ANNUAL REPORT **2019**

Momentum Life®

Momentum Life is a registered New Zealand life insurance company with a straight forward mission: to put the needs of our customers first – making insurance simple, accessible and affordable.

We believe that all New Zealanders deserve the peace of mind insurance can bring and we are working to make this attainable for all. Our range of products is designed to provide easy to get, value for money insurance solutions at every stage of life. That way, families can have access to much needed financial support during their time of need.

We're also dedicated to giving each customer a great experience – and are a proud winner of the Feefo Gold Trusted Service Award in 2017, 2018 and 2019.

2017 Gold Trusted Service feefo

2018 Gold Trusted Service feefo

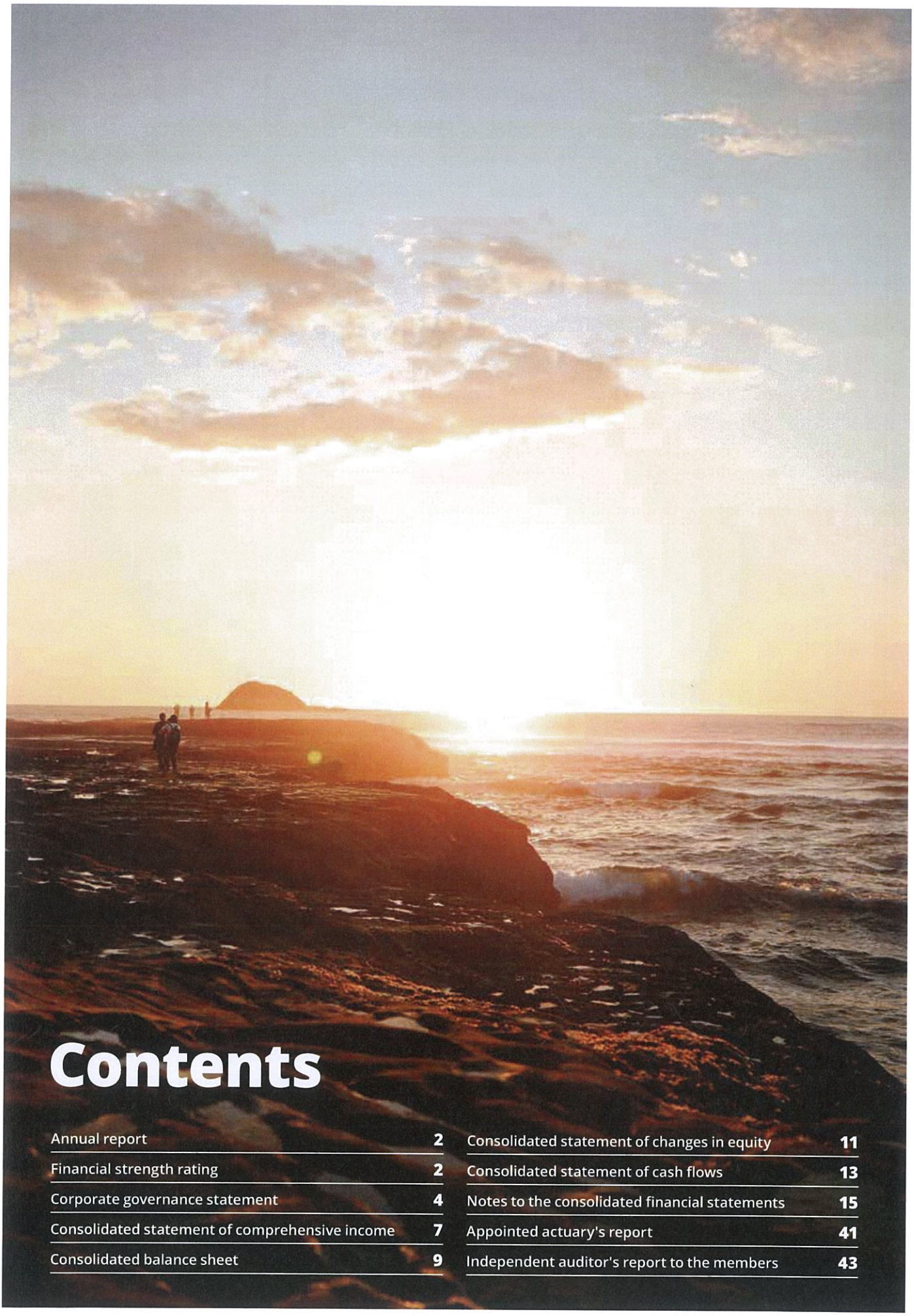
Gold Trusted Service Award 2019 feefo

In the community

At Momentum Life, we believe in giving back to the community. We are pleased to be a partner of Heart Kids, the only New Zealand charity dedicated to providing lifelong care and support to kids and families living with Childhood Heart Defects (CHD).

Heart Kids receives no government funding, a big reason why we are supporting their valuable work. Momentum Life backs Heart Kids through ongoing charity initiatives and donates a portion of all first-year premiums to support their activities.

we proudly support HeartKids



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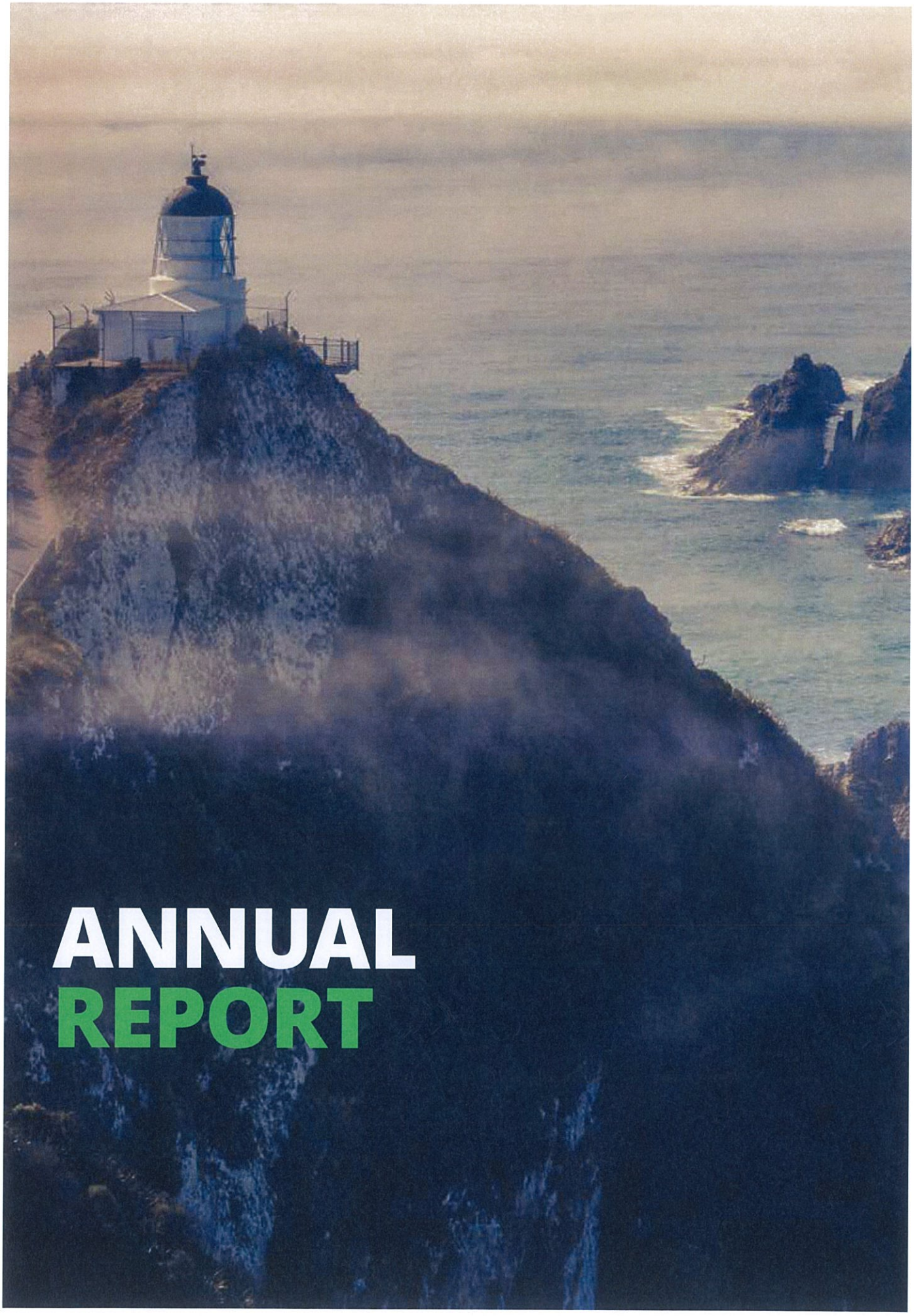


ANNUAL REPORT

Annual Report

The address for service for Momentum Life Limited (the Parent) is c/o HWI Limited, Level 3, 139 Carlton Gore Road, Auckland 1023, New Zealand. The principal activity of the Parent is the provision of life insurance.

Pursuant to section 211(3) of the Companies Act 1993 (the Act), the shareholder of the Parent has agreed that the Annual Report need not comply with any of the paragraphs (a), and (e) to (j) of subsection (1) and subsection (2) of section 211.

Accordingly, there is no information to be provided in this Annual Report other than the financial statements for the year ended 30 June 2019 and the audit report on those financial statements.

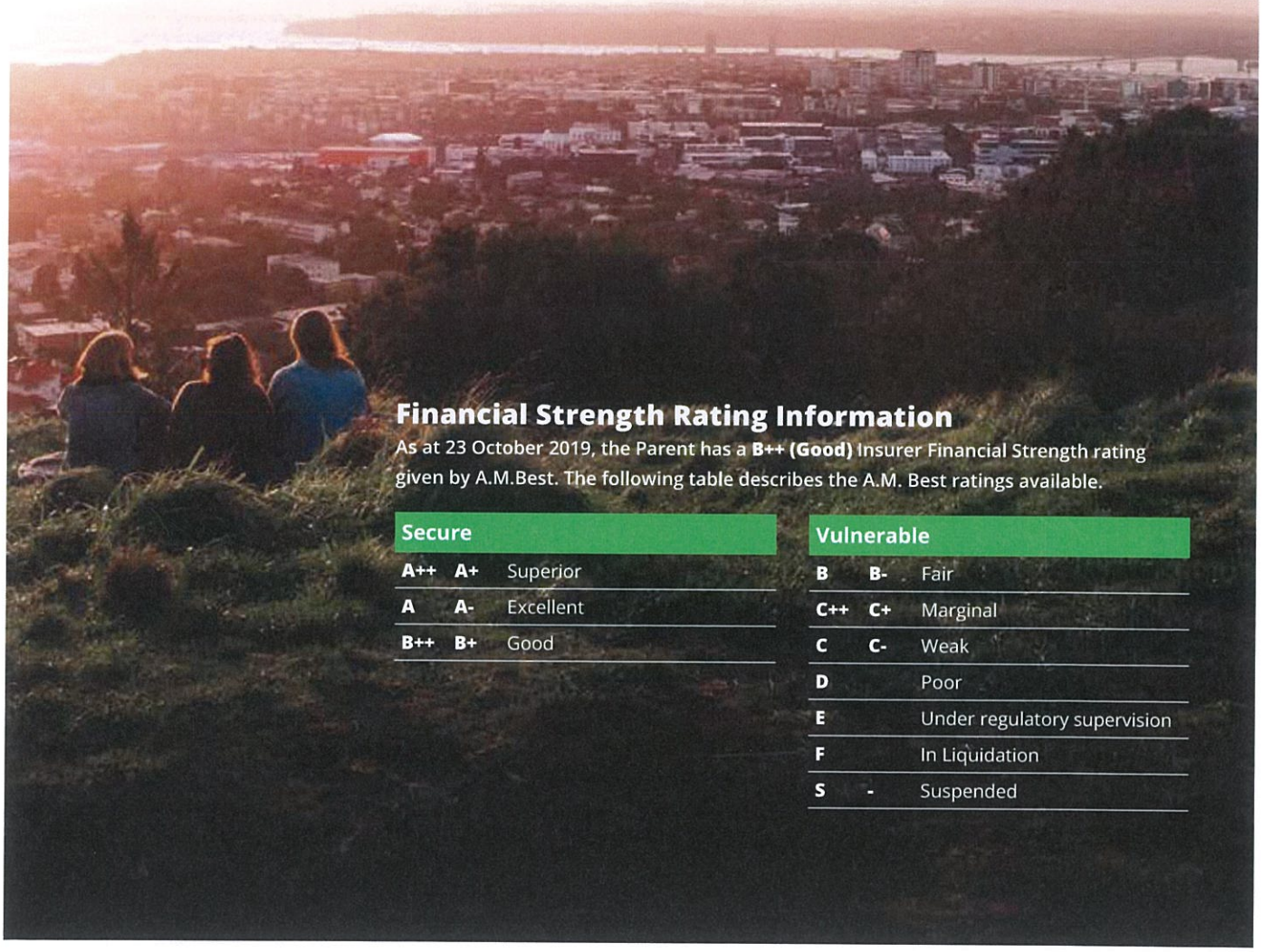
Momentum Life was incorporated on the 16 September 2015. Up until the 12 March 2018, the company operated as a distributor of life insurance products, branded "Momentum Life" and underwritten by a registered New Zealand life insurance company. On the 12 March 2018, Momentum Life obtained its own life insurance licence from the Reserve Bank of New Zealand and from this date, commenced trading as a life insurer. When analysing and interpreting the Financial Statements, cognisance should be taken of the fact that up until March 2018, Momentum Life activities consisted solely of distribution activities.

