 March *In thousands of New Zealand Dollars*	**Change**	**2018**		**2017**	
		Before reinsurance	**After reinsurance**	**Before reinsurance**	**After reinsurance**
Mortality and morbidity	+10%	(26,199)	(23,732)	(31,890)	(30,328)
	-10%	3,084	1,337	2,541	979
Discontinuance	+10%	-	-	-	-
	-10%	-	-	-	-
Maintenance expenses	+10%	-	-	-	-
	-10%	-	-	-	-

Insurance risk management

a) Reinsurance

The Company has entered into reinsurance treaties (the "treaties") with SCOR Global Life SE ("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.

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7. Risk management (continued)

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.

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.

b) 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.

c) 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	2018		2017	
Sum assured	Before reinsurance	After reinsurance	Before reinsurance	After reinsurance
$0 - $250,000	9.7%	22.8%	10.0%	23.4%
$250,001 - $500,000	29.6%	77.2%	30.2%	76.6%
$500,001 - $1,000,000	38.9%	0.0%	38.4%	0.0%
$1,000,001 - $2,000,000	16.0%	0.0%	15.9%	0.0%
$2,000,001 - $5,000,000	5.2%	0.0%	5.1%	0.0%
Greater than $5,000,000	0.6%	0.0%	0.4%	0.0%
	100.0%	100.0%	100.0%	100.0%

Market risk

Market risk is the risk of loss arising from changes in interest rates, currency exchange and prices of equity securities. The Company is not exposed to equity price risk or currency risk as it does not hold equity securities or have any assets or liabilities denominated in foreign currencies.

The Company is exposed to interest rate risk through revaluations in its insurance contract assets and insurance contract liabilities - reinsurance.

The table below illustrates the sensitivity of this year's profit and equity to changes in interest rate movement at year end.

As at 31 March *In thousands of New Zealand Dollars*	Change	2018		2017	
		Before reinsurance	After reinsurance	Before reinsurance	After reinsurance
Interest rate	+1%	(23,189)	(23,816)	(19,322)	(19,498)
	-1%	26,306	27,538	21,892	22,657

KPMG

7. Risk management (continued)

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.

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).

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7. Risk management (continued)

Concentration of credit risk

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

In thousands of New Zealand Dollars	Aggregated credit exposure	Standard & Poor's credit rating
Institution: **As at 31 March 2018**		
Westpac New Zealand Limited	35,014	AA-
Bank of New Zealand	16,000	AA-
ANZ Bank New Zealand Limited	33,500	AA-
ASB Bank Limited	32,001	AA-
Kiwibank Limited	24,500	A
Rabobank New Zealand Limited	19,521	A
SCOR Global Life SE	27,509	AA-
Institution: **As at 31 March 2017**		
Westpac New Zealand Limited	21,374	AA-
Bank of New Zealand	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-

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	Total
At 31 March 2018 **Financial liabilities**					
Expense creditors and accruals	-	3,602	1,708	-	**5,310**
Employee entitlements (excluding employee leave provisions)	-	-	3,766	-	**3,766**
Amounts due to group companies	84	-	-	-	**84**
Claim accruals and provisions	-	33,397	5,083	8,029	**46,509**
Trade creditors	304	11,857	-	-	**12,161**
Total Financial Liabilities	**388**	**48,856**	**10,557**	**8,029**	**67,830**
At 31 March 2017 **Financial liabilities**					
Expense creditors and accruals	-	2,412	978	-	**3,390**
Employee entitlements (excluding employee leave provisions)	-	-	2,703	-	**2,703**
Amounts due to group companies	84	-	-	-	**84**
Claim accruals and provisions	-	24,256	3,337	4,170	**31,763**
Trade creditors	229	9,968	-	-	**10,197**
Total Financial Liabilities	**313**	**36,636**	**7,018**	**4,170**	**48,137**

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 are 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 Surplus 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 2018 and 31 March 2017, 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 2018 *In thousands of New Zealand Dollars*	**Total**	**Statutory fund**	**Shareholder fund**
Actual solvency capital	334,199	193,181	141,018
Minimum solvency capital	224,612	175,608	49,004
Solvency margin	**109,587**	**17,573**	**92,014**
Solvency ratio	**149%**	**110%**	**288%**

7. Risk management (continued)

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%**

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*	**2018**	**2017**
Interest on cash and cash equivalents and investments	4,858	2,460
Interest on loans	95	128
Total investment revenue	**4,953**	**2,588**

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.

