

Lifetime Income Limited

Financial Statements

For the year ended 31 March 2020

LIFETIME INCOME LIMITED
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LIFETIME INCOME LIMITED

Company Directory

Company Number:	5218721
NZ Business Number:	9429041239308
Incorporation Date:	19 May 2014
Nature of Business:	Life Insurance Provider
Issued Capital:	312 Ordinary Shares
Directors:	Diana Crossan Martin Hawes Graeme Robertson Mitchell Timothy Paris (resigned 28 April 2020) Ralph Earle Stewart John Russell Strahl Michael John Cullen (resigned 31 March 2020) James Noel Beale (appointed 11 April 2019)
Registered Office:	Floor 5, 50-64 Customhouse Quay Wellington 6011
Website:	www.lifetimeincome.co.nz
Appointed Actuary:	Charles Hett, MA FIA, FNZSA, AIAA
Bankers:	ANZ Bank New Zealand Limited PO Box 540 Wellington 6140
Solicitors:	DLA Piper New Zealand PO Box 2791 Wellington 6140
Auditors:	PricewaterhouseCoopers PO Box 243 Wellington 6140

LIFETIME INCOME LIMITED

Directors' Annual Report

The Directors hereby present their Annual Report including Financial Statements of the Company for the year ended 31 March 2020.

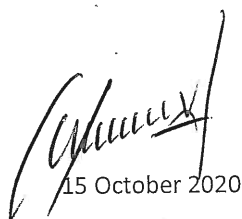
The shareholder of the Company have exercised their right under section 211 (3) of the Companies Act 1993 and have unanimously agreed that this Annual Report need not comply with any of paragraphs (a) and (e) to (j) of section 211 (1) of the Act.

For and on behalf of the Board of Directors

Director

15 October 2020

Director



15 October 2020

LIFETIME INCOME LIMITED**Statement of Profit or Loss and Other Comprehensive Income****For the year ended 31 March 2020**

		2020	2019
	Note	\$	\$
Revenue			
Premium revenue from insurance contracts		1,738,235	793,369
Management fee revenue		199,110	272,806
Investment revenue		136,942	128,615
Other revenue		50,000	-
Total revenue	1	2,124,287	1,194,790
Other gains/(losses)			
Unrealised gains/(losses) on financial instruments at fair value	7	10,758,600	3,024,029
Total gains/(losses)		10,758,600	3,024,029
Annuity payments to customers and transfers to Lifetime Income Fund		(1,501,983)	(4,986,569)
Change in policyholder liabilities	4	(12,368,468)	1,255,500
Other expenses	2, 13	(713,414)	(586,055)
Net claims and operating expenses		(14,583,865)	(4,317,124)
Profit/(Loss) before tax		(1,700,978)	(98,305)
Income tax expense	10	(2,354,917)	-
Profit/(Loss) after tax		(4,055,895)	(98,305)
Other comprehensive income		-	-
Total comprehensive profit/(loss) attributable to parent		(4,055,895)	(98,305)

The Notes to the Financial Statements form part of, and are to be read in conjunction with, these Financial Statements.

LIFETIME INCOME LIMITED
Statement of Changes in Equity
For the year ended 31 March 2020

	Note	Share Capital \$	(Accumulated Losses) / Retained Earnings \$	Total \$
Opening balance as at 1 April 2018		5,500,000	489,037	5,989,037
Total comprehensive profit/(loss)		-	(98,305)	(98,305)
Transactions with owners				
Issue of shares		2,310,000	-	2,310,000
Balance as at 31 March 2019		7,810,000	390,732	8,200,732
Total comprehensive profit/(loss)		-	(4,055,895)	(4,055,895)
Transactions with owners				
Issue of shares		9,350,000	-	9,350,000
Balance as at 31 March 2020		17,160,000	(3,665,163)	13,494,837

The 312 ordinary shares (2019: 142 paid shares) all rank equally with one vote attached to each fully paid up share. During the period \$9,350,000 (2019: \$2,310,000) in consideration was received for the 170 shares (2019: 42 shares) issued to the parent entity, Retirement Income Group Limited (2019: all shares were paid). There is no par value attached to the shares.

The Notes to the Financial Statements form part of, and are to be read in conjunction with, these Financial Statements.

LIFETIME INCOME LIMITED
Statement of Financial Position
As at 31 March 2020

	Note	2020 \$	2019 \$
Assets			
Current Assets			
Cash and cash equivalents		15,609,337	7,052,276
Margin account	8	6,400,181	2,348,672
Insurance receivables	3	199,590	113,541
Prepayments		173,324	172,821
Related party receivables	18	72,627	60,800
Taxation		-	59,998
Non-current Assets			
Intangible assets	12	26,833	45,042
Financial assets held at fair value through profit or loss	14	31,801,250	25,316,382
Total assets		54,283,142	35,169,532
Liabilities			
Current liabilities			
Accounts payable	11	316,804	545,065
Taxation		2,169,277	-
Related party payable	11	-	63,716
Financial Liabilities held at fair value through profit or loss	14	1,190,676	329,948
Non-current Liabilities			
Life insurance contract liabilities	4	27,791,000	15,422,532
Life investment contract liabilities	4	9,320,548	10,607,539
Total liabilities		40,788,305	26,968,800
Net Assets		13,494,837	8,200,732
Equity			
Contributed equity		17,160,000	7,810,000
Retained earnings / (Accumulated losses)		(3,665,163)	390,732
Total equity		13,494,837	8,200,732

These financial statements were authorised for issue for and on behalf of the Directors on 15 October 2020.

Director



Director



The Notes to the Financial Statements form part of, and are to be read in conjunction with, these Financial Statements.

LIFETIME INCOME LIMITED
Statement of Cash Flows
For the year ended 31 March 2020

	2020 \$	2019 \$
Cash flows from operating activities		
Insurance premiums received	1,641,477	732,672
Management fees received	209,819	270,739
Interest received	96,040	112,713
Other income received	50,000	-
Inflow from sale of investments	2,167,351	9,060,472
Annuity payments to customers and transfers to Lifetime Income Fund	(1,498,997)	(5,159,389)
Outflow from collateral provided to support futures and swap contracts	(1,619,689)	(2,537,142)
Investment linked withdrawal payments to customers	(1,086,851)	(3,825,593)
Payments to suppliers and employees	(607,239)	(470,601)
Tax refunded/(paid)	28,127	(31,618)
Net cash outflows from operating activities	(619,962)	(1,847,747)
Cash flows from investing activities		
Outflow from the purchase of intangible assets	-	(28,750)
Net cash flows from investing activities	-	(28,750)
Cash flows from financing activities		
Related party receipts/(payments)	(172,977)	291,379
Shareholder Capital Issued	9,350,000	2,310,000
Net cash flows from/(to) financing activities	9,177,023	2,601,379
Net increase in cash and cash equivalents	8,557,061	724,882
Cash and cash equivalents at beginning of period	7,052,276	6,327,394
Cash and cash equivalents at end of period	15,609,337	7,052,276
Cash is represented by:		
Cash at bank and in hand	15,609,337	7,052,276
Cash and cash equivalents at end of year	15,609,337	7,052,276

The Notes to the Financial Statements form part of, and are to be read in conjunction with, these Financial Statements.

LIFETIME INCOME LIMITED
Statement of Cash Flows continued
For the year ended 31 March 2020

	2020 \$	2019 \$
<u>Operating activities reconciliation</u>		
(Loss)/Profit after tax	(4,055,895)	(98,305)
Add back non-cash items		
Change in policyholder liabilities	12,368,468	(1,255,500)
Unrealised losses/(gains) on financial instruments at fair value	(10,758,600)	(3,024,029)
Amortisation of intangible assets	18,209	12,458
Interest on collateral provided to support futures and swaps contracts	(40,902)	(24,102)
Changes in working capital items		
(Increase)/decrease in Margin account	(1,619,689)	(2,537,142)
(Increase)/decrease in Insurance receivables	(86,049)	(62,764)
(Increase)/decrease in Related party receivables	(11,827)	307,144
(Increase)/decrease in Taxation	2,383,045	(31,618)
(Increase)/decrease in Prepayments	(506)	(172,820)
(Increase)/decrease in Financial assets held at fair value through profit or loss	2,589,775	8,352,395
Increase/(decrease) in Accounts payable	(228,261)	396,233
Increase/(decrease) in Related party loans	(63,716)	63,716
Increase/(decrease) in Life investment contract liabilities	(1,286,989)	(3,482,491)
Items classified as Financing Activities		
Payments made to/(Funding received from) related parties	172,976	(290,922)
Net cash outflow from operating activities	(619,962)	(1,847,747)

LIFETIME INCOME LIMITED

Notes to the Financial Statements

For the year ended 31 March 2020

These are the Financial Statements of Lifetime Income Limited.

The Company is a for-profit entity incorporated and domiciled in New Zealand, it was incorporated on 19 May 2014. The address of its registered office is Level 5, 50-64 Customhouse Quay, Wellington, New Zealand.

The Company's principal products and services comprise the selling and administration of Life Insurance and Life Investment products. The Company was granted a licence by the Reserve Bank of New Zealand ("RBNZ") on 4 December 2015 to operate as an Insurer subject to the Insurance (Prudential Supervision) Act 2010 ("IPSA"). As a consequence of being a licensed Insurer, the Company is deemed to be an FMC Reporting Entity under the Financial Markets Conduct Act 2013. On 20 September 2017 this license was modified to remove all restrictions on the Company only providing Variable Annuity Business. On 26 March 2019 this license was further modified to increase the factor weight w to 0.3 (2019: 0.1). The factor weight w is applied by the Company when calculating the capital charge for the variable annuity business. An increase in this weighting means the Company receives more credit for its hedging and risk management strategy and as a result can hold less capital.

Basis of preparation

The financial statements are for the Company as a separate legal entity and have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand accounting standards and authoritative notices, as appropriate for for-profit entities. They comply with International Financial Reporting Standards.