Signed for and on behalf of the Board of Directors:

Martin Philipsen
Chairman

Russell Hugh Howden
CEO & Managing Director

23 October 2019

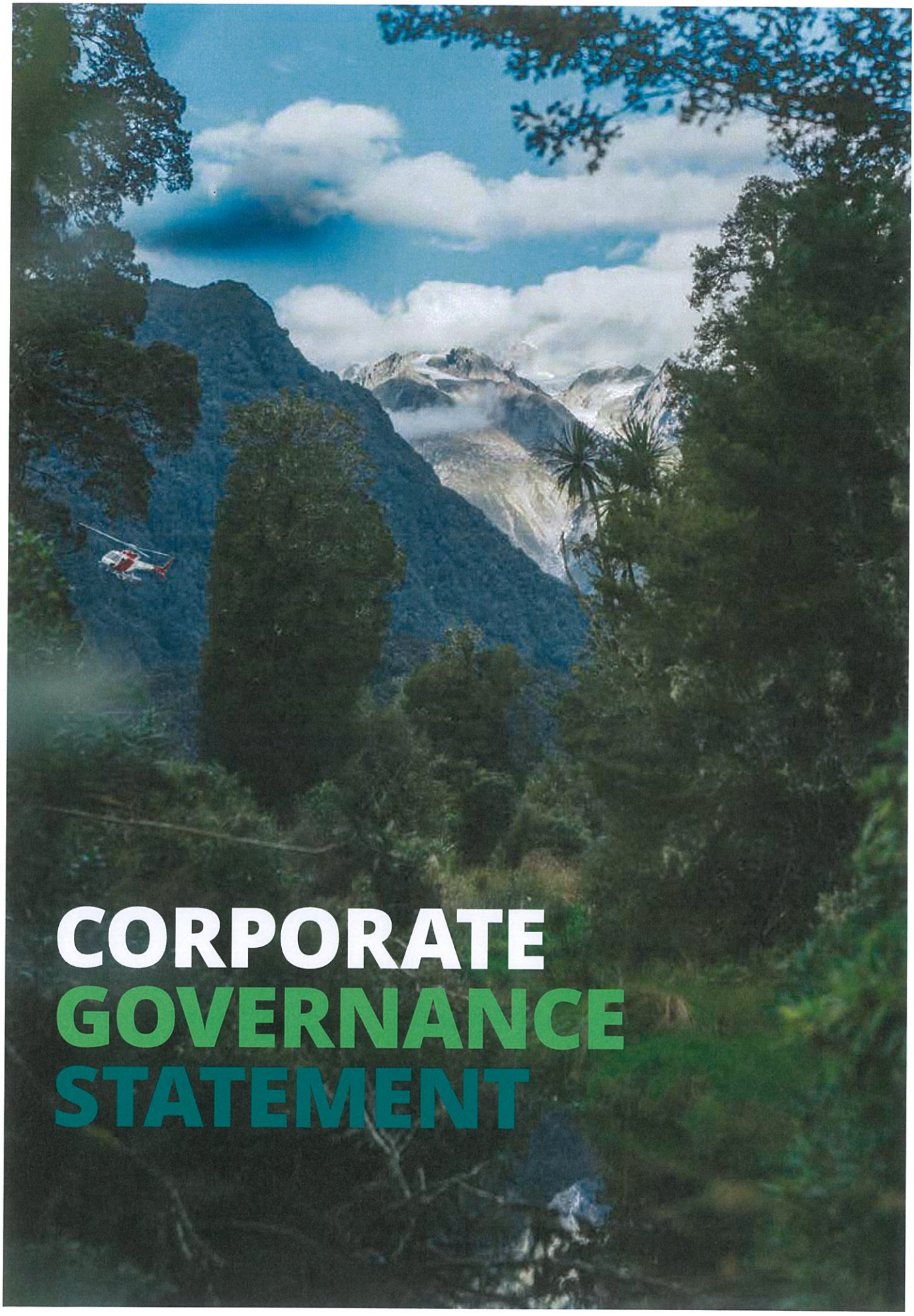


Financial Strength Rating Information

As at 23 October 2019, the Parent has a **B++ (Good)** Insurer Financial Strength rating given by A.M.Best. The following table describes the A.M. Best ratings available.

Secure		
A++	A+	Superior
A	A-	Excellent
B++	B+	Good

Vulnerable		
B	B-	Fair
C++	C+	Marginal
C	C-	Weak
D		Poor
E		Under regulatory supervision
F		In Liquidation
S	-	Suspended



CORPORATE GOVERNANCE STATEMENT

Corporate Governance Statement

The Group adheres to the mandatory requirements of the Reserve Bank of New Zealand (RBNZ) Governance Guidelines (the Guidelines) for licensed insurers issued under the Insurance (Prudential Supervision) Act 2010 and endeavours to embrace non-mandatory governance guidelines or recommendations of the RBNZ and other relevant bodies.

Board of Directors

The Parent is governed by a Board of Directors, who have effective oversight of the Parent's activities through the implementation of the Guidelines.

In accordance with the Guidelines, all current directors have been assessed by the Board in accordance with the Parent's Fit and Proper Policy to have the appropriate fitness and propriety to properly discharge their responsibilities as a director and have been certified as meeting the RBNZ's Fit and Proper Standard for directors of Licensed Insurers. The Board is considered to operate independently.

Board Role & Charter

The Board operates in accordance with applicable law, the Parent's Constitution and its Board Charter. The Board Charter describes the Board's role, powers, responsibilities and relationship with management.

The Board meets formally on a regular scheduled basis and holds additional meetings as required. The Board reviews its own performance annually, incorporating the performance of its established Committees.

Committees

The Board has established an Audit, Risk and Compliance Committee which has its own charter approved by the Board and which report directly to the Board.

The Audit, Risk and Compliance Committee's purpose is to review, monitor and assess the effectiveness of the Group's financial reporting, internal audit and risk management programme thereby assisting the Board to discharge its responsibilities in relation to financial, risk and compliance matters, including internal and external audit functions.

Corporate Governance Statement: Board Members

AT 23 OCTOBER 2019

Martin Philipsen | CHAIRMAN
Experience & expertise

Martin Philipsen is the Non-Executive Chairman of Momentum Life. He is an experienced director and senior executive with over 30 years' experience in financial services, governance and leadership across New Zealand, Australia and the United Kingdom.

In his executive career, where Martin has been a Chief Risk Officer and a Chief Financial Officer, he has developed a deep understanding of risk management, strategic planning and financial & regulatory reporting.

Martin is a Chartered Accountant and a member of the NZ Institute of Directors.

Russell Hugh Howden | CEO & MANAGING DIRECTOR
Experience & expertise

Russell Hugh Howden is the Chief Executive Officer & Managing Director of Momentum Life. He has over 35 years' experience in the life and general insurance industry. He began his insurance career in South Africa, holding senior executive positions with Capital Alliance Life, AA Life and AIG.

In July 2000 Russell founded the Australian life insurance company PrefSure Life and ran it until March 2004. He then founded BlueInc Group, which today provides innovative direct life insurance solutions to over 100,000 clients in Australia and New Zealand.

Russell holds a Bachelor of Accounting Science from the University of South Africa, as well as a Diploma of Financial Services (Financial Planning) from the International Institute of Technology.

Lloyd Gordon Cartwright | DIRECTOR
Experience & expertise

Lloyd Gordon Cartwright is a Non-Executive Director of Momentum Life. He is a senior financial services leader with over 30 years' experience in Australia and New Zealand building businesses, driving superior client outcomes and developing high performing teams.

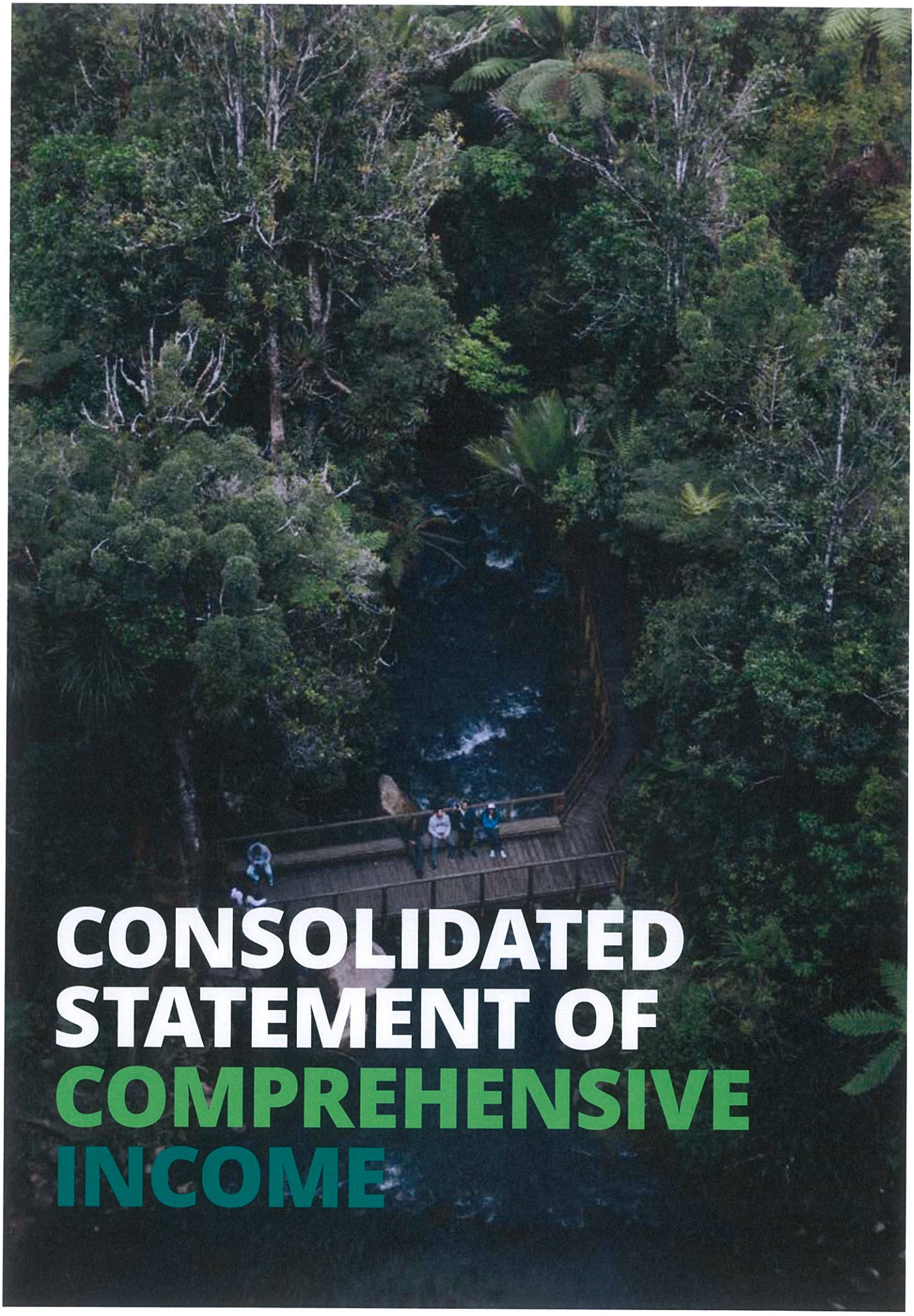
Lloyd previously held senior executive positions with Bank of New Zealand, NAB and Westpac. In 2014 he joined China Construction Bank (NZ) as Deputy CEO. Here he won the 2017 INFINZ award for "EY Debt Deal of the Year".