Interest on loans relates to loans and other amounts due from advisers (refer note 16), as well as interest charged on loans to PGHL.

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.

Commission and operating expenses are recognised on an accrual basis.

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.

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12. Commission and operating expenses (continued)

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.

For the year ended 31 March *In thousands of New Zealand Dollars*	**Note**	**2018**	**2017**
Acquisition costs			
Commission		72,538	58,101
Equity settled share based payments to advisers	26	2,182	-
Other acquisition expenses		30,392	27,040
Total acquisition costs		**105,112**	**85,141**
Maintenance costs			
Commission		20,909	17,527
Equity settled share based payments to executive staff	26	453	784
Other maintenance expenses		17,705	14,406
Total maintenance costs		**39,067**	**32,717**
Total commission and operating expenses		**144,179**	**117,858**

Included within Total commission and operating expenses are the following specific items:

Contributions to defined contribution superannuation schemes	495	444
Employee benefits	24,848	21,714
Operating lease expense	806	772
Movement in bad and doubtful debts	42	(44)
Donations	57	42

There were fees paid and payable to the Company's auditor, KPMG, of $228 thousand for the audit of financial statements (31 March 2017: $228 thousand), and $33 thousand for the review of regulatory reporting (31 March 2017: $33 thousand).

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*	**2018**	**2017**
Reconciliation of prima facie income tax		
Profit before income tax	39,770	9,706
Income tax expense at statutory income tax rate of 28%	11,136	2,718
Reduction in income tax expense due to non-assessable net income	(19,513)	(9,316)
Income tax effect of changes in temporary differences not recognised	321	(185)
Income tax effect of net reinsurance items taxed under the financial arrangements regime	(1,867)	(2,929)
Income tax effect of current period tax losses not recognised	9,923	9,712
Income tax expense reported in the Statement of Comprehensive Income	-	-

The Company has income tax losses available to carry forward of $350 million (31 March 2017: $315 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 changes in ownership.

The Company has unrecognised deductible temporary differences of $5 million (31 March 2017: $4 million).

The Company has imputation credits available of $21 thousand (31 March 2017: $21 thousand).

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.

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14. Insurance contract assets and liabilities (continued)

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

As at 31 March *In thousands of New Zealand Dollars*	**2018**	**2017**
Net insurance contract assets contain the following components:		
Present value of future policy benefits	(1,308,971)	(789,032)
Present value of future expenses (including reinsurance)	(702,348)	(510,841)
Present value of future planned margins of revenues over expenses	(410,319)	(301,742)
Future tax payable	(122,213)	(83,591)
Present value of future premiums	2,756,951	1,825,979
Business valued using an accumulation model	(2,893)	(3,222)
Net insurance contract assets	**210,207**	**137,551**
Disclosed as:		
Insurance contract assets	531,959	408,283
Insurance contract liabilities - reinsurance	(199,539)	(187,141)
Present value of future tax payable within net insurance contract assets	(122,213)	(83,591)
Net insurance contract assets	**210,207**	**137,551**
Estimated discounted net cash inflows from net insurance contract assets		
Less than one year	(19,555)	(18,308)
One year to five years	(2,283)	(42,611)
Later than five years	232,045	198,470
Net insurance contract assets future net cash inflows	**210,207**	**137,551**

