



2019 Annual Report



southsure
insurance

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Company Directory

Board of Directors

A L (Anne) McLeod - Chair
A J (Joe) O'Connell
P D (David) Newman
T D R (Tim) Loan
K Y (Kerrie) Wales

Chief Executive

David Newman

Company Secretary

Ann-Marie Lawton

Bankers

Westpac Banking Corporation
Cnr Kelvin and Spey Streets
Invercargill

SBS Bank
Cnr Kelvin and Don Streets
Invercargill

Auditor

KPMG
The Terrace
Level 5, 79 Cashel Street
Christchurch

Solicitor

Buddle Findlay
245 St Asaph Street
Christchurch

Actuary

Davies Financial & Actuarial Limited
Level 1, 61 Constellation Drive
Mairangi Bay
Auckland

Registered Office

40 Don Street
Invercargill

Directors' Statement

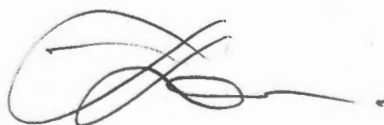
The Board of Directors present their Annual Report including the financial statements of the Company for the twelve month period ended 31 March 2019.

The shareholders of the Company have exercised their right under section 211(3) of the Companies Act 1993 and unanimously agreed that this Annual Report need not comply with any of paragraphs (a), and (e) to (j) of section 211(1) of the Act.

For and on behalf of the Board on 28 June 2019:



Anne McLeod
Chair



Tim Loan
Director

Statement of Corporate Governance

Board of Directors

Southsure Assurance Limited is governed by a Board of Directors who are elected by the shareholders and are accountable for the performance of the Company and compliance by the Company with laws and standards.

All current directors have been assessed by the Board in accordance with the Company's Fit and Proper Policy and have been certified as meeting the Reserve Bank of New Zealand's Fit and Proper Standard for directors of licenced insurers.

Board Role and Charter

The Board's role is one of governance, rather than management. To facilitate performance of this role the Company has in place a comprehensive governance framework for which the Board Charter is the cornerstone document. The Board Charter describes the Board's governance role, procedures and responsibilities.

The Board is required to fulfil a number of statutory obligations, most notable under the Companies Act 1993 and the Insurance (Prudential Supervision) Act 2010. In addition the Board's activities are guided by the Company's Constitution and Shareholders Agreement.

The governance framework provides the structure by which the Board promotes and protects the Company's interests for the benefit of its respective stakeholders including shareholders, policyholders and employees.

The Board's ultimate objective is to ensure the Company has a sustainable future and to deliver maximum value to shareholders.

In performing their role the Board's broad areas of focus are:

- Regulatory and policy compliance
- Strategy development and direction
- Policy development
- Operational oversight

Specifically the Board:

- ensures long and short term business objectives and appropriate business strategies are in place and provides guidance and direction in the formation of the same
- approves and monitors financial and other reporting, ensuring the financial statements accurately reflect the Company's position and conform with legislative requirements
- monitor senior management's performance and implementation of strategy, ensuring appropriate resources are available
- ensures that business is carried out in accordance with all statutory and legal requirements and the terms of the Constitution
- ensures that appropriate internal controls, policies and processes are in place to manage potential and relevant risks. To this end the Company has established a comprehensive Risk Management Programme

The Board meets formally at least four times per year. At each normal meeting the agenda will include

the Company's Register of Directors Interests, a report from management covering operational and financial performance, specific proposals for capital expenditure and acquisitions and major issues and opportunities.

The Board will at least annually review the goals and strategies, approve budgets and financial statements and undertake other activities outlined in the Board Charter.

The Board reviews its own performance annually.

Board Membership

The Company's Constitution sets the size of the Board. The Board currently comprises three independent and two non-independent directors. Their qualifications and experience are set out on page 4 of this report.

The Board Charter sets out policies and procedures covering the appointment and removal, proceedings, powers and duties, remunerations and expenses of directors.

Delegational Framework

The Board has delegated responsibility for the overall management and profit performance of Southsure Assurance Limited including all the day-to-day operations and administration, to the Chief Executive (CE).

The CE manages the business in accordance with the Policies, Budget, Annual Plan, and Strategies approved by the Board. The CE has the power to manage the business, subject to the limits set out in the "CEO Delegated Authority Limits" schedule contained within the Board Charter.

Committees

The Board has formally constituted one Board committee; the Audit Committee. The Audit Committee is governed by its own terms of reference. The primary objectives of the Audit Committee are:

- to set the principles and standards with respect to internal controls, accounting policies and the nature, scope, objectives and functions of external and internal audit
- ensures the efficient and effective management of all business risk, and the efficient and effective compliance with relevant legal and company policy requirements
- to assist and advise the Board on the appointment, remunerations, development and performance management of Directors and the CE

The current composition of the Audit Committee is Mr Tim Loan (Chairman), Ms Anne McLeod, Mr Joe O'Connell and Mr Kerrie Wales.

Directors' Profiles

A L [Anne] McLeod BCom, LLB

Anne was appointed a Southsure director in June 2016 and Chair in September 2017.

A corporate commercial lawyer based in Dunedin, Anne was elected to the board of Southsure's parent company, SBS Bank in 2015. She has considerable experience in banking, business and legal industries.

Anne is a Member of the Institute of Directors, RITANZ (Restructuring Insolvency and Turnaround Association New Zealand) and a Member of the Banking and Financial Services Law Association.

A J [Joe] O'Connell BCom, FCA

Joe was appointed a Southsure director in September 2018.

Joe serves as a director on several companies including Powernet, Electricity Invercargill and was the Chairman of Invercargill Airport Limited from 2011 to 2016.

Joe has worked in many industries including transport, timber, concrete, petroleum distribution and property.

Joe is a Fellow of Chartered Accountants Australia and New Zealand and a Member of the Institute of Directors.

T D R [Tim] Loan CA, BCom, DipBusStuds

Tim was appointed a Southsure director in August 2009 and chairs Southsures Audit Committee.

Tim is an accountant with over 30 years' experience in the public practice and corporate sectors. He has been SBS Bank's Chief Financial Officer for the past 16 years, having previously held various senior finance roles working for private and state owned companies in Wellington and Invercargill. He attended the Harvard Business School Advanced Management Program in 2011.

Tim is a Fellow of Chartered Accountants Australia and New Zealand and a Member of the Institute of Directors.

P D [David] Newman BCom, DipBanking

David is Southsure's Chief Executive and was appointed a Southsure director in December 2014.

David joined Southsure in October 2002 when the company was established as an independent trading subsidiary of SBS Bank concurrently acquiring a minority shareholding in the business. Formerly General Manager Operations and Finance at SBS Bank for 6 years. Previously to that he held Senior Executive roles in the Bank including the position of Chief Financial Officer with executive responsibility for Southsure since the Company was incorporated in 1987.

David has a Bachelor of Commerce (Otago), majors in Accounting and Marketing Management, and a Diploma of Banking (Massey).

K Y [Kerrie] Wales MBA, DipAg, DipVFM

Kerrie was appointed a Southsure director in July 2008.

Kerrie has extensive experience in banking and insurance specialising in strategy formulation and business planning, strategic and business partnerships, risk management, and product development and marketing. Kerrie has held a range of general management positions including General Manager Insurance at the former National Bank of New Zealand and Managing Director of NBNZ Life Insurance Limited. Kerrie has a Masters of Business Administration (Victoria University) and Diplomas in Agriculture and Valuation and Farm Management (Lincoln University).

Financial Statements

Statement of Profit or Loss for the year ended 31 March 2019

	Note	2019 \$	2018 \$
Gross premium revenue	7	12,619,805	11,985,138
Reinsurance premiums		(1,028,592)	(973,496)
Net premiums		11,591,213	11,011,642
Commission income		1,265,160	1,094,722
Investment income	8	451,503	361,281
Realised gains/(losses)	9	(55,349)	127,016
Fair value gains	10	192,860	10,411
Other operating revenue		5,320	-
Other revenue		1,859,494	1,593,430
TOTAL REVENUE		13,450,707	12,605,072
Claims expense	11	2,197,269	2,580,280
Reinsurance recoveries		(865,644)	(1,121,330)
Net change in insurance policy liabilities	13	1,429,327	826,515
Commission Expenses	12	5,143,528	4,856,656
Direct expenses		7,904,480	7,142,121
Other operating and administrative expenses	12	2,901,943	2,950,809
Other expenses		2,901,943	2,950,809
TOTAL DIRECT AND OTHER EXPENSES		10,806,423	10,092,930
Profit from investment in associate	26	1,201,544	844,106
PROFIT BEFORE TAX		3,845,828	3,356,248
Taxation expense	14	695,500	561,305
PROFIT FOR THE YEAR	6	3,150,328	2,794,943

Statement of Comprehensive Income for the year ended 31 March 2019

	Note	2019 \$	2018 \$
NET SURPLUS FOR THE YEAR		3,150,328	2,794,943
Other comprehensive income			
<i>OCI to be reclassified to profit and loss in subsequent periods</i>			
Change in available for sale asset reserve		-	(216,873)
Deferred tax on change in available for sale asset reserve		-	60,724
Other comprehensive income for the year, net of tax	21	-	(156,149)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		3,150,328	2,638,794

The accompanying notes form part of and should be read in conjunction with these financial statements.