These financial statements are prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss. Unless otherwise stated, all amounts are expressed in New Zealand Dollars, which is the Company's presentation and functional currency. All amounts are rounded to the nearest New Zealand dollar, except for note 6 Solvency Margin, which is rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

Going Concern

The financial statements have been prepared on a going concern basis, which assumes that the Company has the intention and ability to continue operations for the foreseeable future (at least 12 months from the date of authorisation of the financial statements). In reaching this assessment the Directors have considered the ability of the Parent entity, Retirement Income Group Limited ("Parent", "Group") to provide support to the Company. As at balance date, the Parent has reaffirmed its support of the Company. This included confirmation that the Parent would provide ongoing capital to maintain regulatory capital requirements.

The ability of the Parent to honour this commitment is dependent on its ability to access sufficient funds and provide regulatory capital to the Company. To determine the availability of funding, the Parent has performed a cash flow assessment through to 30 September 2021. This assessment considers the updated RBNZ imposed licence conditions that the RBNZ has provided to the Company requiring it to increase its regulatory capital. Effective from 31 December 2020 the Company is required to maintain a minimum solvency margin of \$5 million, with this minimum solvency margin increasing to \$10 million effective from 30 June 2021. Up until 30 December 2020, the minimum solvency margin of the Company is \$0.

Given the available cash and current cash flow run rate, the Company and Group has sufficient cash to operate for the next 12 months. However, new capital is required to be raised by the Group in order to maintain the regulatory capital requirements effective from 31 December 2020 and 30 June 2021, and to provide sufficient regulatory capital for planned sales growth.

Over the past year, the Group has been able to successfully raise capital from its shareholders to meet its capital requirements and has raised \$8.0 million from two share placements. The Group has commenced raising capital and is targeting a raise of between \$14.5 million - \$25 million. The Group's ability to raise additional capital to ensure the Company can meet its regulatory capital requirements indicates a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. As a result, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

LIFETIME INCOME LIMITED

Notes to the Financial Statements

For the year ended 31 March 2020

Going Concern continued

Notwithstanding the material uncertainty noted above, the Board is confident that the Group will be able to raise additional capital, in accordance with the plan in place. Therefore, they consider it appropriate to continue to adopt the going concern basis in preparing these financial statements.

Comparatives

To ensure consistency with the current period, comparative figures have been reclassified to align with current year presentation where appropriate.

Accounting for Life Insurance Business

The Life Insurance operations of the Company comprise the selling and administration of contracts which are classified as either life insurance contracts or life investment contracts.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if, an insured event could cause an insurer to pay significant benefits in any scenario, excluding scenarios that lack commercial substance. Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as a policyholder's Lifetime Income Fund balance reaching zero. The insured benefit is not linked to the market value of the investment held by the Company, and the financial risks are substantially borne by the Company. Any products that do not meet the definition of a life insurance contract are classified as life investment contracts.

Life investment contracts include investment-linked contracts where the benefit amount is directly linked to the market value of the investments held. The underlying assets are registered in the name of the life insurer. The investment-linked policy owner has no direct access to the specific assets. However, the contractual arrangements are such that the investment-linked policy owner bears the risks and rewards of the investment performance.

The subsequent notes are set out in the following main categories:

- a. Insurance Profit
- b. Insurance Liabilities
- c. Investments
- d. Non Financial Assets and Liabilities & Taxation
- e. Risk
- f. Other Information

LIFETIME INCOME LIMITED
Notes to the Financial Statements
For the year ended 31 March 2020

a. Insurance Profit

1. Revenue

Revenue is categorised and recognised using the methods outlined below.

	2020	2019
	\$	\$
Insurance Premium Revenue		
Life insurance premiums	1,738,235	793,369

Premium revenue is earned on life insurance contracts which the Company provides to the investors in the Lifetime Income Fund. Premiums are calculated and invoiced monthly based on the value of the investor's protected income base. Premiums are recognised as revenue over the duration of the insurance policy, i.e. as the insurance service is provided. Unearned premiums are recognised in the Statement of Financial Position within the policyholder liabilities balance.

Management Fee Revenue

Administration Fees	199,110	272,806
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Administration fees are earned in respect of the administration and management of the life investment contracts held by the Company. Under life investment contracts the Company receives deposits from policyholders which are then invested on behalf of the policyholders. Fees deducted from policyholders' accounts are accounted for as fee revenue and are recognised in profit or loss as the administration and management services are provided over time.

Interest Income	136,942	128,615
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Interest earned on financial assets at amortised cost, including cash and cash equivalents is included as investment revenue in the Statement of Profit or Loss and Other Comprehensive Income on an accruals basis applying the effective interest method.

Other Revenue

Expense recoveries	50,000	-
Expense recoveries comprise the recovery of costs that have been incurred by the Company that have been reclaimed from third parties unrelated to the Company. Revenue is recognised over time as the Company incurs the costs.		

2. Other expenses

Other expenses are also incurred for the operation of the business in relation to the maintenance of life insurance contracts including administration and fund management costs.

	2020	2019
	\$	\$
Management and Administration Costs	335,962	212,090
Maintenance and Investment Management Costs	377,452	373,965
Total other expenses	713,414	586,055

Commission and management expenses are categorised into management and administration or maintenance and investment management costs on the basis of a detailed functional analysis of activities carried out by the Company.

Acquisition costs

Acquisition costs are the fixed and variable costs of accepting, issuing and initially recording policies, including initial commission and similar distribution costs. Acquisition costs do not include general growth and development costs that are not specifically related to acquisition activity. There are no acquisition costs applied to new business written by the Company.

LIFETIME INCOME LIMITED
Notes to the Financial Statements
For the year ended 31 March 2020

2. Other expenses continued

Maintenance and investment management expenses

Maintenance costs are the fixed and variable costs of administering policies subsequent to sale. These include general growth and development costs. Maintenance costs include all operating costs other than acquisition and investment management costs. Investment management costs are the fixed and variable costs of managing investment funds.

3. Insurance receivables

Insurance receivables relate to amounts due to the Company in the ordinary course of business. The carrying value of insurance receivables approximates the fair value as they are settled within a short period.

	2020	2019
	\$	\$
Outstanding premiums	189,936	93,178
Outstanding Management Fees	9,654	20,363
Total Insurance receivables	199,590	113,541

Insurance receivables past due but not impaired

The Company considers that insurance receivables are past due if no payments have been received when contractually due. At the reporting date the total of the carrying value of past due but not impaired assets held by the Company is \$Nil (2019: \$Nil). No assets are considered impaired. (2019: \$Nil)

b. Insurance Liabilities

4. Critical Accounting Estimate: policyholder liabilities

The Company's policy liabilities are split between life insurance contracts and life investment contracts. Life insurance contracts are accounted for in accordance with the requirements of NZ IFRS 4 Insurance Contracts. Life investment contracts are accounted for in accordance with NZ IFRS 15 Revenue from Contracts with Customers and NZ IFRS 9 Financial Instruments.

Life insurance contract policy liabilities have been calculated in accordance with the New Zealand Society of Actuaries Professional Standard No 20 - Determination of Life Insurance Policy Liabilities ("NZSA PS20"). The approach adopted primarily uses the 'Margin on Services' ("MoS") method, which recognises profits on life insurance policies as services are provided to policyholders. The Company has two life insurance products: lifetime annuities and variable annuities.

These policy liabilities are calculated as the present value of all future expected annuity payments, expenses, taxes and profit margins less the present value of future expected insurance premiums. To the extent that there is a present value loss in relation to groups of policies held by the Company, this loss is recognised immediately.

Given the nature of Lifetime Income Limited's variable annuity liabilities, the best estimate liability is calculated using a stochastic simulation approach. Services provided over the life of a contract include the costs of meeting guaranteed annuity payments (claims), maintaining policies and managing the assets of Lifetime Income Limited. The Protected Income Base is used as the 'profit carrier' for variable annuity business to release profits as services are provided.

Correction of error in accounting for variable annuity policyholder liabilities

In March 2020 the Company reviewed the actuarial assumptions used for the variable annuity business and as a result discovered that an overly cautious view of projected investment return rates had been assumed on the underlying customer funds when determining policyholder liabilities.

For the Variable Annuity business, the best estimate assumptions incorporate an assumption about investment returns that can be expected on the underlying customers' own investment pool (this investment pool sits outside of the Company). These variable annuity customer investment pool investment returns are applied as stochastic simulations. Each variable annuity contract is therefore assessed using 1,000 different, but consistent, stochastic simulations around the best estimate view of projected investment returns.

LIFETIME INCOME LIMITED
Notes to the Financial Statements
For the year ended 31 March 2020

4. Critical Accounting Estimate: policyholder liabilities continued

A risk-free investment return had been assumed in error on underlying customer funds, which is not reflective of expected investment return on those funds. As a consequence, policyholder liabilities had been incorrectly calculated.

This error has been corrected to now assume a realistic investment return, which reflects the underlying nature of variable annuity customer funds that are invested in a mix of equity and fixed interest assets. The inclusion of a realistic investment return provides a more relevant and reliable basis for measurement of the Company's contractual obligations under the variable annuity policies. The realistic investment return for underlying customer funds has been estimated as 1.8% p.a. above the risk-free rates. This assumption better reflects realistic expectations that over the long-term equity funds are expected to have a greater returns than at risk-free levels. In estimating an investment return, the Company has referenced the historic investment returns on the underlying customer investments over a 10-year period. Given the level of uncertainty and volatility existing within the investment market, the Company has used its judgement to risk adjust this rate to 1.8% over the risk-free rate.

The error has been corrected by restating the split between best estimate liability and future profit margins. The change has not impacted on the comparative period insurance contract liabilities.

	31 March 2019	Adjustment	31 March 2019 Restated	31 March 2018	Adjustment	1 April 2018 Restated
Components of policyholder liabilities	\$	\$	\$	\$	\$	\$
(extract)						
Life insurance contract liabilities						
- Value of future profits	1,781,726	2,956,774	4,738,500	106,342	934,319	1,040,661
- Value of future policy claims	21,204,823	(2,727,165)	18,477,658	19,338,156	(890,154)	18,448,002
- Value of future expenses	2,431,535	203,096	2,634,631	848,996	79,001	927,997
- Value of (balance of) future premiums	(9,995,552)	(432,705)	(10,428,257)	(3,486,465)	(123,166)	(3,609,631)
Gross life insurance liabilities at 31 March	15,422,532	-	15,422,532	16,807,029	-	16,807,029

There is no change in the overall amount of policyholder liabilities held by the Company and as a result there are no changes to the statement of profit or loss and other comprehensive income or the statement of financial position in the current period or prior periods.