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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*	2018	2017
Insurance contract assets		
Opening insurance contract assets	408,283	356,106
Movement recognised in the Statement of Comprehensive Income	123,676	52,177
Closing insurance contract assets	**531,959**	**408,283**
Expected maturity within 12 months	49,568	39,490
Expected maturity greater than 12 months	482,391	368,793
Insurance contract assets	**531,959**	**408,283**
Insurance contract liabilities - reinsurance		
Opening insurance contract liabilities - reinsurance	(187,141)	(170,446)
Movement recognised in the Statement of Comprehensive Income	(12,398)	(16,695)
Closing insurance contract liabilities - reinsurance	**(199,539)**	**(187,141)**
Expected maturity within 12 months	(69,123)	(57,798)
Expected maturity greater than 12 months	(130,416)	(129,343)
Insurance contract liabilities - reinsurance	**(199,539)**	**(187,141)**
Present value of future tax payable within net insurance contract assets		
Opening present value of future tax payable	(83,591)	(82,491)
Movement recognised in the Statement of Comprehensive Income	(38,622)	(1,100)
Closing present value of future tax payable within net insurance contract assets	**(122,213)**	**(83,591)**
Expected maturity within 12 months	-	-
Expected maturity greater than 12 months	(122,213)	(83,591)
Present value of future tax payable within net insurance contract assets	**(122,213)**	**(83,591)**
Reconciliation of movements in net insurance contract assets and liabilities		
Net insurance contract assets		
Opening net insurance contract assets	137,551	103,169
Movement recognised in the Statement of Comprehensive Income	72,656	34,382
Closing net insurance contract assets	**210,207**	**137,551**

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15. Trade and other receivables

As at 31 March *In thousands of New Zealand Dollars*	Note	2018	2017
Sundry debtors and prepayments		1,067	1,590
Accrued investment income		1,354	828
Amounts due from related parties	22	-	-
Reinsurance premiums paid in advance		1,198	1,027
Reinsurance recoverable on accrued claims		27,723	18,472
Trade receivables:			
Due from reinsurers		9	15
Due from advisers		276	546
Due from policy holders		1,178	1,363
Trade and other receivables		**32,805**	**23,841**
Expected maturity within 12 months		26,902	20,621
Expected maturity greater than 12 months		5,903	3,220
Trade and other receivables		**32,805**	**23,841**

Amounts due from advisers are shown net of a $197 thousand (31 March 2017: $137 thousand) provision for doubtful debts being management's assessment of amounts due where collection is doubtful. The gross amount of the impaired receivables is $197 thousand (31 March 2017: $158 thousand).

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16. Loans

As at 31 March *In thousands of New Zealand Dollars*	2018	2017
Loan to PGHL	-	505
Secured loans to advisers	1,312	885
Total Loans	**1,312**	**1,390**
Expected maturity within 12 months	1,312	1,235
Expected maturity greater than 12 months	-	155
Total Loans	**1,312**	**1,390**

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 to advisers are shown net of a $12 thousand (31 March 2017: $43 thousand) provision for doubtful debts being management's assessment of amounts due where collection is doubtful. The gross amount of the impaired receivables is $12 thousand (31 March 2017: $50 thousand).

17. Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation and impairment. Depreciation is charged on a straight line basis over the period for which benefits are expected to be derived, which is assessed to be between three to seven 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.

17. Property, plant and equipment (continued)

In thousands of New Zealand Dollars	Leasehold improvements	Office furniture and equipment	Computer equipment	Total
Gross carrying value				
Balance at 1 April 2017	211	325	595	1,131
Additions	26	81	169	276
Disposals and write-offs	-	(1)	(249)	(250)
Balance at 31 March 2018	**237**	**405**	**515**	**1,157**
Accumulated depreciation				
Balance at 1 April 2017	62	256	362	680
Depreciation expense	32	33	139	204
Disposals and write-offs	-	(1)	(246)	(247)
Loss on disposal	-	-	5	5
Balance at 31 March 2018	**94**	**288**	**260**	**642**
Net carrying value at 31 March 2018	**143**	**117**	**255**	**515**