Financial Statements

Statement of Changes in Equity for the year ended 31 March 2019

	Share Capital	Retained Earnings	Available for sale reserve	Total Equity
As at 1 April 2018	1,000,000	7,828,897	(144,775)	8,684,122
Balance adjusted for adoption of new accounting standard	-	(144,775)	144,775	-
As at 1 April 2018 (restated)	1,000,000	7,684,122	-	8,684,122
Net surplus for the year	-	3,150,328	-	3,150,328
Other comprehensive income for the year	-	-	-	-
Total comprehensive income	-	3,150,328	-	3,150,328
Dividends	-	(2,100,000)	-	(2,100,000)
At 31 March 2019	1,000,000	8,734,450	-	9,734,450

As at 1 April 2017	1,000,000	7,068,954	11,374	8,080,328
Net surplus for the year	-	2,794,943	-	2,794,943
Other comprehensive income for the year	-	-	(156,149)	(156,149)
Total comprehensive income	-	2,794,943	(156,149)	2,638,794
Dividends	-	(2,035,000)	-	(2,035,000)
At 31 March 2018	1,000,000	7,828,897	(144,775)	8,684,122

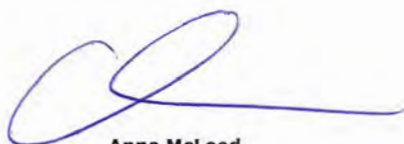
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Financial Statements

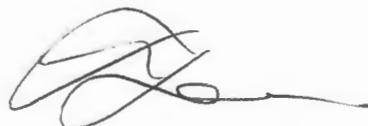
Statement of Financial Position as at 31 March 2019

	Note	2019 \$	2018 \$
EQUITY			
Share capital	20	1,000,000	1,000,000
Retained earnings	21	8,734,450	7,828,897
Revaluation reserve	21	-	(144,775)
TOTAL EQUITY		9,734,450	8,684,122
LIABILITIES			
Payables	18	760,696	852,974
Current tax	14	233,521	58,520
Deferred tax	14	1,878,111	1,713,228
Policy liabilities	13	4,993,711	4,923,534
Policy liabilities - reinsurance	13	4,912,168	3,553,019
TOTAL LIABILITIES		12,778,207	11,101,275
TOTAL EQUITY AND LIABILITIES		22,512,657	19,785,397
ASSETS			
Cash and cash equivalents	15	3,497,330	5,866,673
Receivables	16	787,585	797,414
Investments	17	11,052,018	6,415,601
Investment in associate	26	6,902,632	6,390,848
Plant and equipment		229,761	255,785
Intangible assets		43,331	59,076
TOTAL ASSETS		22,512,657	19,785,397

Approved for issue for and on behalf of the Board on 28 June 2019:



Anne McLeod
Chair



Tim Loan
Director

The accompanying notes form part of and should be read in conjunction with these financial statements.

Financial Statements

Statement of Cash Flows for the year ended 31 March 2019

	Note	2019 \$	2018 \$
CASH FLOWS FROM OPERATING ACTIVITIES	23		
Premiums received		12,912,588	11,742,669
Commission received		1,221,491	1,130,456
Interest received		296,420	315,113
Dividends received		97,670	69,307
Other income		4,974	-
Reinsurance received		865,644	1,121,330
Claims paid		(2,220,747)	(2,550,304)
Reinsurance paid		(1,028,592)	(979,535)
Commission paid		(5,380,651)	(4,565,053)
Payments to suppliers and employees		(2,838,860)	(2,731,145)
Tax paid		(355,617)	(441,660)
Net Cash Flows from Operating Activities		3,574,320	3,111,178
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of intangible assets, property, plant and equipment		(116,430)	(139,358)
Purchases of financial assets		(5,654,889)	(1,049,986)
Investment in associate		689,761	(811,724)
Proceeds from sale of financial assets		1,209,395	1,749,253
Proceeds from sale of property, plant and equipment		28,500	-
Net Cash Flows from Investing Activities		(3,843,663)	(251,816)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(2,100,000)	(2,035,000)
Net Cash Flows from Financing Activities		(2,100,000)	(2,035,000)
NET DECREASE IN CASH HELD		(2,369,343)	824,362
Opening cash balance brought forward		5,866,673	5,042,311
CASH AND CASH EQUIVALENTS CARRIED FORWARD		3,497,330	5,866,673
CASH AND CASH EQUIVALENTS COMPRISE			
Bank accounts		3,473,340	5,839,640
Parent current account		23,990	27,033
		3,497,330	5,866,673

The accompanying notes form part of and should be read in conjunction with these financial statements.

Notes to the Financial Statements

for the year ended 31 March 2019

1 CORPORATE INFORMATION

Southsure Assurance Limited (the Company) is a limited liability company incorporated and domiciled in New Zealand. The principal activities of the Company are the provision of life assurance and accident insurance.

The life insurance operations are conducted in accordance with the Life Insurance Act 1908 and the Insurance (Prudential Supervision) Act 2010. On 15 July 2013, the Company obtained its licence to carry on life insurance business in New Zealand under the Insurance (Prudential Supervision) Act 2010 from the Reserve Bank of New Zealand.

The registered office of the Company is 40 Don Street, Invercargill, New Zealand.

The financial statements for the Company for the year ended 31 March 2019 were authorised for issue by the Board of Directors on 28 June 2019.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) BASIS OF PREPARATION

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) as appropriate to profit oriented entities. They comply fully with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), and comply with International Financial Reporting Standards (IFRS), as appropriate for profit oriented entities.

Statutory base

The Company is registered under the Companies Act 1993 and is a FMC reporting entity and Tier 1 entity in terms of the Financial Reporting Act 2013. The financial statements have been prepared in accordance with the requirements of the Companies Act 1993, Financial Reporting Act 2013, the Financial Markets Conduct Act 2013 and the Insurance (Prudential Supervision) Act 2010.

Changes in accounting policies and application of new accounting policies

There have been no changes in accounting policies or early adoption of accounting standards in the preparation and presentation of the financial statements, except as disclosed below.

The following standards have been adopted from 1 April 2018 and have been applied in the preparation of these financial statements:

- NZ IFRS 9 Financial instruments
- NZ IFRS 15 Revenue with contracts with customers

NZ IFRS 9 Financial Instruments

The Company adopted NZ IFRS 9 Financial Instruments from 1 April 2018 without restatement, in accordance with the transition requirements. NZ IFRS 9 was issued in September 2014 and is applicable for periods beginning on or after 1 January 2018. The standard sets out new requirements for classification and measurement of financial instruments. It replaces NZ IAS 39 Financial Instruments: Recognition and Measurement. The Company has not restated the comparative information, which continues to be reported under NZ IAS 39. Differences arising from the adoption of NZ IFRS 9 have been recognised directly in retained earnings and other components of equity.

i. Classification of financial assets and financial liabilities

NZ IFRS 9 contains three principal classification categories for financial assets: measurement at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under NZ IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous NZ IAS 39 categories of held to maturity, loans and receivables and available for sale.

A financial asset is measured at amortised cost only if both of the following conditions are met:

- it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

If the above conditions are not met, financial assets that are held for collection of contractual cashflows and for selling, where the assets' cashflows represent solely payments of principal and interest, are measured at FVOCI. Movements in FVOCI are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. Financial assets that do not meet the criteria for amortised cost or FVOCI are mandatorily measured at FVTPL.

Notes to the Financial Statements

for the year ended 31 March 2019

The following table summarises the classification and measurement changes by balance sheet asset class to the Company's financial assets on 1 April 2018, the date of initial application of NZ IFRS 9. There are no changes in the classification and measurement of financial liabilities of the Company.

Financial Asset	Original Measurement under NZ IAS 39	New Measurement under NZ IFRS 9	Original Carrying Amount NZ IAS 39	New Carrying Amount NZ IFRS 9
Cash and cash equivalents	Loans and receivables	Amortised cost	5,866,673	5,866,673
Trade and other receivables	Loans and receivables	Amortised cost	797,412	797,412
Equity securities	Available for sale	FVTPL	1,341,921	1,341,921
Debt securities				
- Bank Paper	Available for sale	Amortised cost	3,778,664	3,778,664
- Corporate	FVTPL	FVTPL	315,000	315,000
- Bonds	FVTPL	FVTPL	728,179	728,179
- Capital Notes	FVTPL	FVTPL	251,838	251,838

NZ IFRS 15 Revenue from Contracts from Customers

NZ IFRS 15 applies but has no material impact on revenue recognition for the Company, as the majority of the Company's revenues are recognised in accordance with NZ IFRS 4 Insurance Contracts. NZ IFRS 15 has been applied to commission income but there is no change in the measurement of the revenue as the performance obligations are satisfied over time.