Lifetime annuities are calculated using traditional deterministic projection methods, the 'profit carrier' for this business is the amount of annuity in payment.

LIFETIME INCOME LIMITED
Notes to the Financial Statements
For the year ended 31 March 2020

4. Critical Accounting Estimate: policyholder liabilities continued

Life insurance contracts are those contracts that transfer significant insurance risk. Life investment contracts are those contracts with no insurance risk, but which give rise to a financial asset and/or liability under NZ IFRS 9. The Company has two life investment products: unit-linked business and a very small amount of investment account business. Policyholder Liabilities consist of life insurance contract liabilities and life investment contract liabilities.

Policyholder liabilities are reviewed by the Appointed Actuary. The Company's IPSA Section 78 actuarial reports for the years ended 31 March 2019 and 2020 were prepared by the Appointed Actuary; Charles Hett MA, FNZSA, FIA. The actuarial reports indicate that the Appointed Actuary is satisfied as to the accuracy, nature and sufficiency of the data upon which the policy liabilities have been determined.

A. Life investment contract liabilities

These contracts are measured at fair value with any change in value being recognised in profit or loss. The policyholder liability for life investment contracts is valued using an accumulation method, which is determined as the policy account balance including accrued interest to the balance date, plus any investment fluctuation reserves subject to a minimum of the current surrender value.

B. Life insurance contract liabilities

Life Insurance contract liabilities are assessed by the Appointed Actuary on the basis of recognised actuarial methods, with due regard to relevant actuarial principles (as documented in NZSA PS20). The methodology considers the risks and uncertainties of particular classes of life insurance business written.

(a) Disclosure of methods

Life insurance contract liabilities

The value of life insurance contract liabilities is calculated using the methodology in accordance with NZSA PS20.

Margin on Services - Projection method

The "Projection method", under Appendix C of NZ IFRS 4, essentially uses expected cash flows (premiums, benefit payments, taxes, expenses and profits) based on best estimate assumptions and a risk-free discount rate, to establish the value of policy liabilities.

In addition, for Variable Annuity business, the best estimate assumptions incorporate an assumption about investment returns that can be expected on the underlying customers' own investment pool (this investment pool sits outside of the Company). These variable annuity customer investment pool investment returns are applied as stochastic simulations. Each variable annuity contract is therefore assessed using 1,000 different, but consistent, stochastic simulations around the best estimate view of projected investment returns.

The expected cash flows also include an allowance for planned (profit) margins. Profit margins are released over each reporting period in line with services that have been provided. To the extent that there is a present value loss in relation to certain policies held by the Company, this loss is recognised immediately. The variable annuity business as at 31 March 2020 was considered a single pool of contracts and overall was in "loss recognition". No future planned profit margins were included in the variable annuity policy liability as at 31 March 2020.

(b) Disclosure of assumptions

Actuarial assumptions about future experience are required for calculating policy liabilities. The key assumptions were:

i. Profit Carriers

Where the policy liability is determined by the projection method, Appendix C of NZ IFRS 4 and actuarial standards require profit to be related to one or more financially measurable indicators of the provision of service (or related income) called "profit carriers". The Protected Income Base is used as a 'profit carrier' for variable annuity business and the amount of the annuity used for lifetime annuity business to release profits as services are provided.

LIFETIME INCOME LIMITED

Notes to the Financial Statements

For the year ended 31 March 2020

4. Critical Accounting Estimate: policyholder liabilities continued

ii. Variable Annuity Customer Fund projected investment returns

The projected investment return for underlying variable annuity customer funds was determined using a risk-free interest rate plus a fixed additional rate as a base to reflect the asset mix of the underlying customer fund. Several different stochastic simulations are then applied to this base to determine the investment return for each simulation. The risk-free interest rates are included in 4(B)(b)(iii) below. For 31 March 2020 the additional rate reflecting investment returns was taken as 1.8% p.a. (after tax) (2019: 1.8% p.a.). This rate was determined from the asset mix, assumed average customer tax rates and assumed long-term future returns on underlying assets.

iii. Risk Free Interest Rates

In respect of variable annuity products, the risk-free interest rates assumed are derived by considering New Zealand Government Bond rates and risk free Bank Bill swap rates as at 31 March 2020 (2019: same approach). The risk-free interest rate is used as the basis for assumed projected investment returns for variable annuity business (see 4(B)(b)(ii)) and also as the basis for discounting future cash flows to the balance sheet date. Returns can be calibrated against results available from the RBNZ website.

Variable Annuity Business

Maturity	Yield % p.a.	
	2020	2019
1	0.51%	1.70%
5	0.70%	1.77%
10	1.08%	2.15%
15	1.32%	2.42%
20	1.48%	2.56%
25	1.64%	2.63%
30	1.80%	2.68%

The risk-free rate used for lifetime annuity business was determined by reference to the 10 year Bank Bill swap rate linking to the underlying duration of annuity liabilities and was 0.93% per annum.

To provide a basis for the variable annuity stochastic simulations an implied volatility is required - where the Milliman Managed Risk Strategy ('MMRS') strategies were used, an assumed target volatility of 7.5% was assumed.

The valuation of the life insurance policyholder liability is very sensitive to changes in the interest rate. The table below shows the impact of a change in interest rate on the policyholder liability (no minimum interest rate floor of 0% has been applied to these sensitivities).

Changes in variables	Movement	Increase/decrease in policy liabilities (NZD)
Variable annuity		
Risk Free Rate	Deterioration by 1.75 percent point (net of taxes, fees)	18,895,000
	Increase by 1.75 percent point (net of taxes, fees)	(11,300,000)
Lifetime annuity		
Risk Free Rate	Deterioration by 1.75 percent point (net of taxes, fees)	947,000
	Increase by 1.75 percent point (net of taxes, fees)	(821,000)

The risk free rate affects both the discount rate and the projected investment return.

iv. Expenses

Expense assumptions for Variable Annuity business were developed in accordance with recent experience and the business plan for the year ending 31 March 2021. Maintenance expenses of 0.55% (2019: 0.55%) of account values were assumed and there were no acquisition costs. For the Lifetime Annuity business investment expenses of 0.30% p.a. of annuity fund assets (2019: 0.30%) and administration expenses of \$120 per policy p.a. (2019: \$120) escalating with inflation at 1% p.a. were assumed

LIFETIME INCOME LIMITED

Notes to the Financial Statements

For the year ended 31 March 2020

4. Critical Accounting Estimate: policyholder liabilities continued

v. Tax Rates and Basis

The tax rate for 2020 is 28% for all classes of business (unchanged from 2019) and this has been assumed for all future years for annuity business. The taxation of variable annuity business is linked to the movement of underlying hedges and the best estimate assumption is that the 31 March 2020 hedge values remain unchanged into the future. There has been no utilisation of tax losses assumed in the valuation of policyholder liabilities.

vi. Mortality

For variable annuity products, scaled New Zealand Life Tables 2010-2012 based on Non-Maori male and female rates extrapolated from age 105 to age 115 were adopted. A further mortality improvement rate was assumed for each projection year. For lifetime annuity business, mortality rates are based on standard tables; New Zealand Life Tables 2012-2014 for Non-Maori lives with an age adjustment of 2 years. These rates are assumed to improve in the future based on the duration since the effective date of the mortality table. There were no changes to assumed mortality and mortality improvement rates between 2020 and 2019.

Illustrative Mortality Rates

	Variable Annuity				Lifetime Annuity			
	Base Mortality		Improvement		Base Mortality		Improvement	
	Male	Female	Male	Female	Male	Female	Male	Female
60	0.0038	0.0024	3.0%	3.0%	0.0052	0.0035	2.0%	2.0%
70	0.0111	0.0073	2.5%	2.5%	0.0140	0.0085	1.5%	1.5%
80	0.0380	0.0258	1.5%	1.5%	0.0399	0.0280	0.9%	0.9%
90	0.1286	0.1061	0.75%	0.75%	0.1417	0.1012	0.6%	0.6%

vii. Lapse Rates – variable annuity business

A base variable annuity business lapse rate of 6% (2019: 6%) was assumed for all policy durations. A dynamic lapse multiplier was assumed scaling all baseline rates depending on the simulated “moneyness” of the guarantee defined to be equal to the account value / protected income base. This has the effect of bringing into the lapse assumption an adjustment for behavioural variation depending on the possible investment outcomes over the projection period. No lapse rates are assumed for lifetime annuity business.

viii. Surrender value

There are no surrender values applying to any variable annuity or lifetime annuity life insurance policies. Unit linked and investment account policies pay the account balance less any surrender penalties.

ix. Reinsurance

There is no reinsurance for lifetime annuity business. Effective from 31 March 2020 for variable annuity business written to that date, the Company entered into a treaty with Hannover Reinsurance (Germany) (“Hannover Re”) for a 85% quota share longevity mortality risk swap. This provides reinsurance against mortality experience varying from the levels expected (i.e. mortality best estimate assumptions). For this protection the Company pays Hannover Re a reinsurance fee.

x. Impact of COVID-19 (novel coronavirus) pandemic

On 11 March 2020, the World Health Organization declared the outbreak of coronavirus (COVID-19) a pandemic and two weeks later the New Zealand Government declared a State of National Emergency. The country was moved to COVID-19 Alert Level 4 and put into lockdown. As a result of both the outbreak and the response of Governments in dealing with the pandemic, economic uncertainties have arisen which are likely to affect the Company's operations and financial results going forward.

The main short-term impacts were a noticeable reduction to interest rates and a fall in global stock markets. This had the effect of increasing the Company's policy liabilities counter-balanced by an increase to the value of the hedges the Company had in place.