He is a certified member of INFINZ and a member of the NZ Institute of Directors. Lloyd previously served as chairman of the NZ Financial Markets Association Board and as a Board member for the NZ Chamber of Commerce, Singapore.

Thomas Noel Grogan | DIRECTOR
Experience & expertise

Thomas Noel Grogan is a Non-Executive Director of Momentum Life. He has over 45 years of insurance industry experience across Australia & New Zealand. He recently retired from Hannover Re, where he began his career in 1972.

With a wealth of industry experience that spans Reinsurance, Group, Retail & Direct insurance, Thomas retired from Hannover Re as the General Manager of Business Development. Thomas oversaw the growth and profitability development of Hannover Re's life business portfolio in Australia and New Zealand, including the acquisition of the company's largest direct distribution client. He was also directly responsible for managing the underwriting, claims and actuarial pricing teams.



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 $	2018 $
Revenue			
Premium revenue		5,173,971	479,034
Premium ceded to reinsurers		(1,553,285)	(142,604)
Net premium revenue		3,620,686	336,430
Reinsurance commission income	6	4,636,939	4,817,978
Commission income		1,077,915	12,523,521
Investment income	5	242,654	34,713
Total revenue		9,578,194	17,712,642
Expenses			
Claims expenses:			
Claims expenses		(124,388)	-
Reinsurance recoveries		93,291	-
Net claims expenses		(31,097)	-
Change in life insurance contract assets/liabilities	16	130,571	44,040
Commission expenses	6	(6,895,015)	(5,029,981)
Operating expenses:	6		
Marketing and distribution expenses		(16,956)	(6,111,566)
Employment expenses		(551,830)	(2,895,090)
Occupancy expenses		-	(86,375)
Other costs		(660,754)	(963,011)
Finance costs	6	(44,629)	(83,668)
Total expenses		(8,069,710)	(15,125,651)
Profit before income tax		1,508,484	2,586,991
Income tax expense	8	(362,409)	(750,005)
Profit for the year		1,146,075	1,836,986
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year is attributable to:			
Owner of Momentum Life Limited		1,146,075	1,836,986

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

Consolidated Balance Sheet

AS AT 30 JUNE 2019

	Notes	2019 $	2018 $
Assets			
Cash and cash equivalents	9	2,548,665	2,710,438
Trade and other receivables	10 (a)	757,921	1,207,523
Term deposits	10 (b)	6,500,000	5,025,419
Trail commission asset	11	12,739,580	14,466,016
Life insurance contract assets	16	7,112,907	4,204,789
Total Assets		29,659,073	27,614,185
Liabilities			
Trade and other payables	12	1,061,735	2,003,085
Borrowings	13	3,250,799	3,686,897
Current tax liabilities	15	713,802	736,832
Employee benefit obligations	14	8,132	11,140
Deferred tax liabilities	15	3,607,878	4,083,127
Life insurance contract liabilities ceded under reinsurance	16	6,938,296	4,160,748
Total liabilities		15,580,642	14,681,829
Net assets		14,078,431	12,932,356
Equity			
Contributed equity	18	112,582	112,582
Retained earnings		13,965,849	12,819,774
Total equity		14,078,431	12,932,356

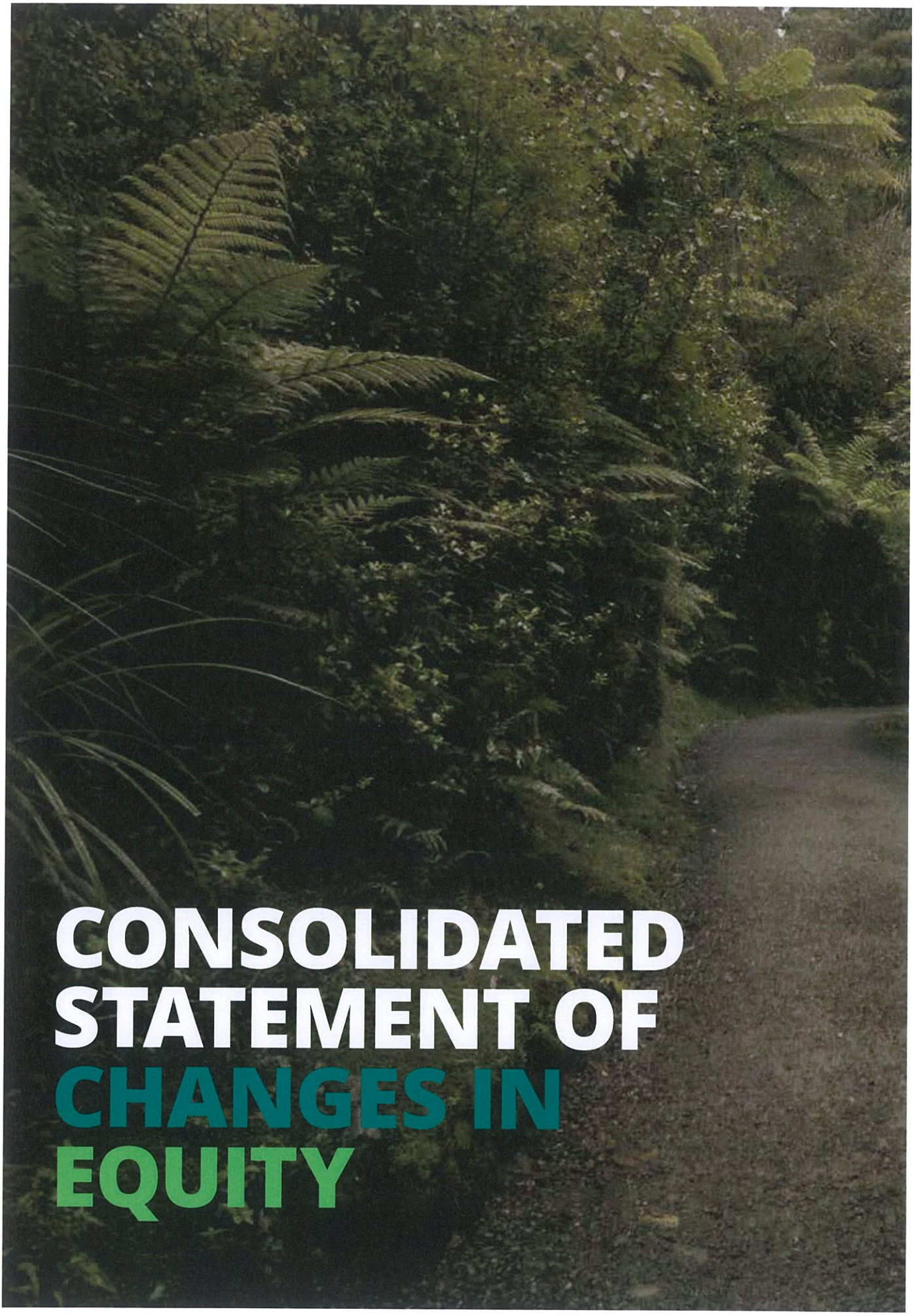
For and on behalf of the Board.

Martin Philipsen
Chairman

Russell Hugh Howden
CEO & Managing Director

23 October 2019

The above consolidated balance sheet should be read in conjunction with the accompanying notes.



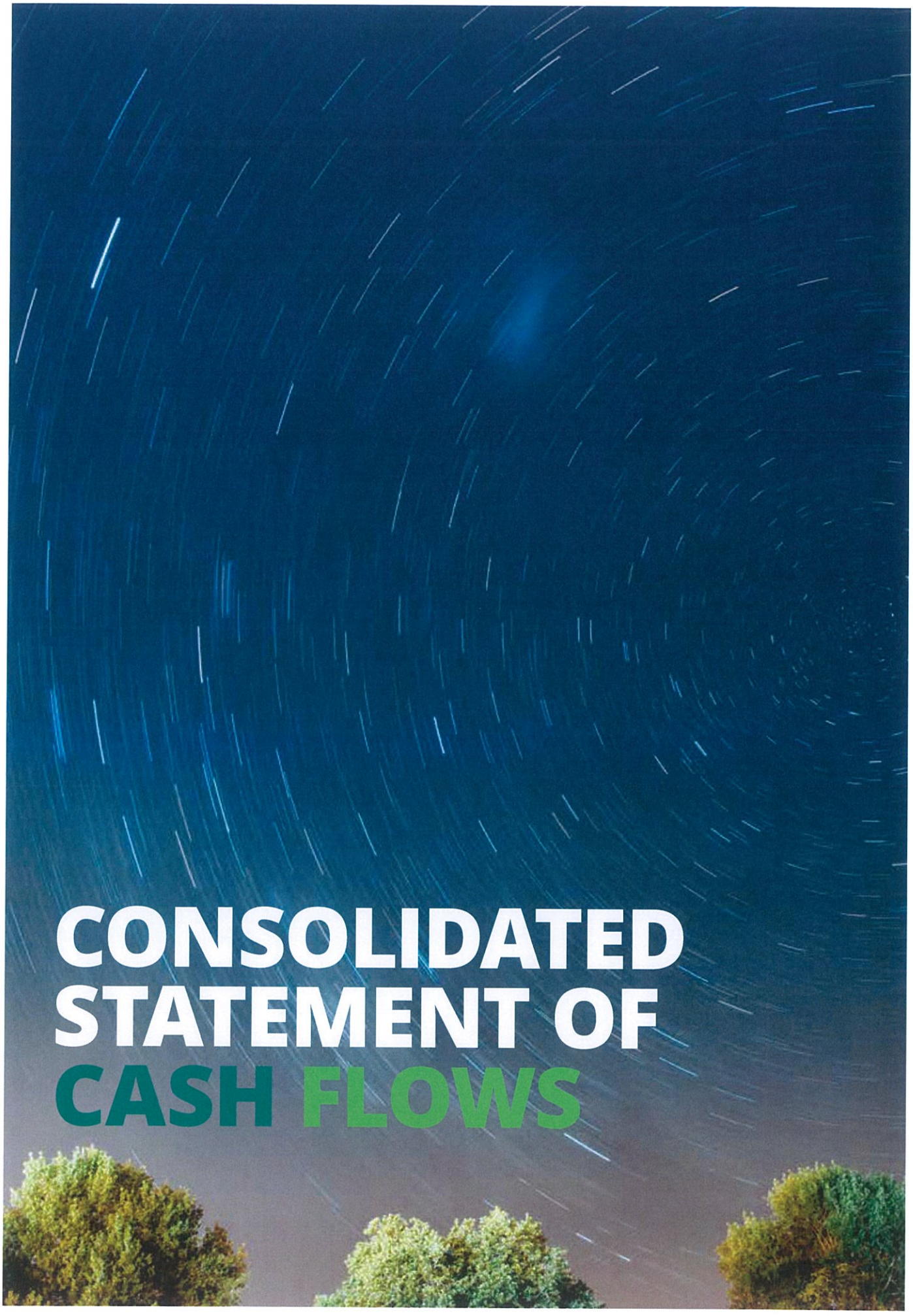
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2019

	Notes	Contributed equity $	Retained earnings $	Total equity $
Balance at 1 July 2017		112,582	10,982,788	11,095,370
Profit for the year		-	1,836,986	1,836,986
Total comprehensive income for the year		-	1,836,986	1,836,986
Balance at 30 June 2018		**112,582**	**12,819,774**	**12,932,356**
Balance at 1 July 2018		**112,582**	**12,819,774**	**12,932,356**
Profit for the year		**-**	**1,146,075**	**1,146,075**
Total comprehensive income for the year		**-**	**1,146,075**	**1,146,075**
Balance at 30 June 2019		**112,582**	**13,965,849**	**14,078,431**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.