NZ IFRS Accounting Standards issued but not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the NZ IASB that are effective in future accounting periods that the Company has decided not to early adopt. The most significant of these is:

- NZ IFRS 16 Leases
- NZ IFRS 17 Insurance Contracts

NZ IFRS 16 Leases

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. This standard, which becomes effective for annual reporting periods commencing on or after 1 January 2019 is expected to be initially applied in the financial year ending 31 March 2020. There is not expected to be any impact on the Company's financial statements because the Company is not expecting to have any lease contracts that would be classified as long term leases under NZ IFRS 16 in the financial year ending 31 March 2020.

NZ IFRS 17 Insurance Contracts

NZ IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts that fall within the scope of the standard. This standard, which becomes effective for annual reporting periods commencing on or after 1 January 2021 is expected to be initially applied in the financial year ending 31 March 2022. It will replace the current standard, IFRS 4 Insurance Contracts. The Company is not yet able to reasonably estimate the impact of NZ IFRS 17 on its financial statements.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets and liabilities as stated in specific accounting policies below.

Functional and presentation currency

The financial statements values are presented in New Zealand Dollars (NZD) and all values are rounded to the nearest dollar (\$), unless otherwise stated.

Notes to the Financial Statements

for the year ended 31 March 2019

B) PRINCIPLES UNDERLYING CONDUCT OF LIFE INSURANCE BUSINESS

The life insurance operations consist of insurance contract business. The Company has no investment contract business.

Insurance contract business are those contracts that the Company has accepted significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. The compensation, referred to as insured benefits, are payable on death, or on the occurrence of a contingency dependent on the termination or continuation of human life, or on the occurrence of injury or disability caused by accident or illness, and the financial risk of the occurrence of the event which crystallises the payment of the insured benefit is borne by the Company.

C) ASSET MEASUREMENT

Cash and Cash Equivalents

Cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks, term deposits and other short-term highly liquid investments with an original term to maturity of less than three months.

Receivables

Receivables include insurance premiums billed but not yet collected and other business related receivables. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less any allowances for impairment.

Investments and Other Financial Assets

a) Initial recognition and measurement

Financial assets in the scope of NZ IFRS 9 Financial Instruments are initially measured at fair value plus or minus, in the case of a financial asset not at fair value through profit or loss, transactions costs.

Subject to initial recognition, all financial assets within the scope of NZ IFRS 9 are measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The FVOCI classification is mandatory for certain debt instruments unless the options to FVTPL ("the fair value option") is taken.

The Company has no financial assets classified as fair value through other comprehensive income (FVOCI).

(i) Financial assets at amortised cost

The Company measures financial assets at amortised cost if both the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

(ii) Financial assets at fair value through profit or loss

Financial assets in this category are those that are managed in a fair value business model, or that have been designated by management upon initial recognition or are mandatorily required to be measured at fair value under NZ IFRS 9. This category includes debt instruments whose cash flow characteristics fail the SPPI criterion or are not held with a business model whose objective is either to collect contractual cash flows, or both to collect contractual cash flows and sell.

Financial assets at fair value through profit or loss are recorded in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes debt instruments and listed equity investments which the Company had not irrevocably elected to classify at fair value through other comprehensive income. Dividend income from equity investments are also recognised as investment income in the statement of profit or loss when the right of payment has been established.

Notes to the Financial Statements

for the year ended 31 March 2019

Investment in Associate

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Company's investment in associate is accounted for using the equity method and is measured in the Statement of Financial Position at cost plus post-acquisition changes in the Company's share of net assets. Goodwill relating to associates is included in the carrying amount of the investment. Dividends reduce the carrying value of the investment.

The financial statements of the associate are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Company.

Plant and Equipment

Plant and equipment are initially measured at cost less accumulated depreciation and any accumulated impairment losses.

The Company's plant and equipment comprise Computer Equipment, Office Equipment and Motor Vehicles.

Intangible Assets

Intangible assets represent Computer Software and are initially measured at cost. Following initial recognition, computer software is carried at cost less accumulated amortisation and any accumulated impairment losses.

Depreciation

Depreciation on plant and equipment and intangible assets is provided in the financial statements on a basis which will write down the value of the assets over their useful lives to their estimated realisable value.

The primary annual rates used for assets are:

Office Equipment	- 13% on diminishing value
Motor Vehicles	- 30% on diminishing value
Computer Equipment	- 50% on diminishing value
Computer Software	- 50% on diminishing value

D) LIABILITY MEASUREMENT

Payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Payables are stated at cost.

Determination of Policy Liabilities

Life insurance liabilities (policyholder liabilities) in the Statement of Financial Position and the increase or decrease in policyholder liabilities in the statement of profit or loss have been calculated in accordance with the Actuarial Professional Standard No 3 – Determination of Life Insurance Policy Liabilities (PS3) which prescribes the Margin on Services ('MoS') basis.

Notes to the Financial Statements

for the year ended 31 March 2019

Overview of MoS Methodology

MoS is designed to recognise profits on life insurance policies as services are provided to policyholders and income is received. Profits are deferred and amortised over the life of the policy, whereas losses are recognised immediately as they arise. Services used to determine profit recognition as applied to the Company include the cost of expected claims.

The Company's policy liabilities are generally determined as the present value of all future expected payments, expenses, taxes and profit margins reduced by the present value of all future expected premiums.

MoS Profit

MoS profit comprises the following components:

Planned margins of revenues over expenses

At the time of writing a policy and at each balance date, best estimate assumptions are used to determine all expected future payments and premiums.

The difference between actual and assumed experience

Where actual experience replicates best estimate assumptions, the expected profit margin will be released to profit over the life of the policy. Experience profits or losses are realised where actual experience differs from best estimate assumptions. Instances giving rise to experience profits or losses include variations in claims, expenses, mortality, discontinuance and investment returns. For example, an experience profit will emerge when the expenses of maintaining all in-force business in a year are lower than the best estimate assumption in respect of those expenses.

Changes to underlying assumptions

Assumptions used for measuring policy liabilities are reviewed each year. Where the review leads to a change in assumptions, the change is deemed to have occurred from the reporting date. The financial effects of changes to the assumptions underlying the measurement of policy liabilities made at the reporting date are recognised in the statement of profit or loss over the future reporting periods during which services are provided to policyholders, however if, based on best estimate assumptions, written business is expected to be unprofitable, the total expected loss is recognised in the statement of profit or loss immediately. When loss making business becomes profitable previously recognised losses are reversed.

Investment earnings on assets in excess of policy liabilities

Profits are generated from investment assets which are in excess of those required to meet policy liabilities. Investment earnings are directly influenced by market conditions and as such this component of MoS profit will vary from year to year.

E) INCOME RECOGNITION

Premium Income

Insurance premium revenue is recognised from the inception date as soon as there is a basis on which it can reliably be estimated. Insurance premium revenue is recognised as income when it is earned in accordance with the pattern of incidence of risk expected under the insurance contract.

Investment Income

Interest income

Interest income is recognised in the Statement of Profit or Loss as it accrues and is calculated by using the effective interest rate method.

Dividend and distributions

Revenue is recognised when the right to receive payment is established. Dividends from equity securities are recorded as revenue on the ex-dividend date.

Fair value gains and losses

Fair value gains and losses on financial assets at fair value are recognised through the Statement of Profit or Loss.

Other Income

Commission income

Commission revenue for which no future service is required is recognised on trade date.

F) EXPENSE RECOGNITION

Claims Expense

All claims are recognised as expenses in the Statement of Profit or Loss. Separation of claims into risk and savings components is not required for any of the Company's business.

Death and all other claims are recognised when the liability to the policyholder under the policy contract has been established.

Notes to the Financial Statements

for the year ended 31 March 2019

Other Expenses

Other expenses incorporate all other expenditure involved in running the Company's business including costs of new business and depreciation. These are recognised in the Statement of Profit or Loss as follows:

Life assurance

For the purpose of determining Policy Liabilities, Other Expenses are categorised into acquisition, or maintenance costs on the basis of a detailed functional analysis of activities carried out by the Company.

Acquisition costs are the fixed and variable costs of acquiring new business for the current reporting period. For Southsure, acquisition costs include the fixed and variable costs incurred in relation to developing new business, marketing, product design and development, and fixed and variable operating and management costs that do not relate to maintaining Southsure's operations at the level required to service in force policies.

Under MoS, where overall product profitability of new business written during the year is expected to support the recovery of acquisition costs incurred in that year, these costs are effectively deferred as an element of policy liabilities and amortised over the life of the policies written. Unamortised acquisition costs are a component of the MoS policy liabilities.