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**

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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 2017	9,618	230	9,848
Additions	2,764	11	2,775
Disposals and write-offs	-	(11)	(11)
Balance at 31 March 2018	**12,382**	**230**	**12,612**
Accumulated amortisation			
Balance at 1 April 2017	7,419	171	7,590
Amortisation expense	1,074	16	1,090
Balance at 31 March 2018	**8,493**	**187**	**8,680**
Net carrying value at 31 March 2018	**3,889**	**43**	**3,932**

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**

19. Trade and other payables

As at 31 March *In thousands of New Zealand Dollars*	Note	2018	2017
Expense creditors and accruals		5,370	3,509
Employee entitlements		4,874	3,709
Amounts due to related parties	22	84	84
Claim accruals and provisions		46,509	31,763
Unearned premiums		2,178	1,883
Trade creditors:			
Due to advisers		3,104	2,262
Due to reinsurers		9,058	7,935
Trade and other payables		**71,177**	**51,145**
Expected maturity within 12 months		63,148	46,915
Expected maturity greater than 12 months		8,029	4,230
Trade and other payables		**71,177**	**51,145**

20. Commitments

Capital commitments

The Company has commitments for the purchase of intangible assets and property, plant and equipment at 31 March 2018 of $1,960 thousand (31 March 2017: nil).

Lease commitments

Operating leases relate to office facilities with original lease terms of 4 years and an option to extend for a further 4 years, and office equipment with original lease terms of 4 to 5 years.

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

As at 31 March *In thousands of New Zealand Dollars*	2018	2017
Less than one year	902	885
Between one and five years	56	958
Lease commitments	**958**	**1,843**

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21. Contingent Liabilities

The Company has a contingent liability to a third party lender of $8 thousand at 31 March 2018 (31 March 2017: $20 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**	**2018**	**2017**
Short-term employee benefits		7,480	7,392
Share based payment	26	453	784
Fees paid to non-executive directors		383	280
Total compensation		**8,316**	**8,456**

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**	**2018 Received/(paid)**	**2017 Received/(paid)**
Partners Group Holdings Limited			
Equity contribution	25	74,096	69,049
Loan	16	-	(505)
Directors, their associated entities and related parties			
Net commissions		(69)	-
Secured commission advance		(37)	-
Service fees		-	12

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

The transactions were made on commercial terms in the normal course of business.

As at 31 March *In thousands of New Zealand Dollars*	**Note**	**2018 Receivable/ (payable)**	**2017 Receivable/ (payable)**
Balances with related parties			
Partners Group Holdings Limited	16	-	505
Unique Solutions and Advice Limited (fellow subsidiary)	19	(84)	(84)
Directors, their associated entities and related parties		37	

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*	**2018**	**2017**
Net profit after tax	39,770	9,706
Non-cash items and non-operating items:		
Depreciation	204	188
Loss on disposal of property, plant and equipment	5	-
Amortisation of intangible assets	1,090	1,212
Equity settled share based payments	2,596	749
Provision for doubtful debts on loans	(31)	(16)
Movement in insurance contract assets and liabilities:		
Movement in insurance contract assets	(123,676)	(52,177)
Movement in insurance contract liabilities - reinsurance	12,398	16,695
Movement in present value of future tax payable within net insurance contract assets and liabilities	38,622	1,100
Movements in working capital:		
Increase in Trade and other receivables	(8,964)	(2,583)
Increase in Trade and other payables	20,032	8,593
Net cash flows from operating activities	**(17,954)**	**(16,533)**

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24. Disaggregated information

