Momentum Life Limited

Annual Report

for the year ended 30 June 2020

Contents

Directors' Report

The directors of Momentum Life Limited (the "Parent") present their report to the shareholder together with the audited financial statements of the Parent and its subsidiaries (together, the "Group") for the financial year ended 30 June 2020.

Directors

The directors of the Parent in office at the date of this report are as follows:

Lloyd Cartwright

Thomas Grogan

Martin Philipsen (resigned 12 August 2020)

Russell H Howden (resigned 12 August 2020)

John G Errington (appointed 12 August 2020)

David E Nathan (appointed 12 August 2020)

Principal activities

The principal activity of the Parent during the year were the provision of life insurance.

Dividends

No dividends were paid during the financial year ended 30 June 2020 (2019: $Nil)

Results

The operating profit after tax of the Group for the year ended 30 June 2020 was $1,289,065 (2019: $1,146,075).

Disclosures

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

Auditor

PricewaterhouseCoopers were appointed to undertake the audit of the financial statements for the year ended 30 June 2020.

This report is made in accordance with a resolution of the directors.

In the opinion of the directors,

- The Statement of Financial Position of the Group as set out on page 5 is drawn up to present fairly in all material respects, the state of affairs of the Group as at 30 June 2020 and of the results of the business, changes in equity and cash flows of the Group for the financial year then ended; and
- At the date of this statement, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they fall due.

On behalf of the Board of Directors

John Errington
Chairman

Lloyd Cartwright
Director

08 October 2020

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2020

	Notes	2020 $	2019 $
Revenue			
Premium revenue		7,957,625	5,173,971
Premium ceded to reinsurers		(2,525,593)	(1,553,285)
Net premium revenue		5,432,032	3,620,686
Reinsurance commission income	7	3,677,550	4,636,939
Commission income		1,320,591	1,077,915
Investment income	6	241,550	242,654
Total revenue		10,671,723	9,578,194
Expenses			
Claims expenses:			
Claims expenses		(358,267)	(124,388)
Reinsurance recoveries		268,616	93,291
Net claims expenses		(89,651)	(31,097)
Change in life insurance contract assets/liabilities	17	(153,268)	130,571
Commission expenses	7	(6,849,628)	(6,895,015)
Operating expenses:	7		
Marketing and distribution expenses		(2,582)	(16,956)
Employment expenses		(369,662)	(551,830)
Professional fees		(362,889)	(88,877)
Other costs		(906,309)	(571,877)
Finance costs	7	(147,034)	(44,629)
Total expenses		(8,881,023)	(8,069,710)
Profit before income tax		1,790,700	1,508,484
Income tax expense	9	(501,635)	(362,409)
Profit for the year		1,289,065	1,146,075
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year is attributable to:			
Owner of Momentum Life Limited		1,289,065	1,146,075

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

Consolidated Statement of Financial Position

As at 30 June 2020

	Notes	2020 $	2019 $
Assets			
Cash and cash equivalents	10	3,384,644	2,548,665
Trade and other receivables	11 (a)	557,725	757,921
Term deposits	11 (b)	8,081,876	6,500,000
Trail commission asset	12	11,626,319	12,739,580
Life insurance contract assets	17	7,099,399	7,112,907
Total Assets		30,749,963	29,659,073
Liabilities			
Trade and other payables	13	1,014,938	1,061,735
Current tax liabilities	16	613,330	713,802
Employee benefit obligations	15	7,726	8,132
Borrowings	14	3,329,902	3,250,799
Deferred tax liabilities	16	3,338,515	3,607,878
Life insurance contract liabilities ceded under reinsurance	17	7,078,056	6,938,296
Total liabilities		15,382,467	15,580,642
Net assets		15,367,496	14,078,431
Equity			
Contributed equity	19	112,582	112,582
Retained earnings		15,254,914	13,965,849
Total equity		15,367,496	14,078,431

On behalf of the Board of Directors

John Errington
Chairman

Lloyd Cartwright
Director

08 October 2020

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

	Contributed equity $	Retained earnings $	Total equity $
Balance at 1 July 2018	112,582	12,819,774	12,932,356
Profit for the year	-	1,146,075	1,146,075
Total comprehensive income for the year	-	1,146,075	1,146,075
Balance at 30 June 2019	**112,582**	**13,965,849**	**14,078,431**
Balance at 1 July 2019	**112,582**	**13,965,849**	**14,078,431**
Profit for the year	-	1,289,065	1,289,065
Total comprehensive income for the year	-	1,289,065	1,289,065
Balance at 30 June 2020	**112,582**	**15,254,914**	**15,367,496**