Acquisition costs are recognised in the Statement of Profit or Loss as a component of "increase in policy liabilities" at the same time as policy margins are released.

Acquisition costs are allowed for when determining expected profit margins by setting cost allowances for the year in question. Actual acquisition costs may vary from year to year for a number of reasons including new business volume, product mix, distribution mix, cost efficiency and new strategic initiatives.

The profit margin component of the policy liability is determined so that neither a profit nor a loss arises on acquisition, subject only to the overriding constraint that the present value of future profit margins on total new business written in the year is not negative.

Investment management costs are borne by the Company.

Maintenance costs are the fixed and variable costs of administering policies subsequent to sale and the fixed and variable operating and management costs of maintaining the Company's operations such that they are sufficient to service in force policies. Maintenance costs include all operating costs other than acquisition and investment management costs. The total of maintenance costs allowed for in Policy Liabilities is consistent with the costs expected to be required to fully support the administration of in force business as a going concern.

Maintenance costs are recognised in the Statement of Profit or Loss in the period they become due and payable.

Consistent expense categorisation is used in deriving the assumptions used for reserving and solvency measurement.

G) REINSURANCE

As the reinsurance agreements provide for indemnification of the Company against loss or liability, reinsurance income and expense are recognised separately in the Statement of Profit or Loss when they become due and payable in accordance with the reinsurance agreements.

Reinsurance recoveries on claims are recognised in the Statement of Profit or Loss as "Reinsurance Recoveries". Reinsurance premiums are recognised separately as "Reinsurance Premiums".

H) TAXATION

Income Tax

The income tax expense comprises both current and deferred tax. Income tax expense is recognised in the Statement of Profit or Loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to the tax payable in respect of previous years. Deferred tax is recognised using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities in a transaction that is not a business combination and that affects neither accounting or taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

Deferred tax assets are set-off against deferred tax liabilities to the extent they relate to income taxes which are legally able to be set-off against each other.

Life insurance tax

From 1 July 2010 taxation is payable on investment income allocated to policyholders and on shareholder cash flows (investment income, premiums less claims, less expenses). Concessions which allowed certain policies to continue being taxed similar to that incurred under the old regime came to an end at 30 June 2015 and are explained below. Level term policies may have concessions for the duration of the policy.

Prior to 1 July 2010 Life Insurers were subject to a special tax regime. Two tax bases were maintained; the life insurer base where tax is calculated on investment income less expenses plus underwriting income; and the policyholder base which seeks to tax benefits as they accrue to policyholders under the policies in the form of claim, surrender and maturity payments and increments in the value of policies. The life insurer paid tax on the higher of the two bases at the company tax rate of 30%. As the life insurer was taxed as proxy for the policyholder, returns to policyholders were tax exempt.

Notes to the Financial Statements

for the year ended 31 March 2019

Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST) except where the amount of GST incurred is not recoverable from the Inland Revenue Department (IRD). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the IRD is included as 'other assets' or 'other liabilities' in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a net basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the IRD are classified as operating cash flows.

I) STATEMENT OF CASH FLOWS

The following are the definitions of the terms used in the Statement of Cash Flows:

- (i) Operating activities include all transactions and other events that are not investing or financing activities.
- (ii) Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of investments.
- (iii) Financing activities are those activities relating to changes in the equity and debt structure of the Company.

J) PROVISIONS

A provision is recognised in the Statement of Financial Position when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

K) CONTINGENT LIABILITY

The Company discloses a contingent liability when it has a possible obligation arising from past events, that will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Company's control. A contingent liability is disclosed when a present obligation is not recognised because it is not probable that an outflow of resources will be required to settle an obligation, or the amount of the obligation cannot be measured with sufficient reliability.

L) EMPLOYEE BENEFITS

The amounts expected to be paid in respect of employee's entitlements to annual leave are accrued at expected salary rates.

M) SHARE CAPITAL

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

N) CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted by the Company are consistent with those adopted in previous periods, except for the adoption of all mandatory new standards, amendments to standards and interpretations which were applicable to annual reporting periods commencing on or before 1 April 2018. None had a material impact on these financial statements.

Notes to the Financial Statements

for the year ended 31 March 2019

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities and profit within the next financial year are discussed below.

A) INSURANCE LIABILITIES – EFFECT OF CHANGES AND ASSUMPTIONS

Policy liabilities arising from life insurance contracts are calculated at each reporting date using mathematical and statistical models. The valuations are prepared by appropriately qualified and experienced members of the New Zealand Society of Actuaries on the basis of internationally recognised actuarial methods set out in Professional Standards issued by the New Zealand Society of Actuaries, a full member of the International Actuarial Association. The methodology takes into account the risks and uncertainties of the particular classes of business written.

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

- The cost of providing benefits and administering these contracts;
- Mortality and morbidity experience on life insurance products;
- Persistency experience, which affects the entity's ability to recover the cost of acquiring new business over the lives of the contracts;
- Other factors such as regulations, competitors, interest rates, the performance of capital markets and general economic conditions affect the level of these liabilities;

The uncertainties surrounding these assumptions means that it is likely that the actual observed claims incidence and planned profit margins will vary from the liability estimated and future profit margins at the reporting date.

Refer to note 4 for more detail on the valuation of the policy liabilities and the assumptions applied.

4 ACTUARIAL METHODS AND POLICIES

The effective date of the actuarial reports on Policy Liabilities is 31 March 2019. The actuarial reports were prepared by Peter Davies, Fellow of the New Zealand Society of Actuaries and signed on 28 May 2019. (2018: Prepared by Peter Davies, Fellow of the New Zealand Society of Actuaries signed 19 May 2018)

The Actuary certified that the amount of Policy Liabilities has been determined in accordance with methods and assumptions disclosed in this financial report and with the standards of the New Zealand Society of Actuaries.

The Actuary certified that he was satisfied as to the accuracy of the data upon which the amount of the Policy Liabilities has been determined.

Disclosure of Assumptions

Policy Liabilities are measured as net present values of estimated future cash flows. The key assumptions used in determining the Policy Liabilities were:

A) Discount Rates and Inflation Rates

The discount rates assumed are based on risk-free rates of return on fixed interest securities of an equivalent average term to the future policy cash-flows.

The discount rate assumed for short-term single premium business (Payment Protection Insurance, and two related contracts) is 1.22% net of tax based on swap rates (2018: 1.57%).

The discount rate assumed for other business (predominantly term life and regular premium disability business) is 1.21% net of tax based on swap rates (2018: 1.86%).

The assumed inflation rate was 2.0% p.a. (2018: 2.0%).

B) Profit Carriers

Group Life and Total Permanent Disability (TPD) cover, and Bond insurance, were valued using an accumulation method, therefore no profit carrier was used.

The profit carrier for all other product groups, which were valued using a projection method, was claims plus renewal commission plus administration costs (2018: no change).

C) Future Expenses and Indexation

Maintenance expenses per policy in the year ended 31 March 2019 were assumed to be:

Payment protection insurances	- \$17 per policy per annum (2018: \$14 p.a.)
Regular premium term insurances	- \$43 per policy per annum (2018: \$35 p.a.)
Single premium term insurances	- \$13 per policy per annum (2018: \$10 p.a.)
Reviewable disability insurances	- \$43 per policy per annum (2018: \$35 p.a.)

Expenses are assumed to escalate at 2.0% per annum (2018: 2.0% p.a.)

Notes to the Financial Statements

for the year ended 31 March 2019

D) Rates of Taxation

The future rate of taxation was assumed to be 28% (2018: 28%).

E) Mortality and Morbidity

Future mortality for term insurances was assumed in aggregate to be 75% of NZ04 (2018: 75% of NZ04), based on the Company's own experience. The assumption was adjusted for the smoking status of lives insured, based on the relative experience of other companies.

Future mortality, disability, redundancy, and chattel claim frequencies for Payment Protection Insurances were based on aggregate rates derived from the Company's experience (unchanged from 2018). Future disability and redundancy claim continuance rates were based on the Company's experience (unchanged from 2018).

Claim frequencies and claim continuance rates for reviewable disability policies were based on the Company's experience (frequencies and termination rates are unchanged from the 2018 assumptions).

Group Life and TPD covers, Tenant Protection, Bond Protection and Fastprotect cover were valued on an accumulation basis.

F) Discontinuances

Future rates of discontinuance are assumed to be between 0% and 52% p.a. (2018: 0% and 67% p.a.), according to product and duration in force, based on the Company's recent and expected future experience.

G) Surrender Values

Surrender values are assumed to be paid according to current formulae.

H) Unit Prices

The Company has no unit-linked business.

I) Participating Benefits - rate of future supportable additions

The Company has no participating business.

J) Participating Benefits - future crediting policy

The Company has no participating business.