IPSA requires a life insurer to allocate the operating profit or loss of a statutory fund (in accordance with the regulations) 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 2017: 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 2018			
Premium revenue	168,920	37,679	206,599
Investment revenue	1,215	3,738	4,953
Claims expense	60,666	25,102	85,768
Commission and other operating expenses	120,081	24,098	144,179
Profit before tax	31,857	7,913	39,770
Profit after tax	31,857	7,913	39,770
Capital payments made to funds	33,371	40,725	74,096
As at 31 March 2018			
Investment assets	50,783	109,753	160,536
Insurance contract assets	465,722	66,237	531,959
Other assets	30,193	8,371	38,564
Insurance contract liabilities - reinsurance	199,539	-	199,539
Other liabilities	153,980	39,410	193,390
Retained profits / (losses) directly attributable to shareholders	98,818	(21,081)	77,737
Contributed capital	94,361	166,032	260,393

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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 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 shareholders	66,962	(28,995)	37,967
Contributed capital	60,990	125,307	186,297

25. Contributed capital

For the year ended 31 March	2018	2017	2018	2017
	In thousands of shares		*In thousands of New Zealand Dollars*	
Ordinary capital				
Balance at 1 April	178,530	110,230	186,297	117,248
Shares issued	71,500	68,300	71,500	68,300
Equity settled share based payments to executive staff	-	-	414	749
Equity settled share based payments to advisers	-	-	2,182	-
Total contributed capital	**250,030**	**178,530**	**260,393**	**186,297**

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

a) 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.

During the year ended 31 March 2018, the Company has recognised a commission expense with respect to the share-based payment obligation of $2,182 thousand for Shadow Share Scheme 2 Tranche 1, with an equivalent contribution to equity from Partners Group Holdings Limited (31 March 2017: nil). The conditions relating to Shadow Share Scheme 2 are materially the same as previous scheme tranches.

At balance date the intrinsic value of vested shadow share schemes is $2,228 thousand being Sheme 1 Tranche 3, which is a liability of PGHL. PGHL settled the liability for Tranche 3 on 6 April 2018. At 31 March 2017 the intrinsic value of vested shadow share schemes was nil as there were no vested tranches unpaid.

The grant information for shadow share based payment arrangements in existence for the year ended 31 March 2018 was as follows:

Shadow share tranches	Number in thousands of shares	Grant date	Exercise price	Option fair value at grant date
Scheme 1 Tranche 3	1,349	31/03/2014	$3.75	$1.30
Scheme 1 Tranche 4	885	31/03/2015	$4.00	$1.32
Scheme 2 Tranche 1	1,519	31/03/2018	$5.50	$1.44
Shadow shares granted	**3,753**			

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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	2018		2017	
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	2,234	$3.86	4,609	$3.26
Granted during the year	1,519	$5.50	-	-
Paid during the year	-	-	(2,375)	$2.70
Balance at end of year	**3,753**	**$4.52**	**2,234**	**$3.86**
Weighted average remaining term until settlement	18 months		17 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	Scheme 1 Tranche 3	Scheme 1 Tranche 4	Scheme 2 Tranche 1
Grant date share price of PGHL	$3.75	$4.00	$5.50
Exercise price	$3.75	$4.00	$5.50
Expected volatility	50%	45%	35%
Time to maturity	3 years	3 years	3 years
Dividend yield	0%	0%	0%
Risk-free interest rate	4.08%	3.16%	2.37%

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

26. Share-based payments (continued)

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.

b) 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.

b) i) 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 2018 (31 March 2017: 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.

b) ii) 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 vesting conditions comprise the achievement of a PGHL future share price performance hurdle set by the Board and the participant remaining employed by the Group at exercise date. If the performance hurdle and service requirement are 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.

26. Share-based payments (continued)

The grant information for executive option share based payment arrangements in existence as at 31 March 2018 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 all tranches of the 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 (T1 and T2) and $3.25 (T3).