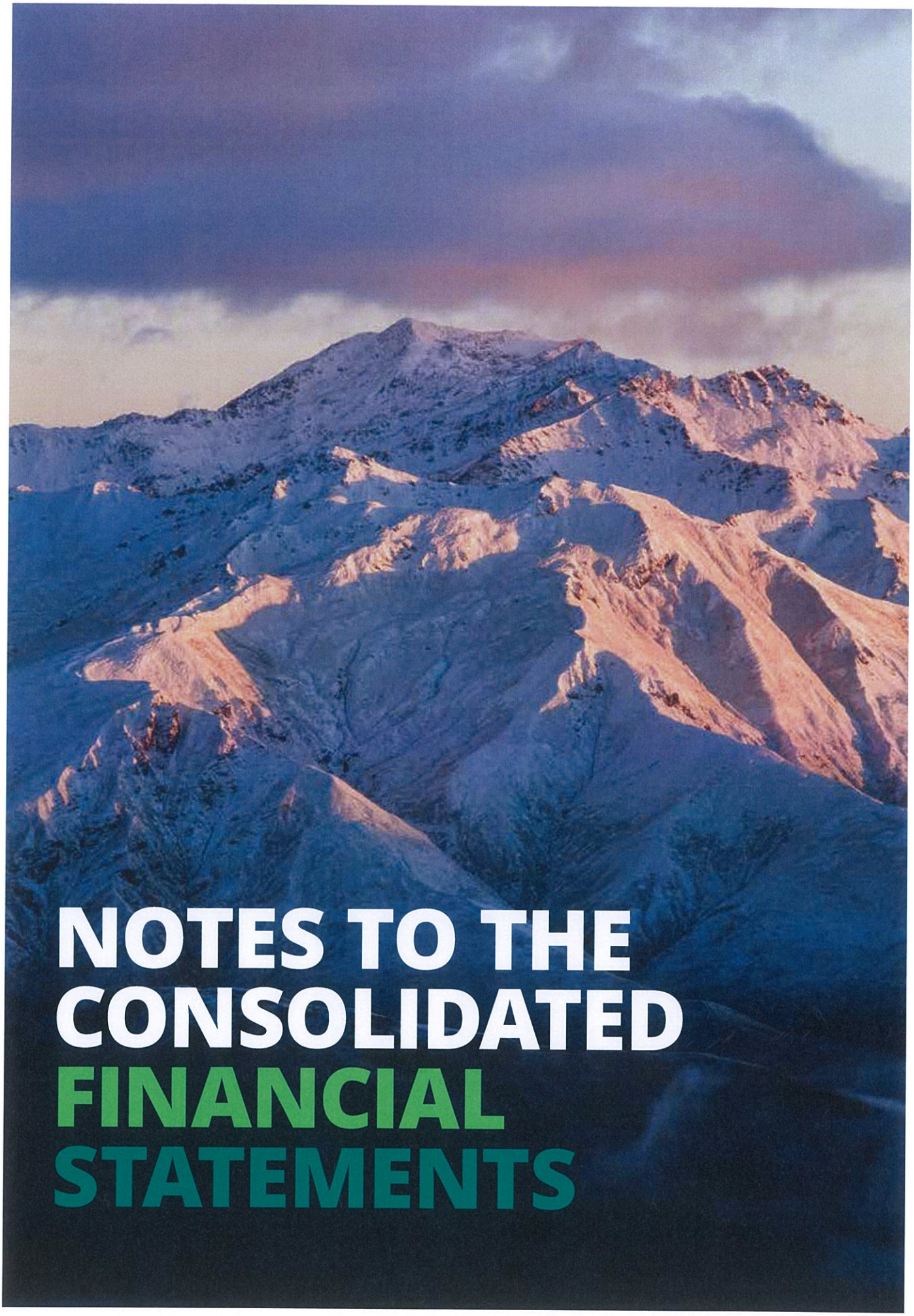
CONSOLIDATED STATEMENT OF CASH FLOWS

Consolidated Statement of Cash Flows

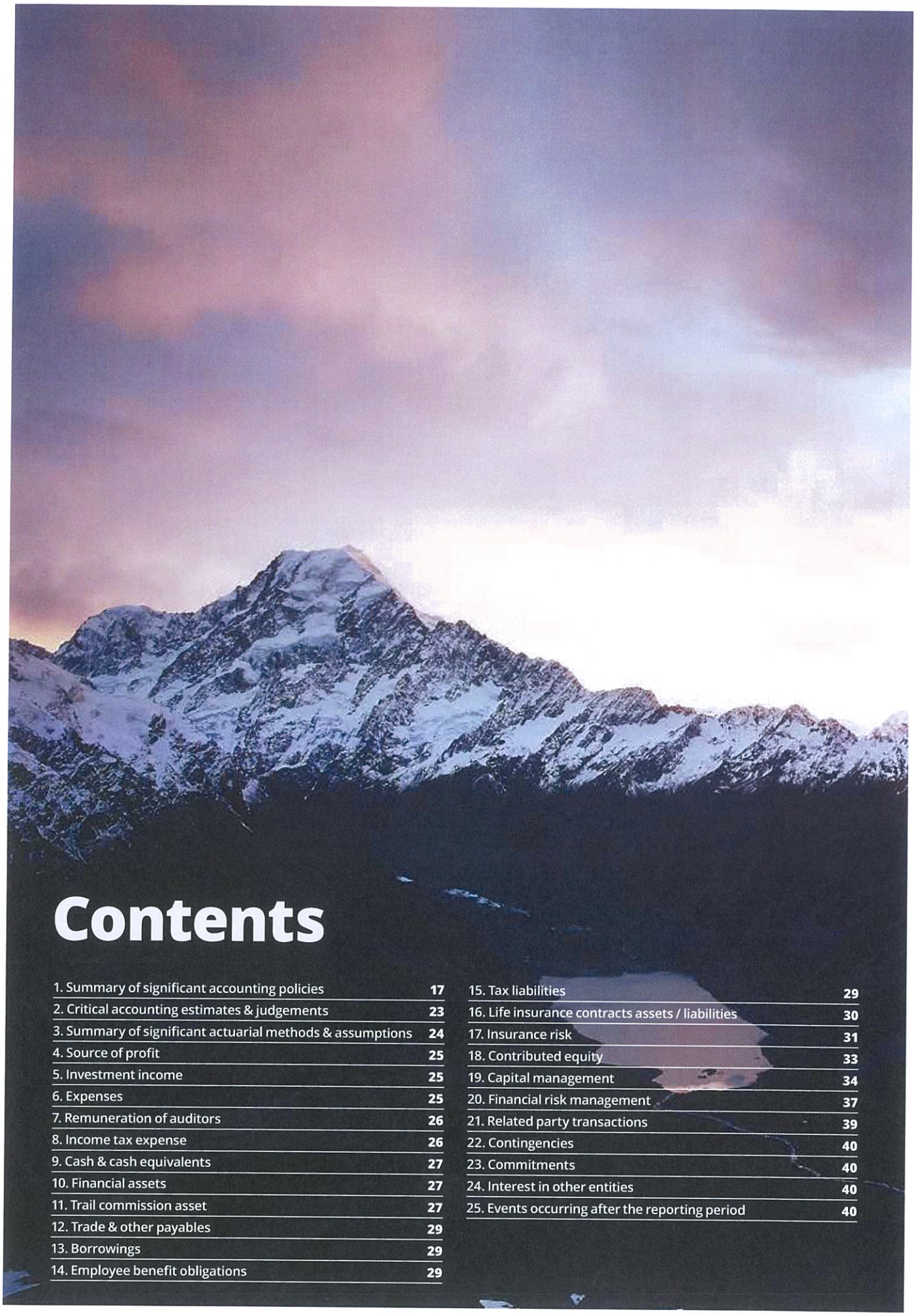
FOR THE YEAR ENDED 30 JUNE 2019

	Notes	2019 $	2018 $
Cash flows from operating activities			
Premiums received		5,178,470	475,134
Reinsurance recoveries received		91,501	-
Reinsurance commission received		5,123,559	3,849,744
Other commission received		2,837,718	11,565,798
Payments to reinsurers		(2,825,082)	(33,883)
Claims paid		(124,388)	-
Payments to distributors		(6,499,534)	(3,425,866)
Payments to suppliers and employees		(1,282,329)	(10,739,912)
Interest received		169,560	34,713
Interest paid		(59,881)	(35,612)
Income taxes paid		(860,688)	(230,999)
Net cash inflow from operating activities		1,748,906	1,459,117
Cash flows from investing activities			
Payments for property, plant and equipment		-	(57,421)
Payments for term deposits		(1,500,000)	(5,025,419)
Receipts from matured term deposits		25,419	-
Proceeds from sale of property, plant and equipment		-	186,748
Net cash (outflow) from investing activities		(1,474,581)	(4,896,092)
Cash flows from financing activities			
Loans from fellow subsidiaries		-	3,681,653
Repayment of loans from fellow subsidiaries		(436,098)	-
Repayment of loan from key management personnel		-	115,249
Net cash (outflow) / inflow from financing activities		(436,098)	3,796,902
Net (decrease) / increase in cash and cash equivalents		(161,773)	359,927
Cash and cash equivalents at the beginning of the financial year		2,710,438	2,350,511
Cash and cash equivalents at the end of the financial year	9	2,548,665	2,710,438
Reconciliation of net profit after tax to cash flows from operating activities			
Profit for the year		1,146,075	1,836,986
Depreciation		-	29,146
Changes in operating assets and liabilities:			
Decrease in trade and other receivables		449,602	518,708
Decrease in prepayments		-	8,551
Decrease (increase) in trail commission asset		1,726,436	(1,968,446)
(Decrease) increase in trade and other payables		(892,183)	1,201,617
(Increase) in life insurance contract assets		(2,908,118)	(4,204,789)
Increase in life insurance contract liabilities		2,777,548	4,160,748
(Decrease) in provision for income taxes payable		(23,030)	(64,801)
(Decrease) increase in deferred tax liabilities		(475,249)	583,807
(Decrease) in other provisions		(52,175)	(642,410)
Net cash inflow from operating activities		1,748,906	1,459,117

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



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1. Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of Momentum Life Limited and its subsidiaries.

(a) Basis of preparation

(i) Statement of compliance

The consolidated financial statements of Momentum Life Limited have been prepared in accordance with Generally Accepted Accounting Practice. These comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for for-profit entities. These consolidated financial statements also comply with International Financial Reporting Standards (IFRS).

The Parent is registered under the Companies Act 1993 and licensed under the Insurance (Prudential Supervision) Act 2010 (IPSA). The consolidated financial statements of the Group have been prepared in accordance with the requirements of the Financial Market Conduct Act 2013 (the Act).

The Parent and its subsidiary are incorporated and domiciled in New Zealand. The principal activity of the Parent is the provision of life insurance.

(ii) Basis of measurement

The financial statements have been prepared on a going concern basis in accordance with historical cost concepts except that the following assets and liabilities are stated at their fair value:

- life insurance contract assets and liabilities measured using Margin on Services (MoS) principles.

(iii) Use of estimates & assumptions

Preparation of the financial statements requires the use of management judgement, estimates and assumptions that affect reported amounts and the application of policies. Actual results may differ from these estimates.

Discussion of the critical accounting estimates, which include complex or subjective decisions or assessments, is included in note 2. Such estimates will require review in future periods.

(iv) Changes in accounting policies & application of new accounting standards

The Group adopted new accounting standards, and these are detailed in Note 1(r).

(v) Presentation currency & rounding

The amounts contained in the financial statements have been presented in the nearest dollar of New Zealand dollars unless otherwise stated. The functional currency of the Group is New Zealand dollars.

(b) Principles of consolidation

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Revenue recognition

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described on the next page. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

(i) Premium income

Life insurance premiums earned by providing services and bearing risks are treated as revenue.

Premiums with a regular due date are recognised as revenue on an accruals basis. Unpaid premiums are only recognised as revenue during the days of grace or where secured by the surrender value of the policy and are included in trade and other receivables in the consolidated balance sheet.

(ii) Reinsurance contracts

Reinsurance premiums, commissions and claims settlements, as well as the reinsurance element of insurance contract liabilities, are accounted for on the same basis as the original contracts for which the reinsurance was purchased.

(iii) Commission income

The Group receives commission income from an insurance company for the provision of product design, marketing

1. Summary of significant accounting policies (continued)

and distribution services for life insurance products. These payments include upfront commission and the commission received over the life of the life insurance policies. This revenue is earned at the initial sale of the underlying insurance policy. The trail commission contract asset is created based on the life of the insurance contracts and re-estimated at the end of each period based on the changes (if any) in the variable inputs and assumptions. The distribution activities stopped in March 2018, hence no changes in trail commission assets are expected due to new policies being sold. The movement in trail commission asset is expected to be driven by favourable (or unfavourable) experience against the expectations or changes in the variable inputs and assumptions.

(iv) Interest income

Interest income is recognised using the effective interest method. When a financial asset is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the asset, and continues unwinding the discount as interest income.

(d) Expense recognition

Expenses are recognised in the statement of comprehensive income on an accrual basis.

(i) Claims

Claims are recognised when the liability to the policyholder under the policy contract has been established or upon notification of the insured event depending on the type of claim.

Claims incurred that relate to the provision of services and bearing of insurance risks are treated as expenses and these are recognised on an accrual basis once the liability to the policyholder has been established under the terms of the contract.

A provision is made for claims that have not yet been reported.

(ii) Commission & operating expenses

Commission and operating expenses incorporate all other expenditure involved in running the Group.

All life insurance contracts are categorised based on individual policy or products. Expenses for these products are allocated between acquisition, maintenance and other expenses.