5 RISK MANAGEMENT

Risk management programme

The Board of Directors (the "Board") has established a risk management programme that is designed to ensure the effective identification, management, monitoring and reporting of risk in a timely manner across all areas of the business and to meet compliance obligations under the Insurance (Prudential Supervision) Act 2010.

The Risk Management Programme embodies a number of existing formal, and documented processes and systems to manage specific types of risk.

The Risk Management Programme details the specific roles and responsibilities, risk assessment and management processes, delegated risk authorities and management actions required to ensure its significant risks are managed appropriately.

The risk identification process is carried out annually as part of the annual planning process, and as required on a formal structured basis and continually on an ad hoc basis.

The Company is exposed to the following key risks:

- Insurance
- Credit
- Liquidity
- Market
- Operational
- Strategic
- Capital

Notes to the Financial Statements

for the year ended 31 March 2019

A) INSURANCE RISK

Insurance risk is the risk that either inadequate or inappropriate product design, pricing, underwriting, reserving, claims management or reinsurance management will expose the Company to financial loss and, in the worst case, a consequent inability to meet its liabilities when they fall due.

There are a number of key strategies in place which mitigate insurance risk, including:

- the use of approved and documented underwriting policies and procedures to determine the acceptance and appropriate pricing of risk
- the use of actuarial models to calculate premiums and to monitor claim patterns
- reinsurance arrangements that limit the Company's exposure to individual and catastrophic risks
- the diversification of insurance business over different risk types and distribution channels

Sensitivity analysis

The analysis assumes that the value of liabilities will not be affected by changes in demographic assumptions. The following table shows the changes in the value of future planned margins (assuming no compensation changes in future premiums) and policy liability (including future profit margins) at 31 March if actuarial assumptions change as follows:

		2019		2018	
		Future Margins	Policy Liability	Future Margins	Policy Liability
Discount rate	Increase by 1%	(217,000)	(483,000)	(278,000)	(394,000)
	Decrease by 1%	223,000	498,000	286,000	407,000
Mortality/Morbidity	Increase by 10%	(1,038,000)		(996,000)	
	Decrease by 10%	1,049,000		1,006,000	
Surrenders/Lapses	Increase by 10%	(95,000)		(193,000)	
	Decrease by 10%	99,000		201,000	
Expenses	Increase by 10%	(400,000)		(307,000)	
	Decrease by 10%	400,000		307,000	

B) CREDIT RISK

Credit risk is the possibility of a financial loss occurring due to the unwillingness or inability of a counterparty to fully meet their contractual debts and obligations or due to a change in the credit rating of a counterparty.

The Company manages credit risk by:

- diversifying investment exposures across a range of counterparties
- limiting exposure to high credit quality and individual counterparties
- the annual monitoring of the reinsurer credit risk rating
- limiting of business partnerships to high reputation, high credit quality counterparties where possible

(i) Investment counterparty credit risk

The Company's Investment Policy ensures that credit concentration is managed appropriately. This is achieved by:

- setting maximum asset allocation limits
- limiting the asset class allocations to a maximum of 25% of total assets to be held with one bank

The table below provides information on the credit risk exposure on the Company's financial assets with external credit ratings of financial assets that are classified within the range of AAA to BBB, with AAA being the highest possible rating. The 'Not Rated' column discloses those assets not rated by external rating agencies.

	AAA+ to A-	BBB+ to BBB-	Not rated	Carrying value \$
31 March 2019				
Call and Current Accounts	24%	-	-	3,497,330
Bank Paper	40%	10%	-	7,238,348
Equities	-	-	16%	2,326,037
Listed Debt Products	5%	1%	4%	1,487,633
31 March 2018				
Call and Current Accounts	46%	1%	-	5,866,672
Bank Paper	27%	4%	-	3,778,662
Equities	-	-	11%	1,341,923
Listed Debt Products	3%	-	8%	1,295,017

Notes to the Financial Statements

for the year ended 31 March 2019

C) LIQUIDITY RISK

Liquidity risk is the risk that an organisation will not be able to meet its financial obligations as and when they fall due and at a reasonable cost.

The Company manages its liquidity risk on an on-ongoing basis by:

- maintaining a significant portion of its investment portfolio in short term interest bearing securities which can be liquidated at short notice
- holding longer dated investments to support insurance liabilities held in highly liquid issues of tradable securities
- maintaining sufficient liquid assets to meet both its expected and unexpected cash flows

Maturity analysis

The table below shows the maturity of the Company's financial assets and liabilities. Where the counterparty has discretion in requesting payment, liabilities have been classified according to the earliest time period in which the Company may be required to pay.

	On Demand	1-6 Month	6-12 Months	12-24 Months	> 24 Months
2019					
Financial assets:					
Cash and cash equivalents	3,497,330	-	-	-	-
Receivables	787,585	-	-	-	-
Investments	2,326,036	3,549,677	2,980,947	862,180	1,333,178
	6,610,951	3,549,677	2,980,947	862,180	1,333,178
Financial liabilities:					
Payables and other financial liabilities	760,696	-	-	-	-
	760,696	-	-	-	-
2018					
Financial assets:					
Cash and cash equivalents	5,866,673	-	-	-	-
Receivables	797,414	-	-	-	-
Investments	1,341,922	2,818,663	918,200	354,000	982,817
	8,006,008	2,818,663	918,200	354,000	982,817
Financial liabilities:					
Payables and other financial liabilities	852,974	-	-	-	-
	852,974	-	-	-	-

D) MARKET RISK

Market risk is the risk of changes in the fair value of financial instruments from adverse movements in market prices or rates (including interest rates, exchange rates, equity and property prices), whether such a change in price/rate is caused by factors specific to an individual financial instrument or to its issuer, or to factors affecting all financial instruments traded in a market.

The Company manages its market risk by:

- where possible, matching asset durations against its liabilities
- investing defensively where assets are not required to meet liabilities
- maintaining no off-balance sheet exposures

Interest Rate Risk

For the year ended 31 March 2019 if interest rates on cash deposits and interest bearing investments had been 1% higher or lower with all other variables held constant the impact on post tax profits and net assets would have been as follows:

	2019		2018	
	+ 1%	- 1%	+ 1%	- 1%
Cash and cash equivalents	31,543	(31,543)	43,483	(43,483)
Financial assets at fair value through profit or loss	12,058	(12,058)	41,794	(41,794)

Notes to the Financial Statements

for the year ended 31 March 2019

E) OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss, including damage to reputation, resulting from inadequate or failed internal processes, people and systems, or from external events.

The Company manages its operational risk by:

- the utilisation of established and documented policies and procedures that are subject to internal and external audit
- maintaining an appropriate organisational and management structure with clearly defined responsibilities and accountabilities including the division of duties where appropriate
- appropriate training and development of all staff together with maintenance of key person backup capability
- the maintenance of multiple office sites and an established and proven Business Continuity and Disaster Recovery Plan

F) STRATEGIC RISK

Strategic risk is the risk of a strategic event that could materially disrupt the Company's business operations or result in significant financial loss that could result in the Company's inability to continue as an independent going concern under current ownership arrangements or could result in the Company being placed in Statutory Management.

The Company manages its strategic risk by:

- diversification of income streams across different classes of business and to include non-underwriting sources of profit
- diversification of income streams through the use of multiple distribution channels and including retail and wholesale insurance offerings
- established Business Continuity, Pandemic and IT Disaster Recovery Plans
- identified contingency strategies for all significant risks
- ongoing monitoring of competitor and legislative developments

G) CAPITAL MANAGEMENT

The Company's capital management objectives are to ensure an adequate and prudent level of capital is maintained to support the risks borne by the business and in turn protect policyholders and shareholders interests, and to meet its obligations under the Insurance (Prudential Supervision) Act 2010.

The Act requires the Company to maintain a minimum level of capital at all times that meets the Solvency Standard for Life Insurance Business ("Solvency Standard").

The Directors have adopted a policy of holding a "buffer" amount of free capital over and above the minimum level of capital required by the Solvency Standard.

Solvency

The Solvency Standard requires the Company to hold a minimum level of capital at all times. This must be in excess of either \$5,000,000 or the (risk-based) calculated minimum solvency capital requirement - whichever is higher.

Statutory Funds

A life insurer is required to have at least one statutory fund in respect of its life insurance business. The Company established "Southsure Statutory Fund No 1" (the Fund) on 1 April 2013.

The Fund gives priority to policy holders to the assets held in the Fund ahead of the claims of any other creditor. All operating profits and losses generated by the Fund are retained within the Fund and distributions of these can only be made provided they comply with the requirements of the Insurance (Prudential Supervision) Act 2010 and the Insurance (Prudential Supervision) Regulations 2010. These requirements include receiving and having regard to the Company's Appointed Actuary's written advice as to the likely consequences of any proposed distribution. A distribution of the Fund's retained profits must not be made if the distribution would have the result that the Company would fail to maintain the minimum solvency margin in relation to the Fund.