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

For the year ended 31 March	2018		2017	
Movements in executive share options 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	1,144	$3.06	1,455	$3.05
Exercised during the year	-	-	(270)	$3.00
Forfeited during the year	(32)	$3.25	(41)	$3.25
Balance at end of year	**1,112**	**$3.06**	**1,144**	**$3.06**
Weighted average remaining term until options vest	0 months		3 months	

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.

26. Share-based payments (continued)

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.

b) iii) 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. As at 31 March 2018 the outstanding 103 thousand shares have vested (31 March 2017: 12 months remaining term).

b) iv) Senior employee share acquisition plan (2017)

The long term incentive plan (2017) is designed to assist in the reward, retention and motivation of targeted senior executives and align the incentives of the participants with the interests of the PGHL shareholders. Invited participants are issued with rights to ordinary shares in PGHL under the rules of the plan.

The plan rules contain vesting conditions which comprise the achievement of performance hurdles set by the Board and the participant remaining employed for the specified service period.

If the vesting conditions are met, the participants have the right to exercise their share rights and be issued shares in accordance with the plan rules subject to a defined liquidity event having occurred.

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26. Share-based payments (continued)

The grant information for the long term incentive plan (2017) was as follows:

Long term incentive plan (2017) tranches	Number in thousands of share rights	Grant date	Exercise price	Fair value at grant date
Tranche 1	3,042	27/11/2017	$0.00	$1.75

Value of long term incentive plan (2017) rights granted

The rights 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 value at grant date were as follows:

Inputs into the model at grant date	Tranche 1
Grant date share price of PGHL	$5.25
Exercise price	$0.00
Expected volatility	35%
Time to maturity	4.33 years
Dividend yield	0%
Risk-free interest rate	2.41%

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.

27. Events after reporting date

There are no events subsequent to 31 March 2018 that have a material impact on the financial statements at 31 March 2018.

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 protecting the Company's policyholders, and controlling and monitoring the operations of the Company on behalf of the shareholders of PGHL. 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.
- 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 two executive directors and eight 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.

More than 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) Chair of Nominations Committee and Human Resources and Remuneration Committee Member of ARC	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 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, director of National Disability Insurance Agency (Australia) and non-executive director of EQT Holdings Limited. Jim is a fellow of the Australian and New Zealand Institute of Accountants and graduate member of the Australian Institute of Company Directors.
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.

Structure of the Board (continued)

Director	Roles	Biography
Joanna Perry *Appointed 20 May 2011*	Non-Executive Director (Independent) Chair of ARC Member of Human Resources and Remuneration Committee and Nominations Committee	Joanna Perry is Chairman of the IFRS Advisory Council. She is also Chair of Oyster Property Group Ltd, and a non-executive director of Genesis Energy, Trade Me 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 and a fellow of the Institute of Directors.
Tim Bennett *Appointed 18 Dec 2017*	Non-Executive Director	Tim Bennett is an executive and strategic adviser with extensive experience in capital, commodity and financial markets, and retail financial services in New Zealand, the USA, Australia and Asia. Tim was Chief Executive of the NZX, Partner at Olive Wyman Singapore leading retail and business banking for the Asia Pacific, and a Partner at Boston Consulting located in New Zealand, USA, Malaysia and Singapore. Tim holds a MBA (Strategy and Finance) from Wharton School, University of Pennsylvania and a Bachelor of Commerce and Administration (Computer Science, Business Administration) from Victoria University of Wellington.
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
Richard Coon *Appointed 1 Nov 2017*	Executive Director Member of ARC	Richard Coon, (BA, MBA, FCA), is a qualified Chartered Accountant with a Harvard MBA. Richard started his management career with Xerox in the UK until he discovered his entrepreneurial spirit and founded one of the UK's leading personnel management software companies. Richard moved to NZ as Finance Director of Sovereign Assurance, the company founded by his brother Chris Coon a few years earlier. Following the sale of Sovereign, Richard and Chris founded Seniors Money International, a company specialising in home equity release both in NZ and overseas. In 2010 Richard, Chris and Naomi Ballantyne founded Partners Life, where Richard was initially the Finance Director. Richard retains his involvement in the business by being engaged on special projects as required. Richard is also a Trustee of the Laurie Coon Foundation, dedicated to helping young New Zealanders achieve their aspirations and is Founding Chairman of Angel Investors Marlborough (AIM).
Julie Fahey *Appointed 1 Nov 2017*	Non-Executive Director Member of Human Resources and Remuneration Committee and Nominations Committee	Julie Fahey is a non-executive Director of Datacom Group Limited in New Zealand and of Yooralla, IRESS and CenITex in Australia and is a member of the Emergency Services Telecommunications Authority's ICT Advisory Board. Julie has over 30 years of experience in technology, including in major organisations such as Western Mining, Exxon, Roy Morgan, General Motors and SAP, covering consulting, software vendor and Chief Information Officer roles. In addition to her industry experience, Julie spent 10 years at KPMG as a partner with the firm, during which time she held roles as National Lead Partner Telecommunications, Media and Technology, and National Managing Partner - Markets. Julie was also a member of the KPMG National Executive Committee.