Basis of expense apportionment

Expenses which are directly attributable to an individual policy or product are allocated directly to a particular expense category, class of business and product line as appropriate. Where expenses are not directly attributable to an individual policy or product they are appropriately apportioned based on a detailed expense analysis having regard to the objective in incurring that expense and the outcome achieved.

Acquisition expenses

Acquisition expenses are the fixed and variable expenses of acquiring new business including commissions and similar distribution expenses, and expenses related to accepting, issuing and initially recording policies. They do not include general growth and development costs incurred.

Under MoS, where overall product profitability of new business written during the period is expected to support the recovery of acquisition expenses incurred in that period, these expenses are effectively deferred as an element of policyholder liabilities and amortised over the life of the policies written. Unamortised acquisition expenses are a component of the MoS policyholder liability. Acquisition expenses are recognised in the statement of comprehensive income at the same time as profit margins are released.

Acquisition expenses are allowed for when determining expected profit margins by setting standard expense allowances based on each policy type issued. Actual acquisition expenses in any one period may vary from standard for a number of reasons including new business volume, product mix, distribution mix, cost efficiency and new strategic initiatives.

As a result of these variances, acquisition expenses may, in total, be lesser or greater than standard expense allowances. In both cases the acquisition expense component of the policyholder liability is determined as the actual expenses incurred in the period so that neither a profit nor a loss arises on acquisition, subject to only the overriding constraint that the present value of future profit margins on new business written in the period is not negative.

Maintenance expenses

Maintenance expenses are the fixed and variable expenses of administering policies subsequent to sale and the fixed and variable operating and management expenses of servicing in-force policies. These include general growth and development expenses.

(e) Income tax

(i) Income tax expense

Income tax expense comprises both current and deferred taxes and is based on the accounting profit adjusted for differences in the accounting and tax treatments of income and expenses (that is, taxable income). Tax expense is recognised in profit or loss.

(ii) Current tax

Current tax is the tax payable on taxable income for the year, based on tax rates

1. Summary of significant accounting policies (continued)

(and tax laws) which are enacted at the reporting date. Current tax is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

(iii) Deferred tax

Deferred tax is accounted for using the balance sheet method. Deferred tax arises because the accounting income is not always the same as the taxable income. This creates temporary differences, which usually reverse over time. Until they reverse, a deferred tax asset, or liability, is recognised on the consolidated balance sheet. Deferred taxes are measured at the tax rates that we expect will apply to the period(s) when the asset is realised, or the liability settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date.

(iv) Offsetting

Current and deferred tax assets and liabilities are offset only to the extent that: they relate to income taxes imposed by the same taxation authority; there is a legal right and intention to settle on a net basis; and it is allowed under the tax law of the relevant jurisdiction.

(f) Financial assets

(i) Classification of financial assets

The Group classifies its financial assets into one of the following measurement categories:

- those to be measured subsequently at fair value through profit or loss ('FVTPL');
- those to be measured subsequently at fair value through other comprehensive income ('FVTOCI'); and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

A financial asset that meets the following conditions is subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is 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.

A financial asset that meets the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; 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.

By default, all other financial assets are subsequently measured at FVTPL.

Despite the above, the Group may make the following irrevocable election/ designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

The Group has no financial assets classified at FVTOCI or FVTPL.

Financial assets measured at amortised cost

At initial recognition financial assets are measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

The Group's financial assets measured at amortised cost are disclosed in note 10. All term deposits are fixed rate term deposits with a maturity of 12 months or less and all trade receivables are current.

(ii) Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on financial assets that are measured at amortised cost. The amount of expected credit losses ('ECL') is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial assets.

The Group always recognises lifetime ECL for trade receivables and trail commission asset. The expected credit losses on these financial assets are estimated based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in

1. Summary of significant accounting policies (continued)

credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 months ECL.

The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit impaired at the reporting date or an actual default occurring.

(g) Life insurance contract assets

An insurance contract is a contract under which an insurer accepts significant insurance risk from another party (the policyholder), by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder.

An outstanding claims reserve is held within life insurance contract assets to provide for the estimated costs of all claims notified, but not settled at balance date, together with the estimated cost of claims incurred but not reported until after balance date.

Determination of life insurance contract assets

Life insurance contract assets are calculated using the MoS methodology in accordance with *Professional Standard 20: Determination of Life Insurance Policy Liabilities* (PS20) of the New Zealand Society of Actuaries (NZSA), amounts have been calculated gross of tax with a separate liability held for the effects of associated deferred tax in accordance with NZ IAS 12 Income Taxes.

Under the projection method, the liability is determined as the net present value of the expected future cash flows plus planned margins of revenues over expenses relating to services yet to be provided, discounted using a risk-free discount rate that reflects the nature and structure of the liabilities. Expected future cash flows include premiums, investment income, expenses, redemptions and benefit payments, including bonuses.

An accumulation method may be used where the policyholder liabilities determined are not materially different from those determined under the projection method.

MoS is designed to recognise profits on life insurance contracts as services are provided to policyholders or when income is received. Profits are deferred and amortised over the life of policies, whereas losses are recognised immediately as they arise. Services used to determine profit recognition include premiums expected to be received from policyholders, the cost of expected claims and maintaining policies. Costs may only be deferred, however, to the extent that a contract is expected to be profitable.

Profits emerging under the MoS methodology can be categorised as follows:

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. Where actual experience replicates best estimate assumptions, the expected profit margins will be released to profit over the life of the policy.

The difference between actual & assumed experience

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 period are lower than the best estimate assumption in respect of those expenses.

Changes to underlying assumptions

Assumptions used for measuring life insurance contract assets are reviewed each period. Where the review leads to a change in assumptions, the change is deemed to have occurred from the end of the financial period and the impact of the assumption change is absorbed within the future value of profit margins, provided sufficient profit margins exist.

The calculation of life insurance contract assets includes the use of a risk-free yield. The changes in this yield are not absorbed within the future value of profit margins, but, instead, recognised during the reporting period.

The financial effect of changes to the assumptions underlying the measurement of life insurance contract assets made during the reporting period are recognised in the consolidated statement of comprehensive income over the future reporting periods during which services are provided to policyholders. However, if based on best estimate assumptions, written business for a Group of related products is expected to be unprofitable, the whole expected loss for that related product Group is recognised in the consolidated statement of comprehensive income immediately. When loss making business becomes profitable, it is necessary to reverse previously recognised losses.

(h) Equity

(i) Shares

Issued shares are recognised at the amount paid per share net of directly attributable issue costs.

1. Summary of significant accounting policies (continued)

(ii) Dividends

Where a dividend is declared post reporting date, but prior to the date of issue of the financial statements, disclosure of the declaration is made in the notes to the financial statements, but no liability is recognised in the consolidated balance sheet.

(i) Presentation

(i) Offsetting of income and expenses

Income and expenses are not offset unless required or permitted by an accounting standard. This generally arises in either of the following circumstances:

- where transaction costs form an integral part of the effective interest rate of a financial instrument which is measured at amortised cost, these are offset against the interest income generated by the financial instrument;
- where gains and losses arise from a Group of similar transactions, such as foreign exchange gains and losses.

(ii) Offsetting of financial assets & liabilities

Assets and liabilities are offset where there is:

- a current enforceable legal right to offset the asset and liability;
- an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(iii) Goods & services tax

Income and expenses are recognised excluding the amount of goods and services tax (GST) recoverable from the Inland Revenue Department (IRD). Receivables and payables are stated with the amount of GST included. The net amount of GST payable to the IRD is included in payables and other liabilities in the consolidated balance sheet.

Cash flows are included in the cash flow statement excluding non-recoverable GST, with the net amount of GST paid to the IRD included in operating expenses paid.

(j) Impairment of assets

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are Grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or Groups of assets (cash-generating units).

(k) Cash & cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

(l) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less loss allowance. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

(m) Trail commission asset

Trail commission is paid to the Group by life insurance companies for the provision of product design, marketing and distribution services for life insurance products. The trail commission asset is the net present value of the estimated future commission receipts, which are received over the life of the insurance policies.

(n) Trade & other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid.

The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(o) Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

(p) Provisions

Provisions are recognised when the Group 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 the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item

1. Summary of significant accounting policies (continued)

included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(q) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service, are recognised in respect of employee's services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated balance sheet.

(r) New accounting standards adopted

(i) NZ IFRS 9 Financial Instruments (NZ IFRS 9)

NZ IFRS 9 was issued in September 2014. This standard replaces NZ IAS 39 *Financial Instruments: Recognition and Measurement* and includes requirements for impairment, classification and measurement and general hedge accounting. NZ IFRS 9 and NZ IAS 39 has been applied to financial assets and liabilities not covered under NZ IFRS 4.

The Group applied NZ IFRS 9 from 1 July 2018, with no material change to the carrying amount of the financial instruments when measured under the requirements of NZ IFRS 9. The application of NZ IFRS 9 also does not result in a reclassification of the financial instruments, other than the ones noted in Note 10, with no impact on the carrying value. The method of impairment has changed from the 'incurred loss' to the 'expected loss' model, and this does not result in a recognition of additional impairment or adjustment to the opening balances.

(ii) NZ IFRS 15 Revenue from Contracts with Customers (NZ IFRS 15)

This standard addresses the recognition of revenue from contracts with customers. It replaces the current revenue recognition guidance in NZ IAS 18 Revenue and NZ IAS 11 Construction contracts. The Group applied NZ IFRS 15 from 1 July 2018.

This standard applies to the distribution commission revenue the Group receives from a third-party insurance company and the resulting trail commission asset. This commission is earned at the initial sale of the underlying insurance policy.

Management has reviewed the 5-step model prescribed by the standard and concluded that it brings no material changes to the way the Group recognises this revenue. The adoption of this standard did not result in any adjustments.

(s) Accounting standards not early adopted

(i) NZ IFRS 16 Leases (NZ IFRS 16)

The final version of NZ IFRS 16 was issued in February 2016 and is not effective for the Group until 1 July 2019. 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.

There is not expected to be any impact on the Group's financial statements because, as at 30 June 2019, the Group does not have any contracts that would be classified as long-term leases under NZ IFRS 16.

(ii) NZ IFRS 17 Insurance Contracts (NZ IFRS 17)

The final version of NZ IFRS 17 was issued in August 2017 and is not expected to be effective for the Group until 1 July 2022. NZ IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts.

The measurement, presentation and disclosure requirements under NZ IFRS 17 are significantly different from current accounting standards. Although the overall profit recognised in respect of insurance contracts will not change, it is expected that the timing of profit recognition will change. The Group is not yet able to reasonably estimate the impact of NZ IFRS 17 on its financial statements.

2. Critical accounting estimates & judgements

These financial statements are prepared in accordance with NZ IFRS. However, there are a number of critical accounting treatments which include complex or subjective judgements and estimates that may affect the reported amounts of assets and liabilities in the financial statements.

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

An explanation of the judgements and estimates made by the Group in the process of applying its accounting policies, that have the most significant effect on the amounts recognised in the financial statements are set out below.

(a) Critical accounting estimates and assumptions

Trail commission asset

The Group recognises trail commission revenue at the point of entitlement, which is the sale of the underlying insurance policy.

At the same time, it recognises a trail commission asset which is estimated based on assumptions relating to the underlying book of business. This calculation represents the value of future expected trail commission receipts and uses the projected life of the policy, adjusted for the assumed lapse rates and discounted to a present value. Refer to Note 11 for further details.

Life insurance contract assets and liabilities

Liabilities and assets arising from life insurance are calculated using mathematical and statistical models. The valuations are made in accordance with the Professional Standards issue by the New Zealand Society of Actuaries and take into account the relevant risks and uncertainties. The key inputs in this regard are mortality and morbidity, rates of discontinuance, discount rates and other factors such as regulatory, tax or general economic conditions. Further details are provided in Note 3.

3. Summary of significant actuarial methods & assumptions

The actuarial reports on life insurance contract assets/liabilities and solvency reserves for the current reporting period were prepared as at 30 June 2019. The actuary who prepared the reports for the Group was James Collier BEc, MEc, DipSM, FIAA and FNZSA, who is a Fellow of the Institute of Actuaries of Australia and a Fellow of the New Zealand Society of Actuaries.

The amount of life insurance contract assets/liabilities has been determined in accordance with Professional Standard 20 of the NZSA, amounts have been calculated gross of tax with a separate liability held for the effects of associated deferred tax in accordance with NZ IAS 12 Income Taxes. After making appropriate checks, the actuary was satisfied as to the accuracy of the data from which the amount of the life insurance contract assets/liabilities had been determined.

The key assumptions used in determining the life insurance contract assets/liabilities are detailed below.