Notes to the Financial Statements

for the year ended 31 March 2019

The Act requires disclosure of the solvency margins for the Fund, the business and assets outside the fund and for the Company as a whole. The following tables show the solvency margin, assets, liabilities, equity and profit by Fund.

	Statutory Fund	Non-life Shareholder Fund	Company
2019			
Total assets	10,574,634	11,938,023	22,512,657
Total liabilities	9,538,560	3,239,647	12,778,207
Total equity	1,036,074	8,698,376	9,734,450
Profit/(loss) after income tax	1,126,498	2,023,830	3,150,328
Net dividends paid	(1,600,000)	(500,000)	(2,100,000)
Actual solvency capital	642,743	7,798,376	8,441,119
Minimum calculated solvency requirement (risk based)	507,967	6,597,100	7,105,067
Solvency margin	134,776	1,201,276	1,336,051
Solvency ratio	126.5%	118.2%	118.8%
2018			
Total assets	9,532,704	10,252,692	19,785,396
Total liabilities	8,023,127	3,078,148	11,101,275
Total equity	1,509,577	7,174,544	8,684,121
Profit/(loss) after income tax	1,737,588	1,057,355	2,794,943
Net dividends paid	(1,400,000)	(635,000)	(2,035,000)
Actual solvency capital	700,501	6,924,545	7,625,046
Minimum calculated solvency requirement (risk based)	132,103	5,943,764	6,075,867
Solvency margin	568,398	980,781	1,549,179
Solvency ratio	530.3%	116.5%	125.5%

6 ANALYSIS OF PROFIT

	2019	2018
Profit after taxation arose from:		
Planned margins of revenues over expenses	1,570,105	1,387,276
Other revenue	910,837	788,200
Difference between actual and assumed experience	396,338	231,834
Effects of changes in underlying assumptions	(365,926)	(101,627)
Investment earnings on assets in excess of life insurance liabilities	638,974	489,260
Profit after taxation	3,150,328	2,794,943

7 GROSS PREMIUM REVENUE

	2019	2018
Single premium	9,059,802	8,597,085
Regular premium	3,560,003	3,388,053
Gross premium revenue	12,619,805	11,985,138

8 INVESTMENT INCOME

	2019	2018
Cash and cash equivalents interest income	65,631	71,463
Financial assets at amortised cost		
Interest income	213,152	-
Available for sale financial assets		
Interest income	-	146,747
Dividend income	-	60,299
Financial assets at fair value through profit or loss		
Interest income	68,188	64,752
Dividend income	104,532	18,020
	451,503	361,281
Summary of net investment income		
Interest and similar income	346,971	282,962
Dividend income	104,532	78,319
Net investment income	451,503	361,281

Notes to the Financial Statements

for the year ended 31 March 2019

9 REALISED GAINS

	2019	2018
Property and equipment	(2,863)	(19,569)
Equity securities	(52,486)	146,585
Total realised gains/(losses)	(55,349)	127,016

10 FAIR VALUE GAINS

	2019	2018
Equity securities - designated at fair value through profit or loss	192,683	-
Debt securities - designated at fair value through profit or loss		
Corporate – New Zealand	(10,200)	(1,500)
Bonds	11,035	5,773
Capital Notes	(658)	6,138
Total fair value gains/(losses)	192,860	10,411

11 CLAIMS EXPENSE

	2019	2018
Accident claims	1,061,365	922,952
Death claims	1,135,904	1,657,328
Total claims	2,197,269	2,580,280

12 COMMISSION AND OTHER EXPENSES

	2019	2018
Commission expenses		
Acquisition	5,013,960	4,724,826
Maintenance	129,568	131,830
Total commission expenses	5,143,528	4,856,656
Other expenses		
Acquisition	1,108,249	1,132,653
Maintenance	1,206,618	1,093,006
Other	587,076	725,150
Total other expenses	2,901,943	2,950,809
Other expenses include:		
Personnel	1,684,861	1,858,754
Audit services		
Audit of annual financial statements	31,388	34,624
Review of interim financial statements	6,900	6,325
Other assurance services	-	-
Review on annual solvency return	4,750	4,800
Directors' fees	128,418	92,272
Depreciation	75,641	95,719
Amortisation	38,499	32,103
Other expenses	931,485	826,212
Total other expenses	2,901,943	2,950,809

Notes to the Financial Statements

for the year ended 31 March 2019

13 POLICY LIABILITIES

	2019	2018
a) Movement in insurance policy liabilities - gross		
Opening balance at 1 April	4,923,534	4,828,322
Increase recognised in Statement of Profit or Loss	70,177	95,212
Closing balance at 31 March	4,993,711	4,923,534
b) Movement in policy liabilities/(assets) - reinsurance		
Opening balance at 1 April	3,553,019	2,821,716
Increase recognised in Statement of Profit or Loss	1,359,149	731,303
Closing balance at 31 March	4,912,168	3,553,019
Summary of policy liabilities		
Gross policy liabilities	4,993,711	4,923,534
Insurance contract liabilities - Reinsurance	4,912,168	3,553,019
Closing balance at 31 March	9,905,879	8,476,553
Policy liabilities contain the following components:		
Future policy benefits	27,409,133	23,211,231
Future expenses	9,708,948	7,868,383
Business valued on accumulation basis	10,000	10,000
Future profit margins	6,058,392	6,421,434
Balance of future premiums	(38,192,762)	(32,587,514)
Reinsurance	4,912,168	3,553,019
Closing net policy liabilities	9,905,879	8,476,553

14 TAXATION

	2019	2018
a) Current income tax expense		
Current income tax	515,051	379,927
Deferred income tax	1,878,111	1,713,228
Prior period adjustment	15,566	(10,951)
Origination and reversal of temporary differences	(1,713,228)	(1,520,899)
Expense reported in the Statement of Profit or Loss	695,500	561,305
b) Amounts charged directly to equity	-	(60,724)
	2019	2018
c) Numeric reconciliation between tax expense and profit before tax		
Surplus before taxation per Statement of Profit or Loss	3,845,828	3,356,248
Prima Facie Taxation @ 28%	1,076,832	939,749
Adjusted for tax effect of:		
Permanent differences	(268,993)	(344,002)
Provision for life insurance liabilities	400,212	231,424
Tax credits claimed	(302,560)	(210,894)
Policy liabilities	112,332	194,410
Income tax included within associate earnings	(336,432)	(236,350)
Other	(1,456)	(2,081)
Prior period adjustment	15,566	(10,951)
Taxation as per Statement of Profit or Loss	695,500	561,305

Notes to the Financial Statements

for the year ended 31 March 2019

d) Net deferred tax benefits/(liabilities)		
Balance at beginning of the year	(1,713,228)	(1,581,623)
Deferred tax benefit/(charge) charged to income	(164,883)	(192,329)
Deferred tax benefit/(charge) charged to equity	-	60,724
Balance at end of the year	(1,878,111)	(1,713,228)
The balance of deferred tax benefits/(liabilities) comprises:		
i Deferred tax liabilities		
Policy liabilities	(1,908,454)	(1,796,121)
Funds with financial institutions	5,687	56,781
	(1,902,767)	(1,739,340)
ii Deferred tax assets		
Staff provisions	24,656	26,112
	24,656	26,112
Net deferred tax liability	(1,878,111)	(1,713,228)

Deferred Tax on Insurance Contract Liabilities

Life Insurance contract liabilities represent the net present value of estimated future cash flows and planned profit margins. Using the margin on services methodology, planned after tax profit margins are recognised in the Statement of Profit or Loss over the period services are provided to policyholders resulting in deferral for accounting purposes compared to up-front deductibility for tax purposes. A net deferred tax liability of \$1,908,454 has been separately disclosed and included in the deferred tax liabilities balance representing taxable temporary differences which are implicitly embedded within insurance contract liabilities (2018: \$1,796,121).