LIFETIME INCOME LIMITED
Notes to the Financial Statements
For the year ended 31 March 2020

4. Critical Accounting Estimate: policyholder liabilities continued

x. Impact of COVID-19 (novel coronavirus) pandemic continued

There remains a significant amount of uncertainty, the possible effects on the Company as a result of the COVID-19 pandemic include:

- a reduction in the number of new investments made by customers and also potentially some reduction to the current customer balances from withdrawals reducing the level of guaranteed income;
- claims experience differing to what has occurred historically; and
- significantly greater volatility in the value of investments and fluctuations in interest rates.

At this time, it is difficult to determine the full effect of the COVID-19 pandemic or Governments' varying efforts to combat the outbreak and support businesses, and there could be other related operational matters that affect the Company.

	2020	2019 Restated
	\$	\$
Movements in policyholder liabilities		
Net policyholder liabilities at the end of the year	37,111,548	26,030,071
Net policyholder liabilities at the end of the previous year	26,030,071	30,768,061
Net change in policyholder liabilities	11,081,477	(4,737,990)
Net change in policyholder liabilities as above	11,081,477	(4,737,990)
Withdrawals recognised as a decrease in life investment contract liabilities	(1,286,991)	(3,482,490)
Net increase/(decrease) in policyholder liabilities as per Statement of Profit or Loss and Other Comprehensive Income	12,368,468	(1,255,500)
Components of policyholder liabilities		
Life insurance contract liabilities:		
- Value of future profits	1,269,000	4,738,500
- Value of future policy claims	39,612,000	18,477,658
- Value of future expenses	4,773,000	2,634,631
- Value of future reinsurance fee	4,393,000	-
- Value of (balance of) future premiums	(22,256,000)	(10,428,257)
Gross life insurance liabilities at 31 March	27,791,000	15,422,532
Life investment contract liabilities:		
Value of policy liabilities - Accumulation Method	9,320,548	10,607,539
- Future policy benefits	-	-
Gross life investment contract liabilities at 31 March	9,320,548	10,607,539
Policyholder liabilities as per Statement of Financial Position	37,111,548	26,030,071
Value of policy benefits subject to capital guarantees included in policy liabilities		
- In respect of contracts with discretionary participation features	-	-
- In respect of investment-linked contracts	-	-
- In respect of any other contracts not addressed above, the amount of the current termination values	112,926	110,074
Total	112,926	110,074

LIFETIME INCOME LIMITED
Notes to the Financial Statements
For the year ended 31 March 2020

4. Critical Accounting Estimate: policyholder liabilities continued

Liability adequacy test

At each balance date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from assets backing such liabilities, are used. Liabilities are grouped into related product group and each group is tested against the best estimate of future cash flows. If the liability of the related product group is less than the best estimate, the liability is increased with the expense being booked directly through the profit or loss.

5. Statutory Funds

As required by the Insurance (Prudential Supervision) Act 2010 (the "Act"), the Company has established the following statutory funds in respect of its life insurance business:

- Lifetime Income Limited Statutory Fund Number 1 - Lifetime Income Fund;
- Lifetime Income Limited Statutory Fund Number 2 - Foundation Annuity and Unit Linked Business;
- Lifetime Income Limited Statutory Fund Number 3 - Simplicity Variable Annuity Product.
- Lifetime Income Limited Statutory Fund Number 4 - Britannia Variable Annuity Product.

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 Fund are only available for the life insurance business. In addition, the assets of the Fund enjoy certain protections under the Act which are designed to ensure that the interests of holders of life insurance and life investment policies are given certain priority over the interests of other parties, such as unsecured creditors.

As at 31 March 2020 there are no other restrictions on the use of assets invested for the policyholder benefits relating to life insurance contracts, nor any restrictions on legal titles to assets. Assets relating to life investment contracts are only held for the benefit of these contracts.

The Statement of Financial Position and Statement of Profit or Loss and Other Comprehensive Income as split by fund, are broken down as follows:

	Statutory Fund 1	Statutory Fund 2	Statutory Fund 3	Statutory Fund 4	Shareholder Fund	Total
Statement of Financial Position as at 31 March 2020						
Assets						
Cash and cash equivalents	10,277,904	1,623,252	1,676,668	1,901,678	129,835	15,609,337
Margin accounts	6,400,181	-	-	-	-	6,400,181
Insurance receivables	169,481	9,654	10,285	10,170	-	199,590
Prepayments	-	128,331	-	-	44,993	173,324
Related party receivables	-	-	-	-	72,627	72,627
Taxation receivable	-	173,386	303	61	-	173,750
Financial assets at fair value through profit or loss	11,546,459	20,254,791	-	-	-	31,801,250
Intangible assets	-	-	-	-	26,833	26,833
Interfund balances	-	399,999	-	-	-	399,999
Less Liabilities						
Accounts payable	98,544	155,487	-	-	62,773	316,804
Related party payables	-	-	-	-	-	-
Taxation	2,337,575	-	-	-	5,452	2,343,027
Interfund balances	196,627	-	53,372	50,000	100,000	399,999
Financial Liabilities held at fair value through profit or loss	1,190,676	-	-	-	-	1,190,676
Life insurance contract liabilities	14,757,000	11,805,000	515,000	714,000	-	27,791,000
Life investment contract liabilities	-	9,320,548	-	-	-	9,320,548
Total Equity	9,813,603	1,308,378	1,118,884	1,147,909	106,063	13,494,837

LIFETIME INCOME LIMITED
Notes to the Financial Statements
For the year ended 31 March 2020

5. Statutory Funds continued

	Statutory Fund 1	Statutory Fund 2	Statutory Fund 3	Statutory Fund 4	Shareholder Fund	Total
Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 March 2020						
Income						
Net premium revenue	1,589,126	3,194	66,661	79,254	-	1,738,235
Management fee and Other revenue	-	199,110	-	-	50,000	249,110
Investment revenue	84,015	33,003	3,572	7,138	9,214	136,942
Unrealised Gains/(Losses) on financial instruments at fair value	10,251,601	507,400	-	-	(401)	10,758,600
Less Expenses						
Payments and withdrawals to annuity holders	-	1,501,983	-	-	-	1,501,983
Change in policyholder liabilities	12,130,515	(846,000)	473,759	610,194	-	12,368,468
Operating expenses	302,015	112,511	8,660	93	290,135	713,414
Profit/(loss) before tax	(507,788)	(25,787)	(412,186)	(523,895)	(231,322)	(1,700,978)
Less Income tax expense	2,354,917	-	-	-	-	2,354,917
Profit/(loss) after tax	(2,862,705)	(25,787)	(412,186)	(523,895)	(231,322)	(4,055,895)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income/(expense)	(2,862,705)	(25,787)	(412,186)	(523,895)	(231,322)	(4,055,895)
Statement of Movements in Equity						
Opening Share Capital	5,737,602	1,093,897	175,050	504,050	299,401	7,810,000
Equity transfer	7,201,327	(593,699)	1,384,631	1,254,241	(9,246,500)	-
Issue of shares	-	-	-	-	9,350,000	9,350,000
Closing Share Capital	12,938,929	500,198	1,559,681	1,758,291	402,901	17,160,000
Opening Retained Earnings	(262,621)	833,967	(28,611)	(86,487)	(65,516)	390,732
Total comprehensive income/(expense)	(2,862,705)	(25,787)	(412,186)	(523,895)	(231,322)	(4,055,895)
Closing Retained Earnings	(3,125,326)	808,180	(440,797)	(610,382)	(296,838)	(3,655,163)
Total Equity	9,813,603	1,308,378	1,118,884	1,147,909	106,063	13,494,837
Statement of Financial Position as at 31 March 2019						
Assets						
Cash and cash equivalents	3,087,504	3,130,181	145,278	417,635	271,678	7,052,276
Margin accounts	2,348,672	-	-	-	-	2,348,672
Insurance receivables	87,406	20,362	2,101	3,672	-	113,541
Prepayments	-	126,046	-	-	46,775	172,821
Related party receivables	30,800	-	-	-	30,000	60,800
Taxation receivable	17,341	19,338	302	62	22,955	59,998
Financial assets at fair value through profit or loss	2,825,449	22,490,933	-	-	-	25,316,382
Intangible assets	-	-	-	-	45,042	45,042
Interfund balances	60,000	-	40,000	100,000	-	200,000
Less Liabilities						
Accounts payable	25,758	400,458	-	-	118,849	545,065
Related party payables	-	-	-	-	63,716	63,716
Interfund balances	-	200,000	-	-	-	200,000
Financial Liabilities held at fair value through profit or loss	329,948	-	-	-	-	329,948
Life insurance contract liabilities	2,626,485	12,650,999	41,242	103,806	-	15,422,532
Life investment contract liabilities	-	10,607,539	-	-	-	10,607,539
Total Equity	5,474,981	1,927,864	146,439	417,563	233,885	8,200,732

LIFETIME INCOME LIMITED
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5. Statutory Funds continued

	Statutory Fund 1	Statutory Fund 2	Statutory Fund 3	Statutory Fund 4	Shareholder Fund	Total
Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 March 2019						
Income						
Net premium revenue	758,775	2,230	15,134	17,230	-	793,369
Management fee revenue	-	272,806	-	-	-	272,806
Investment revenue	43,749	59,150	1,068	221	24,427	128,615
Unrealised Gains/(Losses) on financial instruments at fair value	2,039,947	984,082	-	-	-	3,024,029
Less Expenses						
Payments and withdrawals to annuity holders	-	4,986,569	-	-	-	4,986,569
Change in policyholder liabilities	2,480,418	(3,880,965)	41,241	103,806	-	(1,255,500)
Operating expenses	193,300	180,268	92	93	212,302	586,055
Profit/(loss) before tax	168,753	32,396	(25,131)	(86,448)	(187,875)	(98,305)
Less Income tax expense	-	-	-	-	-	-
Profit/(loss) after tax	168,753	32,396	(25,131)	(86,448)	(187,875)	(98,305)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income/(expense)	168,753	32,396	(25,131)	(86,448)	(187,875)	(98,305)
Statement of Movements in Equity						
Opening Share Capital	4,237,602	1,313,897	55,050	50	(106,599)	5,500,000
Equity transfer	1,500,000	(220,000)	120,000	504,000	(1,904,000)	-
Issue of shares	-	-	-	-	2,310,000	2,310,000
Closing Share Capital	5,737,602	1,093,897	175,050	504,050	299,401	7,810,000
Opening Retained Earnings	(431,374)	801,571	(3,480)	(39)	122,359	489,037
Total comprehensive income/(expense)	168,753	32,396	(25,131)	(86,448)	(187,875)	(98,305)
Closing Retained Earnings	(262,621)	833,967	(28,611)	(86,487)	(65,516)	390,732
Total Equity	5,474,981	1,927,864	146,439	417,563	233,885	8,200,732

6. Solvency Margin

Solvency requirements

In April 2020, the Company identified a material issue in how it had been calculating its solvency and sought clarification from the RBNZ. The RBNZ has provided directions on the correct capital methodology to apply. The corrected method requires the Company to hold more capital, and as a result the 31 March 2020 solvency margin was below the minimum requirement of \$0.