Profit carriers

Risk business has been valued using the projection method. The profit carrier for the risk business to achieve systematic release of planned margins is premiums.

Discount rates

The discount rates used to determine policyholder liabilities were determined from the 10 year government bond rate. The risk- free rate (gross of tax) was 1.57% (2018: 2.85%).

Inflation

The long-term inflation assumption was determined on a basis consistent with the medium to long-term RBNZ inflation target of between 1% to 3%. The rate assumed is 2% pa (2018: 2%).

Future expenses & indexation

Future maintenance and investment expense assumptions were derived from an analysis of planned expenses for the coming year. The rates vary by benefit type and are expressed as a unit cost per policy. Expense assumptions are assumed to increase each year by the inflation rate set out above.

Per benefit maintenance expense assumptions:

Related Product Group	2019 $	2018 $
Lump Sum Level	18.30	10.16
Lump Sum YRT	42.83	44.62

Asymmetric risks

An asymmetric risk is characterised by a movement in an assumption that results in a significantly larger adjustment in one direction than it does in the other. Given the nature of the business no additional reserve is required for asymmetric risks.

Rates of taxation

The rates of taxation enacted or substantially enacted at the date of the valuation are assumed to continue into the future. The corporate tax rate used is 28% (2018: 28%). Life insurance contract assets/liabilities are calculated gross of tax with a separate liability being held for tax.

Mortality & morbidity

Due to the Group's limited experience, projected future mortality and morbidity (Total Permanent Disability and Trauma) experience incidence rates are based on reinsurers' tables.

Rates of discontinuance

Long-term discontinuance rates are based on recent company analysis and industry experience and vary by product, duration in force and age of insured, taking into account market conditions and internal strategies. The assumed rates of discontinuance for policies underwritten by the Parent (including cancelled from inception lapses) are between 7% and 58% (2018: between 7% and 40%).

Surrender values

The Group does not issue policies with a surrender value.

Participating business

The Group does not issue participating business.

Solvency requirement

Solvency reserves are amounts required to meet the regulatory actuarial standards to provide protection to policyholders against the impact of fluctuations in and unexpected adverse experience in the Group's business. The regulatory standards are imposed by the RBNZ under the Insurance (Prudential Supervision) Act 2010 (IPSA).

Impact of changes in assumptions

Changes in actuarial assumptions are recognised by adjusting the value of future profit margins in insurance contract liabilities. Future profit margins are released over future periods. Changes in actuarial assumptions do not include market related changes in discount rates such as changes in benchmark market yields caused by changes in investment markets and economic conditions. These are reflected in both insurance contract liabilities and asset values at the balance date.

4. Source of profit

This note relates to the Parent entity only.

	2019 $	2018 $
Life insurance contracts		
Planned margins of revenues	250,216	20,517
Difference between actual and assumed expense experience	(7,191)	(280,615)
Tax difference from prior years	62,514	-
Effects of Change in Underlying Assumptions		
Change in economic assumptions	(103,064)	-
	202,475	(260,098)
Investment earnings on assets in excess of policyholder liabilities	115,011	444
Other revenue (expenses)		
Other movements related to activity not insurance contract related	-	1,940,484
Profit after income tax	317,486	1,680,830

5. Investment income

	2019 $	2018 $
Interest income	242,654	34,713
Total investment income	242,654	34,713

6. Expenses

(a) Commission & operating expenses

	2019 $	2018 $
Life insurance contracts		
Acquisition costs		
Commission expenses	1,316,177	120,191
Operating expenses	496,861	119,470
Maintenance costs		
Commission expenses	941,899	91,813
Operating expenses	777,598	322,466
Total commission and operating expenses	3,532,535	653,940
Non-Statutory Fund		
Operating expenses	(290)	9,697,775
Consolidated		
Total commission and operating expenses	3,532,245	10,351,715

Commission expenses are presented net of the reinsurance commission income due to the inherent dependence and relationship of the two.

6. Expenses (continued)

(b) Finance costs

	2019 $	2018 $
Finance costs		
Interest and finance charges paid/payable	126,174	43,353
Realised foreign exchange losses on international payments	26,320	37,738
Unrealised foreign exchange (gains) / losses on foreign currency loans	(107,865)	2,577
Total finance costs	44,629	83,668

7. Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor, PricewaterhouseCoopers, of the parent entity, its related practices and non-related audit firms:

	2019 $	2018 $
Audit & other assurance services		
Audit of financial statements	107,278	109,174
Additional audit fees in respect of audit of tax - 2018	10,000	-
Solvency return assurance	15,000	10,000
Total remuneration for audit and other assurance services	132,278	119,174
Other services		
Assistance with the preparation of financial statements (PricewaterhouseCoopers Australia)	-	21,856
Total remuneration for other services	-	21,856
Total remuneration of PricewaterhouseCoopers	132,278	141,030

It is the Group's policy that, subject to the approval of the Ultimate Parent Company Board, PricewaterhouseCoopers can provide assurance and other audit-related services that, while outside the scope of the statutory audit, are consistent with the role of auditor.

PricewaterhouseCoopers may not provide services that are perceived to be in conflict with the role of auditor. Services that are perceived to be in conflict with the role of auditor include consulting advice and subcontracting of operational activities normally undertaken by management, and engagements where the auditor may not ultimately be required to express an opinion on its own work.

8. Income tax expense

(a) Income tax expense

	2019 $	2018 $
Current tax	838,055	139,735
Deferred tax	(413,132)	583,807
Adjustments for current tax of prior periods	(397)	26,463
Adjustments for deferred tax of prior periods	(62,117)	-
Total income tax expense	362,409	750,005

8. Income tax expense (continued)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2019 $	2018 $
Profit before income tax expense	1,508,484	2,586,991
Tax at the New Zealand tax rate of 28.0% (2018: 28.0%)	422,376	724,357
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Sundry items	2,547	(815)
Adjustments for current tax of prior periods	(397)	26,463
Adjustments for deferred tax of prior periods	(62,117)	-
Income tax expense	362,409	750,005

9. Cash & cash equivalents

	2019 $	2018 $
Cash at bank and in hand	2,548,665	2,710,438

10. Financial assets

(a) Trade & other receivables

	2019 $	2018 $
Trade receivables	681,985	1,203,623
Premium receivables	2,842	3,900
Interest receivable	73,094	-
Total trade and other receivables	757,921	1,207,523

(b) Term deposits

	2019 $	2018 $
Financial assets at amortised cost (2018: Held to maturity)		
Term deposits	6,500,000	5,025,419

11. Trail commission asset

	2019 Current $	2019 Non-current $	2019 Total $	2018 Current $	2018 Non-current $	2018 Total $
Trail commission asset	2,116,489	10,623,091	12,739,580	2,472,547	11,993,469	14,466,016

11. Trail commission asset (continued)

The following table presents the asset movements for the years ended 30 June 2019 and 30 June 2018:

	Trail Commission asset $
Opening balance 1 July 2017	**12,497,570**
Trail commission asset received	(1,690,212)
Trail commission asset received from current period sales	(1,114,090)
Assets arising from current period sales	6,662,844
Change in net present value of future cash flows	(1,890,096)
Net movement	**1,968,446**
Closing balance 30 June 2018	**14,466,016**
Trail commission asset received	(2,679,752)
Change in net present value of future cash flows	953,316
Net movement	**(1,726,436)**
Closing balance 30 June 2019	**12,739,580**

(i) Valuation inputs used to determine the trail commission estimate

The following table summarises the significant inputs:

Significant inputs	Key assumptions	Sensitivity
Discount rate	The discount rate used was 8% (2018: 8%).	An increase in the discount rate would result in a decrease in the asset value and a reduction in the discount rate would result in an increase in the asset value.
Lapse rate	The lapse rate reflects the number of policies that are expected to be discontinued during the projection period and varies by age of the policy from 7% to 40% (2018: 7% to 40%) per year. These include the cancel from inception lapses.	An increase in the lapse rate would result in a decrease in the asset value and a reduction in the lapse rate would result in an increase in the asset value.
Projection period	The projection period assumed was 20 years (2018: 20 years).	An increase in the projection period would result in an increase in the asset value and a decrease in the projection period would result in a decrease in the asset value.

12. Trade & other payables

	2019 $	2018 $
Trade payables	273,291	240,412
Related entities trade payables	595,126	1,512,914
Accrued expenses	184,167	233,333
Payroll tax and other statutory liabilities	6,045	11,160
Other payables	3,106	5,266
Total trade and other payables	1,061,735	2,003,085

13. Borrowings

	2019 Current $	2019 Non-current $	2019 Total $	2018 Current $	2018 Non-current $	2018 Total $
Unsecured						
Loans from related parties	-	3,250,799	3,250,799	3,686,897	-	3,686,897

14. Employee benefit obligations

	2019 $	2018 $
Leave obligations	8,132	11,140

The leave obligations cover the Group's liability for annual leave and sick leave. All balances are current.

15. Tax liabilities

(a) Current income tax

	2019 $	2018 $
Movements		
Opening balance	736,832	801,633
Payments made during the year	(860,688)	(204,536)
Charged:		
- Profit or loss	838,055	139,735
- Adjustments for current tax of prior periods	(397)	-
Closing balance	713,802	736,832

15. Tax liabilities (continued)

(b) Deferred income tax

	2019 $	2018 $
The balance comprises temporary differences attributable to		
Deferred tax liabilities		
Trail commission asset	3,567,082	4,050,485
Life insurance contracts, net of reinsurance	96,220	32,642
Deferred tax assets		
Expense accruals	(55,424)	-
Net deferred tax liabilities	3,607,878	4,083,127
Movements		
Opening balance	4,083,127	3,499,320
Charged/credited:		
Deferred tax liabilities		
- Profit or loss	(419,825)	583,807
Deferred tax assets		
- Profit or loss	6,693	-
- Adjustments for deferred tax of prior periods	(62,117)	-
Closing balance	3,607,878	4,083,127

16. Life insurance contracts assets/liabilities

Net life insurance contract assets contain the following components:

	2019 $	2018 $
Future premiums	64,670,909	22,978,426
Future policy benefits	(27,284,611)	(7,563,456)
Future expenses	(15,657,896)	(6,080,980)
Future reinsurance	(6,938,296)	(4,160,748)
Planned margins of revenues over expenses	(14,615,495)	(5,129,202)
Total life insurance contract assets, net of reinsurance	174,611	44,040
Estimated discounted net cash inflows from life insurance contract assets:		
- Less than one year	399,098	199,184
- One year to five years	446,293	329,716
- Later than five years	(670,780)	(484,860)
Total net life insurance contract assets future net cash inflows	174,611	44,040

The table above shows the estimated timing of discounted future net cash flows resulting from life insurance contract assets. This includes estimated future lapses, claims and expenses offset by expected premiums and reinsurance recoveries. All values are discounted to the reporting date using the risk free rate.

16. Life insurance contracts assets/liabilities (continued)

	2019 $	2018 $
Reconciliation of movements in life insurance contracts assets & liabilities		
Life insurance contract assets		
Opening balance	4,204,789	-
Recognised in statement of comprehensive income	2,908,118	4,204,789
Closing balance	7,112,907	4,204,789
Current	2,804,762	1,903,029
Non-current	4,308,145	2,301,760
	7,112,907	4,204,789
Life insurance contract liabilities ceded under reinsurance		
Opening balance	4,160,748	-
Recognised in statement of comprehensive income	2,777,548	4,160,748
Closing balance	6,938,296	4,160,748
Current	2,405,676	1,703,843
Non-current	4,532,620	2,456,905
	6,938,296	4,160,748

17. Insurance risk

Insurance risk is the risk that actual experience in respect of life insurance benefit payments to policyholders differs from expectations when the policy premium was determined. It also includes risks relating to expected reinsurance recoveries, risks arising through the underwriting process as well as the risks of higher than expected lapses or an unfavourable portfolio mix with respect to product or customer profiles.

The Group manages these risks in accordance with the internal principles and requirements of its Risk Management Programme and this is reviewed on a yearly basis.

Variations in claim levels will affect reported profit and shareholder's equity. The impact may be magnified if the variation leads to a change in actuarial assumptions which cannot be absorbed within the present value of planned margins for a Group of related products.

Insurance risk management strategy

The Group's Risk Management Programme objectives are:

(i) To protect policyholders' interests by ensuring the ability to meet future obligations;

(ii) To maintain an adequate financial strength;

(iii) To facilitate prudent liquidity and capital management;

(iv) To maintain a robust governance and control framework; and

(v) To enhance value through effective understanding, quantification and mitigation of risk.