	2019	2018
e) Current Tax Liability		
Balance at beginning of year	58,520	131,206
Under/(over) provision in prior years	15,567	(10,953)
Tax payments/(refunds)	355,617	441,660
Current income tax expense	515,051	379,927
Balance at end of the year	233,521	58,520
	2019	2018
f) Imputation Credit Account		
Balance at beginning of year	478,679	617,514
Income tax paid (refund received) during the year	(84,042)	-
Provisional tax paid during the year	435,111	441,660
	829,748	1,059,174
Less credits attached to Dividends paid	(816,667)	(791,389)
Add credits attached to Dividends received	302,560	210,894
Balance at end of year	315,641	478,679

15 CASH AND CASH EQUIVALENTS

	2019	2018
Cash at bank and in hand		
Bank balances	2,710,266	4,477,268
Deposits at call	787,065	1,389,405
Cash and cash equivalents	3,497,330	5,866,673

16 TRADE AND OTHER RECEIVABLES

	2019	2018
Outstanding premiums	87,900	105,316
Prepayments	58,490	33,029
Sundry receivables	641,195	659,069
Total other receivables	787,585	797,414
Expected maturity		
Within 12 months	787,585	797,414
Later than 12 months	-	-
	787,585	797,414

Notes to the Financial Statements

for the year ended 31 March 2019

17 INVESTMENTS

	2019	2018
Financial assets designated at fair value through profit or loss		
Equity securities	2,326,036	-
Debt securities		
Corporate – New Zealand	304,800	315,000
Bonds	829,778	728,179
Capital notes	353,055	251,838
	3,813,669	1,295,017
Financial assets at amortised cost		
Debt securities		
Bank paper	7,238,349	-
	7,238,349	-
Financial assets available for sale		
Equity securities	-	1,341,922
Debt securities		
Bank paper	-	3,778,664
	-	5,120,585
Total Investments	11,052,018	6,415,601
Expected maturity		
Within 12 months	8,856,660	3,736,864
Later than 12 months	2,195,358	2,678,738
	11,052,018	6,415,601

18 PAYABLES AND OTHER FINANCIAL LIABILITIES

	2019	2018
Creditors and accruals	605,529	650,546
Employee entitlements	155,167	202,428
	760,696	852,974
Expected maturity		
Within 12 months	760,696	852,974
Later than 12 months	-	-
	760,696	852,974

19 FAIR VALUE OF FINANCIAL INSTRUMENTS

There are no material differences between the carrying amounts of all financial assets and liabilities presented in the Statement of Financial Position and their fair values.

The Company uses valuation techniques within the following hierarchy for determining the fair value of financial instruments:

- Level 1:** Fair values are determined using quoted (unadjusted) prices in active markets for identical assets and liabilities;
- Level 2:** Fair values are determined using other techniques where all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3:** Fair values are determined using techniques that use inputs which have a significant effect on the recorded fair value and are not based on observable market data.

Financial assets and liabilities that are recognised and measured at fair value on a recurring basis are categorised below:

	2019	2018
Level 1		
Cash and cash equivalents	3,497,330	5,866,673
Equity securities	2,326,036	1,341,922
Debt securities		
Bank paper	-	213,650
	5,823,367	7,422,245
Level 2		
Debt securities		
Bank paper	7,238,349	3,565,013
Corporate	304,800	315,000
Bonds	829,778	728,179
Capital notes	353,055	251,838
	8,725,981	4,860,030
	14,549,348	12,282,276

There were no transfers between Levels 1 and 2 during the year.

Notes to the Financial Statements

for the year ended 31 March 2019

20 SHARE CAPITAL

	2019		2018	
	No.	\$	No.	\$
(a) <u>Authorised share capital</u>				
Ordinary shares – fully paid. No par value	1,000,000	1,000,000	1,000,000	1,000,000
Held:				
Directly	1,000,000		1,000,000	
(b) <u>Ordinary shares</u>				
Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.				

21 RETAINED EARNINGS AND RESERVES

	2019	2018
(a) <u>Revaluation reserve</u>		
Movements in the revaluation reserve were as follows:		
Balance 1 April	(144,775)	11,374
Balance adjusted for adoption of new accounting standard	144,775	-
Revaluation reserve of Available for Sale assets, net of tax	-	(156,149)
Balance 31 March	-	(144,775)

The revaluation reserve was used to record movements in the fair value of available for sale financial assets, an NZ IAS 39 financial asset measurement category. NZ IFRS 9 replaced NZ IAS 39 from periods beginning or after 1 January 2018.

	2019	2018
(b) <u>Retained earnings</u>		
Movements in Retained Earnings were as follows:		
Balance 1 April	7,828,897	7,068,954
Balance adjusted for adoption of new accounting standard	(144,775)	-
Net surplus for the year	3,150,328	2,794,943
Dividends	(2,100,000)	(2,035,000)
Balance 31 March	8,734,450	7,828,897

22 DIVIDENDS

	2019		2018	
	Per Share	\$	Per Share	\$
Dividends paid during the year				
Interim dividend	1.100	1,100,000	0.500	500,000
Final dividend	1.000	1,000,000	1.535	1,535,000
Total dividends paid during the year		2,100,000		2,035,000

Imputation credits of \$816,667 were attached to dividends paid (2018: \$791,389).

23 RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	2019	2018
Net profit after taxation	3,150,328	2,794,943
Add/(Deduct) Non-Cash Items:		
Depreciation	75,641	95,719
Amortisation	38,499	32,103
Net Change in policy liabilities	1,429,327	826,515
Realised (gains)/losses	55,349	(127,016)
Fair value (gains)/losses on investments	(192,860)	(10,411)
Share of (profit)/loss from associate	(1,201,544)	(844,106)
Changes in Assets and Liabilities:		
Payables	80,662	242,645
Current tax	175,001	(72,685)
Receivables	11,552	148,624
Accrued interest	(47,635)	24,847
Net cash flows from Operating Activities	3,574,320	3,111,177

Notes to the Financial Statements

for the year ended 31 March 2019

24 FINANCIAL INSTRUMENTS BY CATEGORY

2019					
NZ IFRS 9 Measurement category	Fair Value through profit or loss	Fair Value through other comprehensive income	Amortised Cost	Total	
Financial assets					
Cash and cash equivalents	-	-	3,497,330		3,497,330
Trade and other receivables	-	-	787,585		787,585
Investments	3,813,669	-	7,238,349		11,052,018
Total financial assets	3,813,669	-	11,523,264		15,336,933
Financial liabilities					
Trade and other payables	-	-	760,696		760,696
Total financial liabilities	-	-	760,696		760,696
2018					
NZ IAS 39 Measurement category	Fair Value through profit or loss	Available for Sale	Loans and receivables	Amortised Cost	Total
Financial assets					
Cash and cash equivalents	-	-	5,866,673	-	5,866,673
Trade and other receivables	-	-	797,412	-	797,412
Investments	1,295,017	5,120,586	-	-	6,415,603
Total financial assets	1,295,017	5,120,586	6,664,085	-	13,079,688
Financial liabilities					
Trade and other payables	-	-	-	852,974	852,974
Total financial liabilities	-	-	-	852,974	852,974

25 RELATED PARTY TRANSACTIONS

- (a) Parent entity
The Company is an 90% owned subsidiary of Southland Building Society (SBS).
- (b) Southland Building Society (SBS)
The Company purchases selected support services from SBS. The Company remunerates SBS for these services on an arms length basis.
The Company has a current account with SBS. Interest is paid between related parties on a monthly basis at the official cash rate applicable at month end.
The Company holds a number of term investments with SBS. Interest is received from SBS for these investments on an arms length basis.
- (c) Finance Now Limited (FNL)
Finance Now Limited is a wholly owned subsidiary of SBS. FNL distributes the Company's products. FNL is remunerated for this service on an arms length basis. FNL collects and remits premium income owing to the Company. All balances owing between the parties at balance date are included in Payable and Receivable balances.
- (d) Abbott NZ Holdings Limited (AHL)
The Company owns a 22.99% shareholding in Abbott NZ Holdings Limited.
AHL pays a referral commission to the Company on an arms length basis for commercial insurance policies.
From time to time the Company may purchase commercial insurance products from AHL at current market rates.
There were no balances owing between the parties at balance date.
- (d) Transactions with Related Parties
The following transactions occurred with related parties:

	2019	2018
SBS		
Net interest received	(51,216)	(21,020)
Net commission paid	207,914	197,473
Dividends paid	1,890,000	1,678,000
Other sundry items	100,386	114,314
	2,147,083	1,968,767
FNL		
Net commission paid	3,771,959	3,083,573
	3,771,959	3,083,573
AHL		
Net commission received	(11,163)	(8,086)
Net premiums paid	-	-
	(11,163)	(8,086)

Notes to the Financial Statements

for the year ended 31 March 2019

(e) Balances with Related Parties

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	2019	2018
SBS		
Investments	1,429,555	639,745
Transaction account	1,599	330
Current account balance	23,990	27,033
Receivables	23,000	-
Payables	(53,152)	(45,188)
Net Balance	1,424,992	621,920
FNL		
Receivables	328,195	319,286
Payables	(130,227)	(121,365)
Net Balance	197,968	197,921

(f) Key Management Personnel Compensation

Key management personnel compensation for the year ended 31 March 2019 and the year ended 31 March 2018 is set out below. The key management personnel are all the directors of the Company and the executives with the greatest authority for the strategic direction and management of the Company.