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2020

	Notes	2020 $	2019 $
Cash flows from operating activities			
Premiums received		7,940,761	5,178,470
Reinsurance recoveries received		244,961	91,501
Reinsurance commission received		3,897,365	5,123,559
Other commission received		2,446,272	2,837,718
Payments to reinsurers		(4,348,529)	(2,825,082)
Claims paid		(358,267)	(124,388)
Payments to distributors		(5,104,247)	(6,499,534)
Payments to suppliers and employees		(1,678,621)	(1,282,329)
Interest received		249,830	169,560
Interest paid		(200)	(59,881)
Income taxes paid		(871,470)	(860,688)
Net cash inflow from operating activities		2,417,855	1,748,906
Cash flows from investing activities			
Payments for term deposits		(1,581,876)	(1,500,000)
Receipts from matured term deposits		-	25,419
Net cash (outflow) from investing activities		(1,581,876)	(1,474,581)
Cash flows from financing activities			
Repayment of loans from fellow subsidiaries		-	(436,098)
Net cash (outflow) from financing activities		-	(436,098)
Net increase / (decrease) in cash and cash equivalents		835,979	(161,773)
Cash and cash equivalents at the beginning of the year		2,548,665	2,710,438
Cash and cash equivalents at the end of the year	10	3,384,644	2,548,665
Reconciliation of profit after tax to cash flows from operating activities			
Profit for the year		1,289,065	1,146,075
Changes in operating assets and liabilities:			
Decrease in trade and other receivables		200,196	449,602
Decrease in trail commission asset		1,113,261	1,726,436
(Decrease) in trade and other payables		(46,797)	(892,183)
Decrease / (Increase) in life insurance contract assets		13,508	(2,908,118)
Increase in life insurance contract liabilities		139,760	2,777,548
(Decrease) in provision for income taxes payable		(100,472)	(23,030)
(Decrease) in deferred tax liabilities		(269,363)	(475,249)
Increase / (Decrease) in other provisions		78,697	(52,175)
Net cash inflow from operating activities		2,417,855	1,748,906

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

1. Reporting entity

Momentum Life Limited and its subsidiaries are financial services companies that provide insurance services. The Parent and its subsidiaries are for-profit entities.

The address of its registered office is Level 1, 103 Carlton Gore Road, Newmarket, Auckland, 1023, New Zealand.

The financial statements were authorised for issue by the Directors on 08 October 2020.

2. Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

(i) Statement of compliance

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

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

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

(ii) Basis of measurement

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

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

(iii) Use of estimates & assumptions

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

Discussion of the critical accounting estimates, which include complex or subjective decisions or assessments, is included in note 3. Such estimates will require review in future periods.

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

The Group adopted new accounting standards, and these are detailed in Note 2(t).

(v) Presentation currency & rounding

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

(b) Principles of consolidation

(i) Subsidiaries

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

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

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated.

Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Revenue recognition

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

Revenue is recognised for the major business activities as follows:

(i) Premium income

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

Premiums with a regular due date are recognised as revenue on an accruals basis.

2. Summary of significant accounting policies (continued)

Unpaid premiums are only recognised as revenue during the days of grace or where secured by the surrender value of the policy and are included in trade and other receivables in the consolidated balance sheet.

(ii) Reinsurance contracts

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

(iii) Commission income

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

(ii) Interest income

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

(d) Expense recognition

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

(i) Claims

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

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

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

(ii) Commission & operating expenses

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

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

(e) Basis of expense apportionment

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

Acquisition expenses

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

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

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

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

Maintenance expenses

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

(f) Income tax

(i) Income tax expense

Income tax expense comprises both current and deferred taxes and is based on the accounting profit adjusted for differences in the accounting and tax treatments of

2. Summary of significant accounting policies (continued)

income and expenses (that is, taxable income). Tax expense is recognised in profit or loss.

(ii) Current tax

Current tax is the tax payable on taxable income for the period, based on tax rate (and tax laws) which are enacted at the reporting date. Current tax is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

(iii) Deferred tax

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

(iv) Offsetting

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

(g) Financial assets

(i) Classification of financial assets

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

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

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

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

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

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

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

Financial assets measured at amortised cost

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

The Group's financial assets measured at amortised cost are disclosed in note 11. All term deposits are fixed rate term deposits with a maturity of 24 months or less and all trade receivables are current.