Since 31 March 2020, the Company has increased its solvency margin to above minimum requirements. As at 30 June 2020 the unaudited solvency margin was \$3.2 million and a solvency ratio of 124%.

The RBNZ has subsequently issued licence conditions that will require the Company to further increase its regulatory capital. Effective from 31 December 2020, the Company is required to maintain a minimum solvency margin of \$5 million, with this minimum solvency margin increasing to \$10 million effective from 30 June 2021. Up until 30 December 2020, the minimum solvency margin of the Company is \$0.

LIFETIME INCOME LIMITED
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6. Solvency Margin

As at 31 March 2020		Statutory Fund 1 \$000	Statutory Fund 2 \$000	Statutory Fund 3 \$000	Statutory Fund 4 \$000	Shareholder Fund \$000	Total \$000
Equity		9,814	1,308	1,119	1,148	106	13,495
Deductions from Capital		-	-	-	-	(57)	(57)
Actual solvency capital	(A)	9,814	1,308	1,119	1,148	49	13,438
Minimum solvency capital	(B)	12,743	972	943	945	0	15,603
Solvency Margin	(A)-(B)	(2,929)	336	176	203	49	(2,165)
Solvency Ratio	(A)/(B)	77%	135%	119%	121%	9283%	86%
As at 31 March 2019		Statutory Fund 1 Restated \$000	Statutory Fund 2 \$000	Statutory Fund 3 Restated \$000	Statutory Fund 4 Restated \$000	Shareholder Fund \$000	Total Restated \$000
Equity		5,475	1,928	146	418	234	8,201
Deductions from Capital		-	-	-	-	(75)	(75)
Actual solvency capital	(A)	5,475	1,928	146	418	159	8,126
Minimum solvency capital	(B)	4,390	837	76	322	1	5,626
Solvency Margin	(A)-(B)	1,085	1,091	70	96	158	2,500
Solvency Ratio	(A)/(B)	125%	230%	193%	130%	13588%	144%

The 31 March 2019 solvency calculations for Statutory Fund 1, Statutory Fund 3, Statutory Fund 4 and the Company have been restated to apply the correct capital methodology. The methodology change in turn impacts the solvency margin and solvency ratio; the Company's actual solvency capital is not impacted. The change in methodology relates to a requirement to include best estimate and other liabilities within the total solvency requirement before deducting policy and other liabilities. The minimum solvency capital, solvency margin and solvency ratio for the 31 March 2019 comparative period has been restated accordingly. There was no impact to the statement of profit or loss and other comprehensive income or the statement of financial position in the current period or prior periods. The solvency margin and ratio have been restated to include realistic investment returns in the measurement of life insurance contract liabilities. Refer to note 4.

The impact of restatement for the 31 March 2019 comparative period is presented in the table below:

	Statutory Fund 1			Statutory Fund 3		
	31 March 2019	Adjustment	31 March 2019 Restated	31 March 2019	Adjustment	31 March 2019 Restated
	\$000	\$000	\$000	\$000	\$000	\$000
Minimum solvency capital	4,766	(376)	4,390	110	(34)	76
Solvency Margin	709	376	1,085	37	33	70
Solvency Ratio	115%	10%	125%	134%	59%	193%
	Statutory Fund 4			Total		
	31 March 2019	Adjustment	31 March 2019 Restated	31 March 2019	Adjustment	31 March 2019 Restated
	\$000	\$000	\$000	\$000	\$000	\$000
Minimum solvency capital	325	(3)	322	6,039	(413)	5,626
Solvency Margin	93	3	96	2,087	413	2,500
Solvency Ratio	128%	2%	130%	135%	9%	144%

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c. Investments

This section provides further information about the investments held by the Company, outlining the return received and the categorisations of these assets, including:

- a breakdown of the investment revenue streams
- specific accounting policies where relevant
- disaggregated information for those instruments considered to be most significant in the context of the Company's operations.

7. Other gains/(losses)

Unrealised Investment Movements

	2020	2019
	\$	\$
Realised gains/(losses) on items denominated in foreign currencies	481,684	-
Realised gains/(losses) on foreign exchange futures and interest rate derivatives	1,909,234	-
Unrealised gains/(losses) on fair value through profit or loss investments	507,400	984,082
Unrealised gains/(losses) on foreign exchange futures and interest rate derivatives	7,860,282	2,039,947
Total unrealised gains/(losses) on financial instruments at fair value	10,758,600	3,024,029

8. Margin account

Cash collateral provided by the Company is identified in the Statement of Financial Position as the margin account and is not included in cash and cash equivalents. The Company trades foreign exchange derivative contracts and interest rate swaps and holds a margin account as collateral with the broker. The cash is held by brokers and is only available to make margin calls.

9. Financial Instruments by Category

Classification

The basis of classification of the Company's financial instruments depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are measured at fair value through profit or loss.

Financial assets are recognised initially at fair value. After initial recognition, financial assets are measured at fair value or amortised cost, determined based on both (a) the Company's business model for managing the financial assets; and (b) the contractual cash flow characteristics of the financial asset.

The Company has determined that financial assets held meet the solely payments of principal and interest criterion and are in a held-to-collect business model backing life insurance and life investment contracts. Such assets are designated as either amortised cost or at fair value through profit or loss. All financial liabilities are valued at amortised cost.

Regular purchases and sales of financial assets are recognised into their categories on the trade-date- the date on which the company commits to purchase or sell the asset.

LIFETIME INCOME LIMITED
Notes to the Financial Statements
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9. Financial Instruments by Category continued

The analysis of financial assets and liabilities into their categories is set out in the table below:

As at 31 March 2020

	Amortised Cost	Fair value through profit or loss	Total
	\$	\$	\$
Financial Assets			
Cash and cash equivalents	15,609,337	-	15,609,337
Margin account	6,400,181	-	6,400,181
Insurance receivables	199,590	-	199,590
Related party receivables	72,627	-	72,627
Financial assets held at fair value through profit or loss	-	31,801,250	31,801,250
Financial Liabilities			
Trade and other payables	(316,804)	-	(316,804)
Related party payable	-	-	-
Financial liabilities held at fair value through profit or loss	-	(1,190,676)	(1,190,676)
Life investment contract liabilities	-	(9,320,548)	(9,320,548)
Total	21,964,931	21,290,026	43,254,957
	\$	\$	\$
As at 31 March 2019			
Financial Assets			
Cash and cash equivalents	7,052,276	-	7,052,276
Margin account	2,348,672	-	2,348,672
Insurance receivables	113,541	-	113,541
Related party receivables	60,800	-	60,800
Financial assets held at fair value through profit or loss	-	25,316,382	25,316,382
Financial Liabilities			
Trade and other payables	(545,065)	-	(545,065)
Related party payable	(63,716)	-	(63,716)
Financial liabilities held at fair value through profit or loss	-	(329,948)	(329,948)
Life investment contract liabilities	-	(10,607,539)	(10,607,539)
Total	8,966,508	14,378,895	23,345,403

Impairment

The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is not necessary for a credit event to have occurred before credit losses are recognised. The impairment model applies to the Company in relation to financial assets classified at amortised cost, being the Company's related party receivables.

The Company has applied the standard's simplified approach and has calculated ECLs for related party receivables that are exposed to credit losses based on a lifetime of expected credit losses. To measure the expected credit losses and related party receivables that are exposed to credit losses have been grouped based on shared credit risk characteristics and the days past due. Based on the Company's assessment no impairment provisions have been recognised.

LIFETIME INCOME LIMITED
Notes to the Financial Statements
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d. Non-financial Assets and Liabilities and Taxation

This section provides further information about those non-financial assets, liabilities and taxation position that the Directors consider significant for an understanding of the Company's financial position and performance, including:

- income tax expense and deferred tax asset and liability breakdown
- relevant accounting policies
- estimates and judgements made in determining these items
- explanation of the calculation basis for each type of non-financial assets and liabilities
- individually significant items.

10. Taxation

Income tax recognised in profit or loss	2020 \$	2019 \$
Current tax expense	2,354,917	-
Deferred tax expense	-	-
Income tax expense	2,354,917	-
(Loss)/Profit before tax	(1,700,978)	(98,305)
Income tax (credit)/expense at 28%	(476,274)	(27,525)
Prior year adjustment	(43,055)	-
Permanent differences		
- Life insurance premiums permanent differences	(486,706)	(222,143)
- Life Insurance liability permanent differences	3,883,726	1,044,699
- Non-deductible expenses	3,639	1,883
Group tax loss offset	(526,413)	(796,914)
Income tax expense	2,354,917	-
Imputation credits available for use in subsequent periods	214,045	59,998

Accounting for taxation in relation to the Company's tax position

Current tax

Current tax is calculated in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by balance date. Current tax is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax assets are recognised to the extent that it is probable that profits will be available against which deductible temporary differences or unused tax losses can be utilised.

11. Accounts Payable / Other Payables

	Note	2020 \$	2019 \$
Sundry creditors and accruals		174,113	180,091
Unit linked maturities holding		142,691	364,974
		316,804	545,065
Related party payables	18	-	63,716
Total accounts payable / other payables		316,804	608,781

Accounts payable are initially recognised at fair value and subsequently measured at amortised cost.