	2019	2018
Short term benefits	842,561	900,873
Total	842,561	900,873

26 INVESTMENT IN ASSOCIATE

The Company has a 22.99% interest in Abbott NZ Holdings Limited, which is an insurance brokerage firm with its head office located in Christchurch, New Zealand. On 3 January 2018 Abbott Insurance Brokers Limited merged with IC Frith (NZ) Limited. The merger meant that the Company's 18,750 shares in Abbott Insurance Brokers Limited were transferred to the new merged entity of Abbott NZ Holdings Limited. This transfer effected an interest of 22.99% in the new merged entity. The Company's share of profit for the 2018 year was the aggregate of share of profits in Abbott Insurance Brokers Limited as at 30 September 2017 (\$407,294) and 31 December 2017 (\$241,271) and in Abbott NZ Holdings Limited as at 31 March 2018 (\$195,542) giving a total consideration of \$844,106.

Abbott NZ Holdings Limited is a private entity that is not listed on any public exchange and there are no published price quotations for the fair value of this investment. The Company's interest in the entity is accounted for using the equity method in the financial statements. The reporting date of the entity is 30 June which is within 3 months of the Company's reporting date. Abbott NZ Holdings Limited and the Company use uniform accounting policies.

The following table illustrates the summarised financial information of the Company's investment in Abbott NZ Holdings Limited:

	2019	2018
Statement of Financial Position		
Current assets	30,401,386	17,298,671
Non-current assets	17,005,823	14,583,380
Current liabilities	(19,718,477)	(8,427,061)
Non-current liabilities	(1,737,763)	(820,726)
Net Assets	25,950,969	22,634,264
Proportion of Company's ownership	22.99%	22.99%
Company's share of net assets	5,966,128	5,203,617
Income Statement		
Revenue	17,629,251	10,314,364
Profit for the year (continuing operations)	5,226,378	2,747,154
Company's share of profit for the year	1,201,544	631,571
Prior period adjustment	-	-
Aggregate effect of changes in shareholding and merger	-	212,535
Total Company's share of profit for the year	1,201,544	844,106
Reconciliation of the carrying amount of the investment:		
Company's share of net assets	5,966,128	5,203,617
Fair value adjustment at acquisition	1,814,730	1,814,730
Subsequent fair value adjustment	(386,715)	-
Company's share of profit for the year	1,201,544	844,106
Dividends received	(689,761)	(468,311)
Aggregate effect of changes in shareholding and merger	(1,003,294)	(1,003,294)
Carrying amount of the investment	6,902,632	6,390,848
Dividends received from associate	689,761	468,311

Notes to the Financial Statements

for the year ended 31 March 2019

27 CONTINGENCIES

From time to time in the ordinary course of business, the Company may receive notifications of disputes from customers in regard to policies underwritten by the Company or policies underwritten by other providers but arranged by the Company under agency agreements. The Company has an established and formal dispute resolution process in place to resolve any disputes and is a member of the Banking Ombudsman Scheme which provides a free independent dispute resolution process for customers should any dispute fail to be resolved satisfactorily. Customers may also seek to resolve disputes through a court process. The Company does not consider the mere notification of a dispute as a contingent liability. As at

During the year the company became aware that a distribution partner had sold credit related insurance policies to customers that were ineligible or many have been ineligible to claim on all the benefits provided by the policy. Eligibility criteria was held by the distribution partner and thereby the Company had no knowledge that policies had been issued to ineligible customers. The distribution partner has made a voluntary disclosure to the appropriate regulatory bodies and at this time are seeking approval from them on a remediation plan. The Company will be required to participate in the remediation once approval has been obtained from the respective regulatory body. However, the contingent liability has not been recognised as a payable at 31 March 2019 as payment of the amount is dependent of the proposed remediation submitted for approval. At the date of the approved financial statements, the distribution partners discussion with the

28 COMMITMENTS

(a) Capital Commitments

There were no material capital commitments at balance date (2018: Nil).

(b) Operating Lease Commitments

Leases are for commercial office space in Invercargill and Queenstown. Commitments for the minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	2019	2018
0 - 12 months	28,794	58,880
12 - 24 months	-	14,276
24 - 60 months	-	-
	28,794	73,156

29 SUBSEQUENT EVENTS

A dividend of \$1,250,000 (\$1.25 per share) was proposed and submitted to the Board for approval on 28 June 2019. (2018: \$1,535,000 (\$1.535 per share)).

30 INSURER FINANCIAL STRENGTH RATING

Southsure Assurance Limited has an Insurer Financial Strength Rating of BBB+ (outlook stable) by Fitch Ratings (26 October 2018).

Independent Auditor's Report

for the year ended 31 March 2019



Independent Auditor's Report

To the shareholders of Southsure Assurance Limited

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of Southsure Assurance Limited (the 'company') on pages 5 to 29:

- i. present fairly in all material respects the company's financial position as at 31 March 2019 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 2019;
- the statements of profit and loss, comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

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

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

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

Our firm has also provided other services to the company in relation to the review of the company's interim financial statements, and audit of the annual insurer solvency return. Subject to certain restrictions, partners and employees of our firm may also deal with the company on normal terms within the ordinary course of trading activities of the business of the company. These matters have not impaired our independence as auditor of the company. The firm has no other relationship with, or interest in, the company.



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$200,000 determined with reference to a benchmark of the company's profit before tax. We chose the benchmark because, in our view, this is a key measure of the company's performance.

Independent Auditor's Report

for the year ended 31 March 2019



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements

The key audit matter

How the matter was addressed in our audit

Valuation of Policy Liabilities – \$9.9 million

Refer to Note 13 to the Financial Report.

The valuation of policy liabilities is a key audit matter due to the higher level of estimation and judgement required in determining the appropriateness of assumptions, including future claims payments used in valuing the liability

In determining the valuation of the liabilities, the key actuarial assumptions made by the Appointed Actuary include:

- discount rates;
- future maintenance and acquisition expenses,
- mortality and morbidity rates,
- persistency rates, and
- investment returns

Our audit procedures include, amongst others:

Involvement of a KPMG actuarial specialist to assist with performing the following procedures:

- Assessing the data checking process undertaken by the Appointed Actuary;
- Identifying changes to the Policy Liability model and evaluate rationale and compliance with Actuarial Standards and Generally Accepted Accounting Practice;
- Assessing whether the valuation methodology applied is consistent with Actuarial Standards and Generally Accepted Accounting Practice;
- Checking valuation assumptions for methodological consistency with industry practice and check that assumptions included those expected for the Company's product groups (including, but not limited to, premium and reinsurance premiums, lapses, mortality, commissions and expenses, and the discount rate);
- Reviewing the policy liability valuation, prepared by the Appointed Actuary;
- Evaluating the Analysis of Profit performed by the Appointed Actuary and the Company, and
- Evaluating the historical accuracy of estimates.

Other audit procedures included:

- Assessing the qualifications and objectivity of the Appointed Actuary;
- Agreeing underlying data used in the Policy Liability valuation to in-force and historic policy data;
- Assessing the classification of expenses between acquisition, maintenance, and general expenses; and
- Reconciling the Policy Liability as determined by the Appointed Actuary to the amount in the financial statements.

Independent Auditor's Report

for the year ended 31 March 2019



Other information

The Directors, on behalf of the company, are responsible for the other information included in the entity's Annual Report. Other information includes the Directors' Statement, Statement of Corporate Governance, Directors' Profiles, and Appointed Actuary's 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.



Use of this independent auditor's report

This independent auditor's report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders 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 shareholders as a body for our audit work, this independent auditor's 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:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is **Peter Taylor**.

For and on behalf of

KPMG
Christchurch
28 June 2019

Appointed Actuary's Report

for the year ended 31 March 2019



28th May 2019

To: The Directors
Southsure Assurance Limited

From: Peter Davies
Appointed Actuary

Re: Southsure Assurance Limited: Report as at 31st March 2019 under Sections 77 and 78 of the Life Assurance (Prudential Supervision) Act 2010

You have asked me to prepare this report in terms of the above sections of the Act, and I would like to comment further as follows:

1. I have reviewed the actuarial information included in the audited accounts for Southsure Assurance Limited as at 31st March 2019. "Actuarial information" includes the following:
 - policy liabilities;
 - solvency calculations in terms of the RBNZ Solvency Standard;
 - balance sheet and other information allowed for in the calculation of the company's solvency position; and
 - disclosures regarding the methodology and assumptions used for calculating policy liabilities, and other disclosures.
2. No limitations have been placed on my work.
3. I am independent with respect to Southsure Assurance Limited as defined under professional standard ISA (NZ) 620 of the External Reporting Board.
4. I have been provided with all information that I have requested in order to carry out this review.
5. In my view the actuarial information contained in the financial statements has been appropriately included, and the actuarial information used in the preparation of the financial statements has been appropriately used.
6. Southsure Assurance Limited's actual solvency capital exceeds the minimum requirement of the RBNZ solvency standard as at 31st March 2019. The company is also projected to exceed the minimum requirement at all times over the next four years.

I would be very happy to answer any queries concerning this report.

Yours sincerely

Peter Davies B.Bus.Sc., FIA, FNZSA
Appointed Actuary