In compliance with contractual and regulatory requirements, a strategy is in place to meet the contractual terms of the policy whilst not adversely affecting the Group's ability to pay benefits and claims when due. The strategy involves the identification of risks by type, impact and likelihood, the implementation of processes and controls to mitigate the risks, and continuous monitoring and improvement of the procedures in place to minimise the chance of an adverse compliance or operational risk event occurring.

Included in this strategy is the process for underwriting and product pricing to ensure products are appropriately priced. Capital management is also a key aspect of the Group's risk management strategy.

Methods to limit or transfer insurance risk exposures

In an effort to protect and enhance shareholder value, the Group actively manages its exposure to risks so that it can react in a timely manner to changes in financial markets and economic and political environments. Risk exposures are managed using various analysis and valuation techniques, such as asset-liability matching analysis to calculate the economic capital required

17. Insurance risk (continued)

to support adverse risk scenarios, along with other cash flow analysis, and prudent and diversified underwriting and investing.

The Group reports regularly financial and operational results, and exposure for each portfolio of contracts (gross and net of reinsurance) to the Audit Risk and Compliance Committee. This information is combined with the detail of the Group's reinsurance programme to provide a central view of the Group's performance and its gross and net exposure.

- **Reinsurance:** The Group's reinsurance activities are governed by the Reinsurance Management Strategy which deals with reinsurer selection, minimum credit ratings and frequency of the reinsurance arrangement reviews.
- **Underwriting procedures:** Strategic underwriting decisions are put into effect using the underwriting procedures detailed in the Group's underwriting manual. Such procedures include limits to delegated authorities and signing powers.
- **Claims management:** Strict claims management procedures are in place to assist in the timely and correct payment of claims in accordance with policy conditions.

Concentrations of insurance risk

Concentrations of insurance risk arise due to:

- Large sums assured on certain individuals. The largest exposures all relate to mortality. However, this is minimised through the use of reinsurance.

The table below illustrates concentrations of insurance risk according to benefit types and the extent to which this risk is mitigated by reinsurance.

	Sum insured 2019 $	Sum reinsured 2019 $	Sum insured 2018 $	Sum reinsured 2018 $
Aggregate Sums Assured				
Life*	647,218,150	490,331,380	365,228,500	276,364,153
Trauma / Total permanent disablement*	69,271,300	51,953,475	86,746,000	65,059,500
Total	716,489,450	542,284,855	451,974,500	341,423,653

*Aggregate sum insured is the aggregate of all lump sums payable under this benefit category.

Terms & conditions of insurance contracts

The nature of the terms of insurance contracts written is such that certain external variables can be identified on which related cash flows for claim payments depend. The tables below and on the next page provide an overview of the key variables upon which the amount of related cash flows are dependent:

Type of contract	Detail of contract terms & conditions	Nature of compensation for claims	Key variables that affect the timing and uncertainty of future cash flows
Non-participating insurance contracts with fixed and guaranteed terms. Benefit types include life, trauma and injury.	Benefits paid on death, injury or ill health or that are fixed and guaranteed and not at the discretion of the issuer. Premiums are variable at the insurer's discretion.	Benefits, defined by the insurance contract, are determined by the contract and are not directly affected by the performance of underlying assets or the performance of the contracts as a whole.	• Mortality • Morbidity • Discontinuance rates • Expenses • Market interest rates • Inflation rates

17. Insurance risk (continued)

Sensitivity to insurance risk

A change in the actuarial assumptions would have the following impact on future margins, profit before reinsurance and profit after reinsurance. The profit impact shown is the loss recognition (if any) that would result from the change in actuarial assumptions.

	Impact on future margins	2019 Impact on profit before reinsurance	Impact on profit after reinsurance	Impact on future margins	2018 Impact on profit before reinsurance	Impact on profit after reinsurance
	$	$	$	$	$	$
Discontinuance + 10%	(457,020)	-	-	(110,705)	-	-
Mortality + 10%	(545,285)	-	-	(142,831)	-	-
Morbidity +10%	(8,394)	-	-	(7,130)	-	-
Expenses + 10%	(395,385)	-	-	(129,893)	-	-
Discount rates + 1%	(351,869)	139,705	37,332	(107,242)	55,178	55,827
Inflation rates + 1%	409,609	-	-	166,547	-	-
Discontinuance - 10%	611,791	-	-	127,839	-	-
Mortality - 10%	564,368	-	-	147,327	-	-
Morbidity -10%	8,940	-	-	7,469	-	-
Expenses - 10%	395,385	-	-	129,893	-	-
Discount rates - 1%	429,075	(374,547)	(181,723)	127,545	(101,151)	(74,141)
Inflation rates - 1%	(209,080)	-	-	(138,943)	-	-

18. Contributed equity

(a) Share capital

	2019 Shares	2018 Shares	2019 $	2018 $
Ordinary shares				
Class C shares - Fully paid $1 per share	100	100	100	100
Class D shares - Fully paid $1 per share	960	960	960	960
Class D shares - Fully paid $2,788.05 per share	40	40	111,522	111,522
Total share capital	1,100	1,100	112,582	112,582

(b) Ordinary shares

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

19. Capital management

(a) Capital management policies

The Parent's capital management objectives are to maintain a strong capital base to protect policyholders' and creditors' interests, and to meet regulatory requirements, whilst still creating shareholder value.

During the year ended 30 June 2019, the Parent has complied with all externally imposed capital requirements.

The Parent has a Risk Management Programme that includes the adequacy of capital as a key risk. Continuous reporting on current and forecast capital requirements is undertaken to monitor this risk. The Parent manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Parent may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. In addition, the Parent analyses and optimises its product and asset mix, reinsurance programme, insurance risk exposure and investment strategy, in order to maintain adequate capital.

(b) Solvency requirements and statutory funds

A life insurer is required to have at least one statutory fund in respect of its life insurance business. The purpose of a statutory fund is to ensure that the funds received and paid out in respect of life insurance policies are separately identifiable as being part of the statutory fund. The assets of the statutory fund enjoy certain protections under IPSA, which are designed to ensure that the interests of holders of life insurance policies are given priority over the interests of other parties, such as unsecured creditors.

Under IPSA solvency requirements, the Parent is required to maintain a positive solvency margin for each life fund calculated in accordance with *Solvency Standard for Life Insurance Business 2014* issued by the RBNZ, and the Parent is required to have at least $5 million of actual solvency capital.

The Immediate Parent's access to the retained earnings and ordinary share capital in the statutory fund is restricted by IPSA.

The tables on the following pages show the assets, liabilities, equity, profit and solvency of the Parent by fund.

19. Capital management (continued)

	30 June 2019			30 June 2018		
	Statutory fund $	Shareholder fund $	Total $	Statutory fund $	Shareholder fund $	Total $
Summarised statement of comprehensive income						
Premium revenue	5,173,971	-	5,173,971	479,034	-	479,034
Premium ceded to reinsurers	(1,553,285)	-	(1,553,285)	(142,604)	-	(142,604)
Other income	4,636,939	-	4,636,939	4,817,978	12,297,555	17,115,533
Investment income	200,892	39,863	240,755	618	34,095	34,713
Change in life insurance contract liabilities	130,571	-	130,571	44,040	-	44,040
Net claims expenses	(31,097)	-	(31,097)	-	-	-
Commission expenses	(6,895,015)	-	(6,895,015)	(5,029,981)	-	(5,029,981)
All other expenses	(1,274,456)	(70,718)	(1,345,174)	(451,938)	(9,678,690)	(10,130,628)
Profit/(loss) before income tax	388,520	(30,855)	357,665	(282,853)	2,652,960	2,370,107
Profit/(loss) after income tax	339,143	(21,657)	317,486	(259,654)	1,940,484	1,680,830
Summarised balance sheet						
Assets						
Cash and cash equivalents	956,069	1,088,204	2,044,273	1,198,444	1,511,994	2,710,438
Term deposits	5,000,000	1,500,000	6,500,000	5,000,000	25,419	5,025,419
All other assets	529,194	4,923,826	5,453,020	972,243	6,605,478	7,577,721
Life insurance contract assets	7,112,907	-	7,112,907	4,204,789	-	4,204,789
Total assets	13,598,170	7,512,030	21,110,200	11,375,476	8,142,891	19,518,367
Liabilities						
All other liabilities	1,080,385	(2,166)	1,078,219	1,974,381	607,039	2,581,420
Life insurance contract liabilities ceded under reinsurance	6,938,296	-	6,938,296	4,160,748	-	4,160,748
Total liabilities	8,018,681	(2,166)	8,016,515	6,135,129	607,039	6,742,168
Equity						
Share capital	-	112,582	112,582	-	112,582	112,582
Retained earnings	5,579,489	7,401,614	12,981,103	5,240,346	7,423,271	12,663,617
Total equity	5,579,489	7,514,196	13,093,685	5,240,346	7,535,853	12,776,199
Solvency of the parent						
Actual solvency capital	5,579,489	2,617,175	8,196,664	5,240,346	930,496	6,170,842
Minimum solvency capital	1,501,846	48,862	5,000,000	405,561	8,453	5,000,000
Solvency margin	4,077,643	2,568,313	3,196,664	4,834,785	922,043	1,170,842
Solvency ratio	372%	5,356%	164%	1,292%	11,008%	123%

19. Capital management (continued)

Reconciliation between Parent & Group statement of comprehensive income and balance sheet.

	30 June 2019				30 June 2018			
	Parent $	Subsidiary $	Intra-Group Eliminations $	Group Consolidated $	Parent $	Subsidiary $	Intra-Group Eliminations $	Group Consolidated $
Summarised statement of comprehensive income								
Premium revenue	5,173,971	-	-	5,173,971	479,034	-	-	479,034
Premium ceded to reinsurers	(1,553,285)	-	-	(1,553,285)	(142,604)	-	-	(142,604)
Other income	4,636,939	1,077,915	-	5,714,854	17,115,533	225,966	-	17,341,499
Investment income	240,755	1,899	-	242,654	34,713	-	-	34,713
Change in life insurance contract liabilities	130,571	-	-	130,571	44,040	-	-	44,040
Net claims expenses	(31,097)	-	-	(31,097)	-	-	-	-
Commission expenses	(6,895,015)	-	-	(6,895,015)	(5,029,981)	-	-	(5,029,981)
All other expenses	(1,345,174)	129,442	(58,437)	(1,274,169)	(10,130,628)	(67,519)	58,437	(10,139,710)
Profit/(loss) before income tax	357,665	1,209,256	(58,437)	1,508,484	2,370,107	158,447	58,437	2,586,991
Profit/(loss) after income tax	317,486	887,026	(58,437)	1,146,075	1,680,830	97,719	58,437	1,836,986
Summarised balance sheet								
Assets								
Cash & cash equivalents	2,044,273	504,392	-	2,548,665	2,710,438	-	-	2,710,438
Term deposits	6,500,000	-	-	6,500,000	5,025,419	-	-	5,025,419
All other assets	5,453,020	12,941,603	(4,897,122)	13,497,501	7,577,721	14,701,406	(6,605,588)	15,673,539
Life insurance contract assets	7,112,907	-	-	7,112,907	4,204,789	-	-	4,204,789
Total assets	21,110,200	13,445,995	(4,897,122)	29,659,073	19,518,367	14,701,406	(6,605,588)	27,614,185
Liabilities								
All other liabilities	1,078,219	12,461,149	(4,897,022)	8,642,346	2,581,420	14,603,587	(6,663,926)	10,521,081
Life insurance contract liabilities ceded under reinsurance	6,938,296	-	-	6,938,296	4,160,748	-	-	4,160,748
Total liabilities	8,016,515	12,461,149	(4,897,022)	15,580,642	6,742,168	14,603,587	(6,663,926)	14,681,829
Equity								
Share capital	112,582	100	(100)	112,582	112,582	100	(100)	112,582
Retained earnings	12,981,103	984,746	-	13,965,849	12,663,617	97,719	58,438	12,819,774
Total equity	13,093,685	984,846	(100)	14,078,431	12,776,199	97,819	58,338	12,932,356

20. Financial risk management

(a) Credit risk

Credit risk is the risk of loss due to the inability of a party to a contract or transaction to meet its obligations.

Credit risk is managed on a Group basis, except for credit risk relating to accounts receivable balances. Each entity is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Credit risk arises from cash and cash equivalents, trade and other receivables, term deposits and trail commission asset. The maximum exposure to credit risk is the sum of cash and cash equivalents, trade and other receivables, term deposits and trail commission asset. None of the financial assets are past due or impaired and all balances are current. Based on the ECL model no indication of impairment has been noted. The financial data used by the management are based on the forecast cash flows incorporating financial stability and credit ratings of the counter parties. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. If wholesale customers are independently rated, these ratings are used. If there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. See below and notes 10 & 11 for further disclosure on credit risk.