The amount recognised as a related party accrual is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation.

LIFETIME INCOME LIMITED
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12. Intangible assets

	2020	2019
	\$	\$
Cost		
Balance at 1 April	57,500	28,750
Movement	-	28,750
Cost at 31 March	57,500	57,500
Accumulated Depreciation		
Balance at 1 April	12,458	-
Movement	18,209	12,458
Accumulated Depreciation at 31 March	30,667	12,468
Net Book Value at 31 March	26,833	45,042

Intangible assets with a limited useful life are amortised using the straight-line method. The straight-line depreciation rate used for software was 40%.

13. Analysis of expense by nature

	2020	2019
	\$	\$
Bank fees	1,328	1,557
Fees paid to auditors		
- Audit fees	80,820	70,849
- Audit fees relating to the prior year	14,375	-
- Solvency return reasonable assurance	9,267	9,061
Management and Administration costs	163,808	230,653
Professional consultancy fees	362,702	226,438
Legal	12,996	6,724
Amortisation	18,209	12,458

e. Risk

This section of the notes discusses the Company's exposure to various risk and shows how these could affect the Company's financial position and performance.

14. Financial Risk Management

This section explains the Company's exposure to financial risks and how the risks could affect the Company's future financial performance, current year profit or loss information has been included where relevant to add further context.

Financial risks are generally monitored and controlled by selecting appropriate assets to back life insurance contracts. At present, all assets held to back life insurance contracts are either in the form of cash or other selected assets (including derivative assets). The assets are regularly monitored by the Board to ensure that there are no material asset and liability mismatching issues and other risks such as liquidity risk and credit risk are maintained within the acceptable limits. During the year, the Company established an Asset Liability Committee ("ALCO") to advise both the Audit and Risk Committee and the Board. ALCO meets monthly.

Financial risk management objectives

The Company has engaged the services of Milliman Pty Ltd to monitor and manage many of the financial risks relating to the operations of the Company through adoption of a Dynamic Hedge Strategy and also the Milliman Managed Risk Strategy ('MMRS') within the Lifetime Income Fund.

LIFETIME INCOME LIMITED
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14. Financial Risk Management continued

Risk Management Policies and Procedures

The financial condition and operating results of the Company are affected by a number of key financial and non-financial risks. Financial risks include interest rate risk, currency risk, credit risk, market risk, financing risk and liquidity risk. The non-financial risks are insurance risk, compliance risk, and operational risk. The risk management of the business was reviewed by an independent risk management consultant, who presented findings and recommendations to the Board. The Board adopted all of the recommendations and these are currently being implemented.

(a) Risk management objectives and policies for mitigating risk

The Company's objective is to satisfactorily manage the risks in line with the Company's Risk Policy, the relevant details of which are included below.

(b) Strategy for Managing Risk

Risk strategy

The Company adopted a Milliman Dynamic Hedge Strategy to maintain stability with the movement of variable annuity liabilities. In addition, the Company adopted a Milliman Managed Risk Strategy ('MMRS') for the Lifetime Income Fund. In respect of life investment contracts, the Company utilises fixed interest and unlisted equity investments.

The Milliman Dynamic Hedge Strategy provides protection against capital market changes to underlying equity markets and bond yield curves.

The MMRS has two primary components being:

- Volatility Management Strategy - this is designed to cap the volatility of returns within the Company.
- Capital Management Strategy - this aims to limit the potential for downside losses by replicating a put-option strategy to reduce the potential for capital drawdowns in falling and sustained down markets.

Allocation of capital

The Company is required to hold a certain level of assets (capital) in order to prudently meet its liabilities to policyholders, fulfil its new business plans and meet regulatory capital requirements. Capital is mainly held in Statutory Fund's based on management's assessment of the risk that each line of business is exposed to, and its views on the profitability of the products that are sold, on the regulatory capital requirements and its own views about a suitable margin above the regulatory requirement. Refer note 6 for disclosures on the Company's solvency requirements and margins.

(c) Methods to monitor and assess risk exposures

Exposure to risk

In an effort to protect and enhance shareholder value, the Company actively manages its exposure to risks so that it can react in a timely manner to changes in financial markets, insurance cycles, and economic and political environments.

Management reporting

The Company reports monthly financial and operations results to its Board.

(d) Methods to limit or transfer risk exposures

Reinsurance

The Company had no reinsurance until 31 March 2020 when a new 85% quota share longevity swap was agreed with Hannover Rück Se in Germany. Where required and applicable, further reinsurance programmes may be put in place (no contract effective for the 2019 year) to mitigate the impact on the Company's exposure to risk and to ensure the achievement of an appropriate choice of type of reinsurance and retention levels.

LIFETIME INCOME LIMITED
Notes to the Financial Statements
For the year ended 31 March 2020

14. Financial Risk Management continued

Dynamic Hedging

Through the use of dynamic hedging, there are benefits to the impact on the Company performance from capital market movements.

MMRS Hedging

Through the use of MMRS, there are limits on the maximum loss exposure that the Company is subject to for downside losses through the use of derivatives.

(e) Concentration of insurance risk

Insurance risks associated with human life events

The Company aims to maintain an appropriate solvency margin in excess of the minimum requirement for any given in force business mix. The Company determines insurance risk concentrations based on the levels of sum assured, as well as age and gender profiling of the policyholders.

Financing and Liquidity risk

Financing and liquidity risk is the risk that the Company will not be able to meet its cash outflows as they fall due, because of lack of liquid assets or access to funding on acceptable terms.

To mitigate financing and liquidity risk, the Company maintains sufficient liquid assets to ensure that the Company can meet its obligations and other cash outflows on a timely basis. The Company reports monthly to its Board regarding their cash balances.

Ultimate responsibility for financing and liquidity risk management rests with the Board of Directors, who have built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding management requirements.

The carrying amount of financial assets and liabilities recorded in the financial statements represents their respective fair values unless otherwise noted, determined in accordance with the accounting policies of the Company.

Quantitative liquidity risk

The table below summarises the Company's financial liabilities into relevant maturity groups based on the remaining period at the balance date to the contractual maturity date. The amounts disclosed are contractual undiscounted cash outflows that include interest payments and exclude the impact of netting agreements.

2020	<1 Month	1-3 Months	3-12 Months	>12 Months	Total
Financial Liabilities	\$	\$	\$	\$	\$
Payables	119,561	54,552	142,691	-	316,804
Related Party Payables	-	-	-	-	-
Financial liabilities held at fair value through profit or loss	-	524,260	-	666,416	1,190,676
Life investment contract liabilities	-	-	-	9,320,548	9,320,548
Total	119,561	578,812	142,691	9,986,964	10,828,028
2019	<1 Month	1-3 Months	3-12 Months	>12 Months	Total
Financial Liabilities	\$	\$	\$	\$	\$
Payables	382,860	65,844	96,361	-	545,065
Related Party Payables	63,716	-	-	-	63,716
Financial liabilities held at fair value through profit or loss	-	-	-	329,948	329,948
Life investment contract liabilities	-	-	-	10,607,239	10,607,239
Total	446,576	65,844	96,361	10,937,187	11,545,968

LIFETIME INCOME LIMITED
Notes to the Financial Statements
For the year ended 31 March 2020

14. Financial Risk Management continued

(f) **Market risk**

Market risk is the risk of change in the fair value of financial instruments from fluctuations in the foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such change in price is caused by factors specific to an individual financial instrument or its issuer or factors affecting all financial instruments traded in a market. Milliman provides foreign exchange hedging for all overseas currency denominated assets. At 31 March 2020 there was one variable annuity dynamic hedging margin account held with Goldman Sachs that was not hedged back to New Zealand dollars. Market risk management is also undertaken by Milliman through their dynamic hedging programme and through the MMRS for Lifetime Income Fund.

Interest rate risk

Interest rate risk is the risk that the value of the Company's assets and liabilities will fluctuate due to changes in market interest rates. The Company is exposed to interest rate risk through its liabilities and its assets including cash holdings. The Company manages its exposure through holding cash in liquid form. The variable annuity asset and liability risk managed by Milliman using a dynamic hedge strategy. Given the risk levels and claims profile the Board believe it is adequately managed.

If interest rates had been 1% higher/lower during the year the loss for the year would have been approximately \$156,000 (2019: \$71,000) lower/higher. The impact of changes in interest rates on the fair value of the Company's investments has been assessed as part of price risk.

Currency risk

Currency risk is the risk of loss resulting from changes to exchange rates when applied to assets and liabilities or future transactions denominated in a currency that is not in the Company's base currency. Milliman provides foreign exchange hedging for all overseas currency denominated assets. At 31 March 2020 there was one variable annuity dynamic hedging margin account held with Goldman Sachs that was not hedged back to New Zealand dollars. Foreign Currency futures contracts have been entered into subsequent to 31 March 2020 to manage this risk. The Company believes a degree of exposure to currency risk is prudent for managing the liabilities.

If the New Zealand dollar had been 5% higher/lower during the year the loss would have been approximately \$370,700 (2019: \$46,000) lower/higher.

Credit risk exposure

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only contracting with creditworthy counterparties, as a means of mitigating the risk of financial loss from defaults. Credit exposure in respect of the Company's cash deposit balances is limited to banks with minimum A credit ratings. The Company's exposure and the credit of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Concentration of credit risk exists when the Company enters into contracts or financial instruments with a number of counterparties that are engaged in similar business activities or exposed to similar economic factors that may affect their ability to meet contractual obligations. Lifetime Income Limited manages concentration of credit risk by credit rating, industry type and individual counterparty.

LIFETIME INCOME LIMITED
Notes to the Financial Statements
For the year ended 31 March 2020

14. Financial Risk Management continued

(i) Concentration of credit risk

The significant concentrations of credit risk are outlined by industry type below.