Structure of the Board (continued)

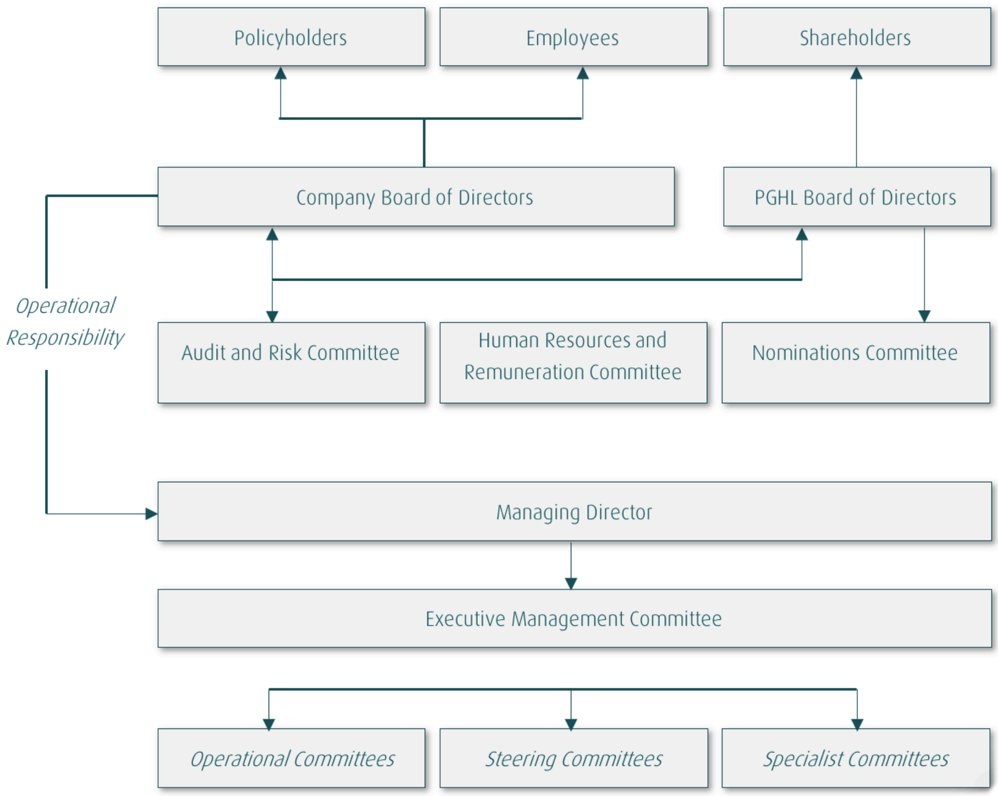
Director	Roles	Biography
Lance Jenkins *Appointed 4 Sep 2013*	Non-Executive Director (Independent) Member of ARC and Human Resources and Remuneration Committee	Lance Jenkins is a partner and executive director of Waterman Capital. He has over 20 years of financial markets experience having worked in New York, Sydney and Auckland. During that time 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. Prior to joining Waterman, Lance was Head of Cash Equities for the Commonwealth Bank of Australia, based in Sydney. 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.
Kishore Moorjani *Appointed 9 Sep 2016*	Non-Executive Director Member of Human Resources and Remuneration Committee	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 moved to Asia in 1995 with CBRE, where he was part of the founding team for the Indian operations that established the firm as a preeminent real estate services firm in India. Kishore received an MBA in Real Estate Finance and a BBA in Finance/Strategy (Honours) from the Schulich School of Business at York University in Toronto.