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

	Credit rating	2019	2018
Bank of New Zealand Limited	AA-	39%	26%
Westpac New Zealand Limited	AA-	61%	74%

The financial strength ratings for the Group's major reinsurers are shown in the table below. The ratings are from Standard & Poor's.

	2019	2018
Hannover Life Re of Australasia Limited	AA-	AA-

The financial strength ratings for the Group's major wholesale customer in relation to the trail commission asset are shown in the table below. The ratings are from A.M. Best.

	2019	2018
New Zealand licensed insured	A-	A-

(b) Market risk

Market risk is the risk of loss due to unfavourable market movements. Given the investment policy and the discount rate used to determine the policy liabilities, the primary market risk comes from interest rates. Except for the trail commission asset and life insurance contract assets and liabilities, none of the financial assets and liabilities are volatile to the market factors (such as interest rate, exchange rate and price). The fair value of all financial assets and liabilities is deemed to be equal to the carrying value as recorded in the statement of financial position. The maximum exposure to market risk comes from the trail commission asset and net value of life insurance contract assets and liabilities, as market data is relied upon in estimating their carrying amounts. Please refer to notes 3, 11, 16 and 17 for the qualitative and quantitative data used to manage market risk associated with them.

(i) Cash flow and fair value interest rate risk

Interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value

20. Financial risk management (continued)

of financial assets and liabilities or cash flows. The Group is exposed to interest rate risk through its investments in interest earning financial instruments and revaluations of its insurance contract liabilities.

The Group has established limits on investments in interest-bearing assets, which are monitored on a daily basis. The following table summarises the sensitivity of the Group's life insurance contract assets, net of reinsurance, to changes in interest rate movements at year end. The analysis is based on the assumptions that the relevant interest rate increased/decreased by 1% (2018: 1%), with all other variables held constant. This represents a best estimate of a reasonable shift in the interest rates, with regard to historical volatility of those rates. The balances shown provide the impact on both profit after tax and equity. The effect of a similar movement in interest rates on investments is not material.

	30 June 2019		30 June 2018	
	+1% $	-1% $	+1% $	-1% $
Life insurance contract assets, net of reinsurance	(51,850)	252,393	(77,538)	102,973

(c) Liquidity risk

Liquidity risk is the risk of being unable to appropriately and fully utilise assets to meet cash flow requirements.

The Group manages its exposure to liquidity risk by investing in predominately short dated deposits and securities. Demands for funds can usually be met through ongoing normal operations, receipt of premiums and use of reinsurance. Solvency capital projections are prepared by the Parent's actuary to ensure that the Parent continues to meet its solvency requirements.

The maturity profile for the Parent's insurance contract liabilities is shown in note 16. Payables and other liabilities are payable within three months.

All contractual liabilities are current and include borrowings and trade and other payables. Balances are managed on a contractual basis.

21. Related party transactions

(a) Parent entity

The parent and ultimate holding company is BlueInc Group Pty Limited, a company incorporated in Australia.

(b) Subsidiaries

Interests in subsidiaries are set out in note 24.

(c) Key management personnel

	2019 $	2018 $
Short-term employee benefits	542,734	522,884
Post-employment benefits	575	1,062
Total employment benefits	**543,309**	**523,946**

(d) Transactions with other related parties

The following transactions occurred with related parties:

	30 June 2019 $	30 June 2018 $
Distribution and marketing expenses		
Fellow subsidiaries	5,888,506	10,462,211

(e) Outstanding balances arising from other related parties

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

	2019 $	2018 $
Current payables		
Fellow subsidiaries	595,126	1,512,914

(f) Loans to/from related parties

	2019 $	2018 $
Loans to key management personnel		
Beginning of the year	-	115,249
Loans repayments made	-	(115,249)
End of year	-	-
Loans from fellow subsidiaries		
Beginning of the year	3,686,897	-
Loans advanced	-	3,686,897
Loan repayments made	(436,098)	-
End of year	3,250,799	3,686,897

The loans to/from related parties are unsecured, non-interest bearing and repayable on demand.

22. Contingencies

The Group had no contingent liabilities at 30 June 2019 (2018: $nil).

23. Commitments

Non-cancellable operating leases

	2019 $	2018 $
Rental expense relating to operating leases		
Minimum lease payments	-	86,375

24. Interest in other entities

(a) Material subsidiaries

The Group's principal subsidiaries at 30 June 2019 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

		Ownership interest held by the Group		
Name of entity	**Place of business/country of incorporation**	**2019 %**	**2018 %**	**Principal activities**
Momentum Life Services Limited	New Zealand	100	100	Insurance services

Momentum Life Services Limited ('MLS') was incorporated on 9 April 2018 and Momentum Life Limited transferred all its pre-licence related trail commission asset to MLS.

25. Events occurring after the reporting period

No matter or circumstance has occurred subsequent to year end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial years.

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Appointed Actuary's Report

TO THE DIRECTORS OF MOMENTUM LIFE LIMITED

This Appointed Actuary's report under Section 78 of the Insurance (Prudential Supervision) Act 2010 (IPSA) is prepared in respect of the financial statements of Momentum Life Limited (the Company) for the year ended 30 June 2019.

I have undertaken a review of the actuarial information (as defined in section 77(4) of IPSA) contained in, and used in the preparation of, the financial statements of the Company (the Financial Statements) as required under section 77(1) of IPSA.

My review has been carried out in accordance with the Solvency Standard for Life Insurance Businesses 2014 issued by the Reserve Bank of New Zealand (the Solvency Standard), which is the solvency standard applicable to the Company under section 55 of IPSA, and with the New Zealand Society of Actuaries' Professional Standards.

In respect of my review, I confirm as follows:

a) I, James Collier FNZSA, am the Appointed Actuary for the Company under section 76(1) of IPSA, and that I have prepared this report.

b) The work that I have done to review the actuarial information contained in, or used in the preparation of the Financial Statements, includes a review of:

   i. Information relating to the Company's calculations of premiums, claims, reserves, dividends, insurance rates, and technical provisions (annuity rates and unvested policyholder benefits liability are not applicable to the Company);

   ii. Information relating to assessments of the probability of uncertain future events occurring and the financial implications for the Company if those events do occur;

   iii. The Company's Policy Liability, as defined in the Solvency Standard;

   iv. Risk management policies including reinsurance exposures and reinsurance assets relevant to the Policy Liability;

v. The deferred tax assets or liabilities relevant to the Policy Liability;

vi. The deferred acquisition cost relevant to the Policy Liability;

vii. The analysis of the Company's profit;

viii. Any additional assumptions used in the calculation of the Policy Liability;

ix. The consistency between the New Zealand Society of Actuaries Professional Standard 20 "Determination of Life Insurance Policy Liabilities" and the calculated Policy liability;

x. The consistency between the Solvency Standard and the calculated Solvency Margin; and

xi. The Company's checks and controls over data and valuation processes.

c) Other than my relationship as Appointed Actuary, I am a partner of KPMG, which receives consulting fees from the Company. I have no other financial interest in the Company.

d) I have obtained all information and explanations that I have required in order to conduct my review under section 77 of IPSA. There were no limitations in the scope of my review.

e) I consider that in my opinion and from an actuarial perspective:

i. The actuarial information contained in the Financial Statements has been appropriately included in the Financial Statements.

ii. The actuarial information used in the preparation of the Financial Statements has been used appropriately.

f) I consider that in my opinion and from an actuarial perspective, the Company, as at 30 June 2019, is maintaining a solvency margin that complies with that required under the Solvency Standard for the purposes of sections 21(2)(b) of IPSA.

g) I consider that in my opinion and from an actuarial perspective as at 30 June 2019, the Company is maintaining solvency margins that comply with those required under the Solvency Standard for the purposes of section 21(2)(c) of IPSA.

I have prepared, dated and signed this report solely in my capacity as the Company's Appointed Actuary under section 76(1) of IPSA. To the fullest extent permitted by law, I do not accept responsibility to anyone other than the Reserve Bank of New Zealand, the Company, its board and shareholder for the contents of this report.

James Collier
Appointed Actuary
Momentum Life Limited
14 September 2019

Independent auditor's report

To the shareholder of Momentum Life Limited

We have audited the consolidated financial statements which comprise:

- the consolidated balance sheet as at 30 June 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the accompanying consolidated financial statements of Momentum Life Limited (the Company), including its subsidiary (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2019, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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 Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) 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.

Our firm provides an assurance service over the solvency return for the Company. Subject to certain restrictions, partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group. This other service and relationship have not impaired our independence as auditor of the Group.

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Our audit approach

Overview

An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

Overall Group materiality: $51,740, which represents approximately 1% of premium revenue.

We chose premium revenue as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark within the life insurance industry. We selected 1% based on our professional judgement, noting that it is also within the range of commonly accepted revenue-related benchmarks.

We have determined that there are two key audit matters:

- Measurement of life insurance contract assets and life insurance contract liabilities ceded under reinsurance
- Measurement of trail commission asset

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the consolidated financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
1. Measurement of life insurance contract assets and life insurance contract liabilities ceded under reinsurance	

As at 30 June 2019 the Group has life insurance contract assets of $7.1 million (30 June 2018: $4.2 million) and life insurance contract liabilities ceded under reinsurance of $6.9 million (30 June 2018: $4.2 million).
 	
The valuation of these balances involves complex and subjective actuarial judgements about future events, both internal and external to the business, for which small changes in assumptions can result in material impact to the measurement of these balances.
 	
The key actuarial assumptions represent best estimate assumptions at balance date and include projection for premiums and payments, future maintenance and investment expenses, projected future mortality and morbidity experience, discontinuance rates, inflation and discount rates.
 	
Refer to the following notes in the Group's consolidated financial statements: Note 1(g) for related accounting policies, Note 2 for critical accounting estimates and judgements, Note 3 for summary of significant actuarial methods and assumptions, Note 16 and Note 17.
	Together with PwC actuarial experts, we:
	• Evaluated the work of management's expert, being the Appointed Actuary, including assessing their professional competence, capability and objectivity.
	• Assessed the reasonableness of the key actuarial assumptions by:
	  ○ obtaining an understanding of the controls in place to determine the assumptions;
	  ○ examining the approach used by management to derive the assumptions by applying our industry knowledge and experience; and
	  ○ challenging the key assumptions used by management against past experience, market observable data (as applicable) and our experience of market practice.
	• Assessed the valuation methodologies used by applying our industry knowledge and experience to compare whether the methodologies and changes to those are consistent with recognised actuarial practices and expectations derived from market experience.
	• Policy data is a key input to the actuarial estimates. We tested the completeness and accuracy of data between the source system and the actuarial valuation model.

2. Measurement of trail commission asset	
As at 30 June 2019 the Group has a trail commission asset of $12.7 million (30 June 2018: $14.5 million). The balance represents the present value of the future commission receipts arising from the distribution of life insurance products. The valuation of this balance involves subjective judgements and assumptions	We have: • Confirmed that there were no changes to the methodology and assumptions, as compared to prior year, used by management in measuring the trail commission asset; • Assessed the reasonableness of management's assumptions such as discount rate, lapse rate and projection period at year end by:

Key audit matter	How our audit addressed the key audit matter
about the duration of future commission receipts (projection period), lapse (or discontinuance) experience and discount rate. Small changes in assumptions can result in material impact to the measurement of this balance. Refer to the following notes in the Group's consolidated financial statements: Note 1(c)(iii) and 1(m) for related accounting policies, Note 2 for critical accounting estimates and judgements and Note 11.	○ comparing them with our expectations based on industry and Group's past experiences; and ○ assessing the reasonableness of management's estimation by agreeing the actual commission received during the year against managements estimate in the prior year. • On a sample basis verified trail commission receipts for the year to supporting documentation; and • Recalculated the movement of the trail commission asset based on management's methodology.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not express any form of assurance conclusion on the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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.

Responsibilities of the Directors for the consolidated financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an 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) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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 consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Other matter

The independent auditor's report on the consolidated financial statements of the Group for the year ended 30 June 2018 stated that PwC Australia had been involved in the preparation of the financial statements which is a non permitted service and a breach of PES 1. PwC has performed a number of remediation actions to address the consequence of the breach including separately engaging another firm to reperform the tie-out of the Group trial balance to the consolidated financial statements and to perform disclosure checks over the 30 June 2018 consolidated financial statements. There were no matters arising from the procedures performed by the engaged firm. The actions taken did not identify any impacts on the 2018 consolidated financial statements arising from the breach.

Who we report to

This report is made solely to the Company's shareholder. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an 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 Company and the Company's shareholder for our audit work, for this report or for the opinions we have formed.

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
23 October 2019

Auckland

PwC

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