	Carrying Value	
	2020	2019
	\$	\$
Related party receivables	72,627	60,800
Banks	16,567,111	9,416,138
New Zealand government	234,282	9,167,810
Local government bonds	3,839,472	-
Financial institutions	33,169,903	16,133,382
Other receivables	199,590	113,541
	<u>54,082,985</u>	<u>34,891,671</u>

(ii) Maximum exposure to credit risk

The Company's maximum exposure to credit risk without taking account of any collateral or any other credit enhancements, is as follows:

	Carrying Value	
	2020	2019
	\$	\$
Cash and cash equivalents	15,609,337	7,052,276
Margin account	6,400,181	2,348,672
Related party receivables	72,627	60,800
Outstanding premiums and trade receivables	199,590	113,541
Financial assets at fair value through profit or loss	31,801,250	25,316,382
	<u>54,082,985</u>	<u>34,891,671</u>

(iii) Credit quality of financial assets that are neither past due nor impaired

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if applicable) or to historical information about counterparty default rates:

	Carrying Value	
	2020	2019
	\$	\$
Credit exposure by credit rating		
AAA	4,880,946	2,662,724
AA+	4,973,125	769,290
AA	424,906	7,572,805
AA-	16,543,493	10,283,214
A+	17,946,641	5,185,431
A	202,574	278,157
A-	-	64,149
BBB+	-	52,779
BBB	-	347,114
BBB-	-	63,974
Cash	-	479,960
Sub investment grade	-	65,060
Total counterparties with external credit rating by Standard and Poor's	<u>44,971,685</u>	<u>27,824,657</u>

LIFETIME INCOME LIMITED
Notes to the Financial Statements
For the year ended 31 March 2020

14. Financial Risk Management continued

(iii) Credit quality of financial assets that are neither past due nor impaired continued

Credit exposure by credit rating	Carrying Value	
	2020	2019
	\$	\$
Group 1: trade debtors outstanding for less than 6 months or secured	199,590	113,541
Group 1A: related party receivable	72,627	60,800
Group 2: trade debtors (more than 6 months) with some defaults in the past	-	-
Group 3: unrated investments	8,839,083	6,892,673
Total counterparties with no external credit rating	9,111,300	7,067,014
Total financial assets neither past due nor impaired with credit exposure	54,082,985	34,891,671

Price risk

Price risk is the risk that movements in market prices of the Company's investments adversely impacts its ability to meet its insurance obligations. The Company manages this risk through matching the maturity / term of the investments to its underlying exposures.

If prices had been 5% higher/lower during the year the loss for the year would have been approximately \$985,000 (2019: \$1,006,000) lower/higher.

Compliance and Operations risk

Compliance and operations risk is monitored at a Retirement Income Group Limited ("Group") level on a monthly basis by management through a formal committee structure and reporting to the Board at each of their meetings. Management uses an objective methodology to evaluate the likelihood and potential impact of each risk to help the Group understand its inherent risk exposure. "Inherent risk" is the risk that exists in the absence of any controls or mitigation strategies. At the outset gaining a preliminary understanding of inherent risk helps the Group develop an early view on its strategy for risk mitigation and steps required to accept or mitigate the risk.

(g) Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Refer below for details of valuation methods used for each category of financial assets and liabilities.

The carrying amounts of all financial assets and liabilities reasonably approximate the fair values. The following methods and assumptions were used by the Company in estimating the fair values of financial instruments.

LIFETIME INCOME LIMITED
Notes to the Financial Statements
For the year ended 31 March 2020

14. Financial Risk Management continued

(i) Cash and cash equivalents

The carrying amount of cash and cash equivalents reasonably approximates its fair value.

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

The fair value of financial assets at fair value through profit or loss is determined by reference to their quoted price at the reporting date.

Credit exposure by type	2020	2019
	\$	\$
Fixed Interest	10,882,484	9,167,810
Cash equivalents held as part of an investment portfolio	556,841	2,363,862
Unlisted Funds/Trusts	8,815,466	10,245,311
Interest rate derivatives	11,482,464	3,535,593
Foreign exchange futures	63,995	3,806
Total financial assets at fair value through profit or loss	31,801,250	25,316,382

The carrying amounts of all financial assets reasonably approximate their fair values.

Financial instruments that are measured in the Statement of Financial Position at fair value (excluding short term amounts held at a reasonable approximation of fair value), are categorised by the following fair value measurement hierarchy levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 - Inputs for that asset or liability that are not based on observable market data (i.e. as unobservable inputs)

The following tables present the Company's assets and liabilities categorised by fair value measurement hierarchy levels.

As at 31 March 2020

	Total	Level 1	Level 2	Level 3
	\$	\$	\$	
Financial Assets				
Derivative financial assets	11,546,459	-	11,546,459	-
Investment in unlisted funds/trusts	9,018,040	-	9,018,040	-
Investments in fixed interest securities	10,679,910	-	10,679,910	-
Cash	556,841	556,841	-	-
Total financial assets	31,801,250	556,841	31,244,409	-
Derivative financial liabilities	(1,190,676)	-	(1,190,676)	-
Life investment contract liabilities	(9,320,548)	-	(9,320,548)	-
Total financial liabilities	(10,511,224)	-	(10,511,224)	-

LIFETIME INCOME LIMITED
Notes to the Financial Statements
For the year ended 31 March 2020

14. Financial Risk Management continued

As at 31 March 2019

	Total	Level 1	Level 2	Level 3
Financial Assets	\$	\$	\$	
Derivative financial assets	3,539,399	-	3,539,399	-
Investment in unlisted funds/trusts	10,245,311	-	10,245,311	-
Investments in fixed interest securities	9,167,810	-	9,167,810	-
Cash	2,363,862	2,363,862	-	-
Total financial assets	25,316,382	2,363,862	22,952,520	-
Derivative financial liabilities	(329,948)	-	(329,948)	-
Life investment contract liabilities	(10,607,539)	-	(10,607,539)	-
Total financial liabilities	(10,937,487)	-	(10,937,487)	-

(a) Financial instruments in Level 1:

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1.

(b) Financial instruments in Level 2:

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for remaining financial instruments.

(iii) Financial liabilities at fair value through profit or loss

	2020	2019
	\$	\$
Interest rate derivatives	666,416	146,573
Foreign exchange futures	524,260	183,375
Total financial assets at fair value through profit or loss	1,190,676	329,948

Fair value is the amount for which a liability could be settled, between knowledgeable, willing parties in an arm's length transaction. The carrying amounts of all financial liabilities reasonably approximate their fair values. The fair value of derivative financial liabilities is determined by reference to the rates available from publicly quoted sources.

(iv) Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

LIFETIME INCOME LIMITED
Notes to the Financial Statements
For the year ended 31 March 2020

14. Financial Risk Management continued

Interest rate derivatives and foreign exchange futures disclosed in note 14 (ii) Financial assets at fair value through profit or loss and (iii) Financial liabilities at fair value through profit or loss are subject to offsetting, or other similar arrangements but not offset, as at 31 March 2020 and 31 March 2019.

f. Other Information

This section provides information about items that are not recognised in the financial statements but could potentially have significant impact on the Company's financial position and performance but are not included as they do not satisfy the recognition criteria.

15. Operating commitments

The Company utilises the premises in Wellington of its parent, Retirement Income Group Limited for which it is charged a management fee. In addition, the Company does not lease any operating equipment under cancellable operating lease agreements.

16. Contingent liability

The Company had no material contingent liabilities at balance date (2019: Nil).

17. Capital commitments

The Company had no material capital commitments at balance date (2019: Nil).

18. Related party information

The Company is a wholly owned subsidiary of Retirement Income Group Limited (ultimate controlling entity) and has the following related entities:

<u>Entity</u>	<u>Activity</u>
Lifetime Asset Management Limited	Fund Management
Stewart Capital Holdings Limited	Investment holding entity
Stewart Capital Limited	Investment holding entity

a) Key management personnel compensation

The Company does not incur any key management personnel expenses directly as these are incurred and paid for directly by Retirement Income Group. Key management personnel expenses include salaries and other short-term benefits, post-employment benefits, employee share options, termination benefits and Directors Fees. The Company pays for these services by way of a management fee to Retirement Income Group Limited.

b) Transactions with other related entities

		2020 \$	2019 \$
<i>Transactions during the year:</i>			
Retirement Income Group Limited	Management fees	12,660	11,692
Retirement Income Group Limited	Receipt of receivables/funding	-	259,168
Retirement Income Group Limited	Payment of payables	(119,003)	-
Lifetime Asset Management Limited	Repayment of loan	-	457
Stewart Capital Holdings Limited	Repayment/(provision) of loan	-	100,000

LIFETIME INCOME LIMITED
Notes to the Financial Statements
For the year ended 31 March 2020

18. Related party information continued

		2020 \$	2019 \$
<u>Receivables</u>			
Stewart Capital Holdings Limited	Related party loan	30,000	30,000
Retirement Income Group Limited	Related party receivable	42,627	30,800
<u>Payables</u>			
Retirement Income Group Limited	Related party payable	-	63,716

All related party loans are non-interest bearing and repayable on demand. Ralph Stewart is the majority shareholder of Stewart Capital Holdings Limited. In October 2017, the Company advanced an amount of \$450,000 to Stewart Capital Holdings Limited on interest free terms. As at balance date, \$420,000 of this loan had been repaid.

19. New standards adopted by the Company

The accounting policies used by the Company are consistent with those used in previous periods.

20. New standards not yet adopted

The following relevant new standards, amendments or interpretations to existing standards are not yet effective, and have not been early adopted by the Company:

NZ IFRS 17 Insurance contracts

In May 2017, the International Accounting Standards Board (IASB) issued NZ IFRS 17, 'Insurance Contracts'. Whereas the current standard, NZ IFRS 4, allows insurers to use their local GAAP, NZ IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements.

Under NZ IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin.

The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period.

The new standard was to be effective for annual reporting periods beginning on or after 1 January 2021 but the IASB have since postponed it to 1 January 2022 with comparative figures required. Early application is permitted for entities that apply NZ IFRS 9, 'Financial Instruments', and NZ IFRS 15, 'Revenue from Contracts with Customers', on or before the date of initial application of NZ IFRS 17. The standard can be applied retrospectively in accordance with NZ IAS 8, but it also contains a 'modified retrospective approach' and a 'fair value approach' for transition depending on the availability of data. The Company intends to adopt NZ IFRS 17 on its effective date and has yet to assess its full impact.