Structure of the Board (continued)

Director	Roles	Biography
Luv Parikh *Appointed 18 Dec 2017*	Non-Executive Director Member of ARC and Nominations Committee	Luv Parikh is a Blackstone nominee, with experience in sourcing and executing transactions in Asia-Pacific. Luv is a Managing Director in Blackstone's Tactical Opportunities Group in Singapore. Prior to joining Blackstone in 2008, Luv was at Lehman Brothers New York, where he was part of the Financial Sponsors, Leveraged Finance and Corporate Advisory teams within investment banking. Prior to Lehman, Luv was the CEO of an automobile distributorship company in India where he led a successful turnaround in the company's profitability. Luv started his career at Prudential Securities in the Private Equity Placements Group. Luv received a BS in Economics, majoring in Finance and Entrepreneurial Management from the Wharton School, University of Pennsylvania in 1998. He also received an MBA from Columbia Business School in 2006, where he was a recipient of the Board of Overseers Fellowship and graduated as a member of the Beta Gamma Sigma Honors Society

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.

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

Corporate governance structure (continued)

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, Lance Jenkins, Luv Parikh, and Richard Coon. All Board members receive ARC papers, and are welcome to attend any meeting.

The primary responsibilities of the ARC are:

- Consider and review with management and the external auditor the adequacy of the Company's internal controls and risk management programme.
- 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 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.
- 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.

Corporate governance structure (continued)

- Review any related party transactions.
- 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.

The members of the Human Resources and Remuneration Committee are Jim Minto (Chair), Julie Fahey, Lance Jenkins, Joanna Perry, and Kishore Moorjan.

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

- Recommend to the Board the remuneration of the Managing Director and his/her direct reports.
- Recommend to the Board performance objectives for the Managing Director and his/her 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 organisational practice.
- 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).
- 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), Joanna Perry, Julie Fahey and Luv Parikh.

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.

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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 49:

i. present fairly in all material respects the Company's financial position as at 31 March 2018 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 2018;
- 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)") (ISAE). 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 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.

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 shareholder 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/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-6/

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

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

For and on behalf of

KPMG

KPMG
Auckland

4 July 2018

Deloitte.

Deloitte Consulting Pty Ltd
ACN 611 750 648
Grosvenor Place
225 George Street
Sydney, NSW, 2000
Australia

Phone: +61 2 9322 7000
www.deloitte.com.au

4 July 2018

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 2018

a) This report has been prepared by Alan Merten FNZSA FIAA 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 2018 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 2018" dated 20 June 2018. 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 am a Partner at Deloitte and act as Appointed Actuary for PLL under a contract for services. 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 2018 PLL financial statements has been appropriately included in those financial statements; and
- The actuarial information used in the preparation of the 31 March 2018 PLL financial statements has been appropriately used in those financial statements.

Deloitte.

g) In my opinion and from an actuarial perspective PLL maintained a solvency margin as at 31 March 2018 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.

Alan Merten FNZSA FIAA
Appointed Actuary
Partners Life Limited

Partners Life Limited
Private Bag 300995
Albany
Auckland 0752
Fax 09 951 5029

0800 14 54 33
partnerslife.co.nz