At the date of authorisation of these financial statements, there were no new standards, amendments or interpretations to existing standards not yet effective that are expected to be relevant to the Company's operations.

21. Subsequent events

No significant events have occurred since balance date which would impact on the financial position of the Company disclosed in the Statement of Financial Position as at 31 March 2020 or on the results and cash flows of the Company for the period ended on that date.

Life Management Limited
Charles Hett - Consulting Actuary

Wellington
15th October 2020

The Directors
Lifetime Income Limited
P.O. Box 10811
WELLINGTON

Dear Directors,

Appointed Actuary Report Required under Section 78 of the Insurance Prudential Supervision Act 2010 ("IPSA")

Review of actuarial information for Lifetime Income Limited as at 31 March 2020

Section 78 of the Act specifies those matters that must be addressed, namely;

- (a) This report is prepared by Charles Hett, Lifetime Income Limited (LIL) Appointed Actuary. I operate as an independent consultant to LIL and have no financial interests in LIL; and
- (b) I have reviewed the actuarial information contained in, or used in the preparation of, the 31st March 2020 financial statements of LIL. I am mindful some 31 March 2019 figures including solvency position have been restated. The review has been carried out in accordance with the applicable solvency standard as amended by subsequent Reserve Bank of New Zealand ("RBNZ"), IPSA Section 143 direction. For the avoidance of doubt, actuarial information means:
 - 1) information relating to Lifetime Income's calculations of premiums, claims, reserves, insurance rates, and technical provisions; and
 - 2) information relating to assessments of the probability of uncertain future events occurring and the financial implications for the insurer if those events do occur; and
 - 3) information specified in an applicable solvency standard as being actuarial information for the purposes of this section; and
- (c) There were no restrictions or limitations placed on my work or on my report, I obtained all the information I required. The scope and limitations of the review are attached as an appendix to this report; and
- (d) In my opinion and from an actuarial perspective:
 - 1) The actuarial information contained in the financial statements has been appropriately included in those statements; and
 - 2) The actuarial information used in the preparation of the financial statements has been used appropriately; and
- (e) There are new conditions imposed under IPSA Section 21(2) (b) or (c) on LIL but none are effective as at 31 March 2020.

The RBNZ on 28 August 2020, issued a change to LIL license conditions: the minimum solvency margin is to be \$5.0m (across three Statutory Funds) from 31 December 2020 and \$10m (across three Statutory Funds) from 30 June 2021.

There is no change in LIL license conditions effective as at 31 March 2020.


- (f) LIL has not maintained a minimum solvency margin as at 31 March 2020, and also at times during the year to 31 March 2020, that complies with the relevant solvency standards issued by the RBNZ at the relevant time and also as amended by the IPSA s143 direction dated 17 August 2020 (effective 31 March 2020) for certain Statutory Funds (variable annuity business).

The Statutory Funds that did not comply were SF1 for Variable Annuity business and the company overall.

This has been discussed with RBNZ and a Recovery Plan has been directed and approved under Sections 138 to 141 to be implemented by Lifetime Income Limited.

A copy of the Section 78 report is included in the Lifetime Income Limited Financial Condition Report for the year-ended 31 March 2020.

Yours sincerely



Charles Hett MA FNZSA, FIA
Appointed Actuary
Lifetime Income Limited

Appendix

Reliances and Limitations

This report is provided to Lifetime Income Limited ("LIL") as at 31 March 2020 for the purpose of Section 78 of the Insurance Prudential Supervision Act 2010.

The report should not be used for any purpose other than that stated above. This report should not be reproduced or supplied to any other party other than the Auditors and the Reserve Bank of New Zealand without first obtaining my written consent. I accept no responsibility for any reliance that may be placed on the report, should it be used for any purpose other than that set out above, and in any event will accept no liability in respect of its contents to any party other than LIL.

The processes and calculations made to produce the view in this report are based on representations and information supplied to me by Milliman and LIL. In the course of carrying out my work I performed some data validation checks but have not carried out anything in the nature of an audit. Accordingly, I express no opinion on the total reliability, accuracy or completeness of the information provided to me and upon which I have relied. I have no reason to believe that the information provided to me is inaccurate or misleading.

This report should be read in its entirety. Individual sections of this report could be misleading if considered in isolation from each other.

For the purposes of professional regulation my primary professional regulator is the New Zealand Society of Actuaries.



Independent auditor's report

To the shareholder of Lifetime Income Limited

We have audited the financial statements which comprise:

- the statement of financial position as at 31 March 2020;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements.

Our opinion

In our opinion, the accompanying financial statements of Lifetime Income Limited (the Company), present fairly, in all material respects, the financial position of the Company as at 31 March 2020, 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 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 Company 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 performs an assurance service over the Company's regulatory solvency return. In addition, certain partners and employees of our firm may deal with the Company on normal terms within the ordinary course of trading activities of the Company. The provision of this other service has not impaired our independence as auditor of the Company.

Material uncertainty related to going concern

We draw attention to the 'Going Concern' note within the 'Notes to the Financial Statements' section of the financial statements. This note discloses that the Company is dependent on the ability of its Parent (Retirement Income Group Limited) to support the Company and assist it to maintain required regulatory capital. The ability of the Parent to honour this commitment is dependent on its ability to access sufficient funds. In order to provide support, the Parent needs to raise additional capital. As stated in the Going Concern section of the Notes to the Financial Statements, these events or conditions, indicate that material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Description of the key audit matter	How our audit addressed the key audit matter
<p><i>Change in valuation methodology for life insurance contract liabilities - variable annuities</i></p> <p>Investment return rates is one of the material assumptions used in the valuation of life insurance contract liabilities.</p> <p>As disclosed in Note 4 to the financial statements, the Company changed the methodology to calculate life insurance contract liabilities with respect to variable annuities. This change was made to include an estimate of a realistic investment return within the valuation. Previously a risk free rate of return had been assumed. We consider the change in assumptions is a key audit matter due to the:</p> <ul style="list-style-type: none"> • change reflecting a correction of a previous error; and • impact of the change materially reducing the life insurance contract liability and associated solvency margin as at balance date. 	<p>With our actuarial specialists we assessed the change of the assumption used to value the Company's life insurance contract liability with respect to variable annuities. Specifically, we:</p> <ul style="list-style-type: none"> • obtained an understanding of the change adopted by the Company and assessed whether the change is permitted under New Zealand Equivalents to International Financial Reporting Standards; • gained an understanding of the Company's processes and controls over the change in the valuation methodology and calculation; • compared the realistic investment return used in the calculation to supporting evidence including external market data, detailing historic investment returns; and • assessed the reasonableness of financial statement disclosures detailing the reason, nature and impact of the change. <p>Based on the above procedures there were no matters to report.</p>

Description of the key audit matter	How our audit addressed the key audit matter
<p data-bbox="309 510 715 568"><i>Valuation of life insurance contract liabilities</i></p> <p data-bbox="309 584 791 674">As at 31 March 2020 the Company has life insurance contract liabilities of \$27.8 million (31 March 2019: \$15.4 million).</p> <p data-bbox="309 689 791 779">We consider the valuation of life insurance contract liabilities a key audit matter due to the:</p> <ul data-bbox="363 795 791 1025" style="list-style-type: none"> • subjective judgements around key material assumptions required to be made by the Directors, and • sensitivity of the life insurance contract liability valuation to changes in these judgements and assumptions. <p data-bbox="309 1041 791 1189">The Company's Appointed Actuary uses methodologies and models recognised in the industry, and actuarial standards, to calculate the life insurance contract liabilities.</p> <p data-bbox="309 1205 791 1442">As disclosed in Note 4 to the financial statements, the material assumptions used in the valuation of life insurance contract liabilities represent best estimate assumptions at reporting date and include the expected future cash flows to be generated by the policies, comprising of future:</p> <ul data-bbox="363 1458 791 1675" style="list-style-type: none"> • premium payments from customers, • investment returns and mortality, and • maintenance expenses, lapses and claims. <p data-bbox="309 1691 791 1780">These expected future cash flows are then adjusted to present day values using a discount rate.</p> <p data-bbox="309 1796 791 1854">Life insurance policy data is used as a key input to these estimates.</p>	<p data-bbox="815 510 1433 667">With our actuarial specialists we assessed the assumptions used to value the Company's life insurance contract liability and the competence, capability and objectivity of the Appointed Actuary in relation to the actuarial calculations. Specifically, we:</p> <ul data-bbox="863 683 1433 1503" style="list-style-type: none"> • obtained an understanding of the actuarial methodology used by the Company and compared this to methodologies commonly applied in the industry and recognised by accounting and actuarial standards; • gained an understanding of the Company's processes and controls over the valuation, including how the Company: <ul data-bbox="954 958 1433 1093" style="list-style-type: none"> ◦ assesses and exercises oversight over the key assumptions, and ◦ prepares and reviews the calculated components of the liability; • compared key inputs (for example discount rates) used in the calculation to supporting evidence, such as external market data; • challenged the key actuarial assumptions used, including considering the potential impacts of the COVID-19 pandemic, against past experience, market observable data (as applicable) and our experience of market practice; and • considered the impact of key changes in the actuarial methodology over the year and compared these changes to industry practice. <p data-bbox="815 1518 1433 1637">To assess the reliability of the policy data used to calculate the estimates, we tested the completeness and accuracy of policy data between the policy administration system and the actuarial model.</p> <p data-bbox="815 1697 1433 1765">Based on the above procedures there were no matters to report.</p>

Our audit approach

Overview



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

Overall materiality: \$305,000, which represents 1% of Total Investments.

We chose total investments as the basis for our materiality benchmark. The Company is in an early stage of its lifecycle and its focus is on building an asset base to enable growth in operations. Total investments, in our view, is an appropriate proxy by which its performance is best measured.

As reported above, we have two key audit matters, being:

- Change in valuation methodology for life insurance contract liabilities – variable annuities
- Valuation of life insurance contract liabilities

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 materiality for the 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 financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the 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 financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears 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 financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company'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 Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an 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 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-2/>

This description forms part of our auditor's report.

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 Kevin Brown.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
15 October 2020

Wellington