(ii) Impairment of financial assets

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

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

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

2. Summary of significant accounting policies (continued)

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

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

(h) Life insurance contract assets

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

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

(i) Determination of life insurance contract assets

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

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

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

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

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

Planned margins of revenues over expenses

At the time of writing a policy and at each balance date, best estimate assumptions are used to determine all expected future payments and premiums. Where actual experience replicates best estimate assumptions, the expected profit margins will be released to profit over the life of the policy.

The difference between actual & assumed experience

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

Changes to underlying assumptions

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

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

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

(j) Equity

(i) Shares

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

2. Summary of significant accounting policies (continued)

(ii) Dividends

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

(k) Presentation

(i) Offsetting of income and expenses

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

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

(ii) Offsetting of financial assets & liabilities

Assets and liabilities are offset where there is:

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

(iii) Goods & services tax

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

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

(l) Impairment of assets

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

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

(m) Cash & cash equivalents

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

(n) Trade receivables

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

(o) Trail commission asset

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

(p) Trade & other payables

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

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

(q) Borrowing costs

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

(r) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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

2. Summary of significant accounting policies (continued)

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

(s) Employee benefits

(i) Short-term obligations

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

(t) New accounting standards adopted

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

The final version of NZ IFRS 16 was issued in February 2016 and the Group applied it from 1 July 2019. NZ IFRS 16 requires a lessee to recognise its right to use the underlying leased asset, as a right-of-use asset and obligation to make lease payments as a lease liability.

There is no impact on the Group's financial statements because, as at 30 June 2020, the Group does not have any contracts that would be classified as leases under NZ IFRS 16.

(u) Accounting standards issued but not yet adopted

(i) NZ IFRS 17 Insurance Contracts (NZ IFRS 17)

The final version of NZ IFRS 17 was issued in June 2020 and is not expected to be effective for the Group until 1 July 2023. NZ IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts.

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

3. Critical accounting estimates & judgements

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

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

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

(a) Critical accounting estimates and assumptions

Trail commission asset

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

At the same time, it recognises a trail commission asset which is estimated based on assumptions relating to the underlying book of business. This calculation represents the value of future expected trail commission receipts and uses the projected life of the policy, adjusted for the assumed lapse rates and discounted to a present value. Refer to Note 12 for further details.

Life insurance contract assets and liabilities

Liabilities and assets arising from life insurance are calculated using mathematical and statistical models. The valuations are made in accordance with the Professional Standards issue by the New Zealand Society of Actuaries and take into account the relevant risks and uncertainties. The key inputs in this regard are mortality and morbidity, rates of discontinuance, discount rates and other factors such as regulatory, tax or general economic conditions. Further details are provided in Note 4.

(b) Impact of COVID-19

COVID-19 was declared a pandemic by the World Health Organisation on 11 March 2020. As of 30 June 2020, the New Zealand government's response in containing the virus has been successful to date albeit with severe economic impact. The longer term economic and health outcomes are still uncertain.

In preparing these financial statements, attention was given to how the pandemic can impact the Group directly (e.g. deaths) or indirectly (e.g. wider economic impacts).

At 30 June 2020, it was considered whether a short-term overlay should be applied to the best estimate claims and lapse assumptions in respect of COVID-19. In determining the life insurance contract assets and liabilities, no short-term overlay was applied, reflecting the situation in New Zealand at 30 June 2020, the Group's claims exposure (which is primarily related to death cover, rather than disability cover and with no death claims) and short-term lapse experience. The long-term exposure is still highly uncertain and will start to emerge over the financial year 2021. This will be monitored closely and assessed accordingly.

We have considered the impacts of COVID-19 on the valuation of trail commission asset. This includes the potential impact on key assumptions such as lapse rates of the distributed policies. No specific COVID-19 allowances were included based on the lapse rate investigation and any impact would emerge as experience.

4. Summary of significant actuarial methods & assumptions

The actuarial reports on life insurance contract assets/liabilities and solvency reserves for the current reporting period were prepared as at 30 June 2020. The actuary who prepared the reports for the Group was James Collier BEc, MEc, DipSM, FIAA and FNZSA, who is a Fellow of the Institute of Actuaries of Australia and a Fellow of the New Zealand Society of Actuaries.

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

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

Profit carriers

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

Discount rates

At 30 June 2020, the discount rate methodology was changed, with policyholder liabilities determined based on a full yield curve rather than the 10 year government bond rate. The impact of this change was absorbed into profit margins.

The gross of tax interest rates used for the valuation of policyholder liabilities are as follows:

- Basis 1 Assumption: the 10 year government bond rate of 0.91% (2019: 1.57%)
- Basis 2 Assumption: a yield curve, summarized in the table below (forward rates).

The table below summarises these rates:

Forward Rates	2020 Basis 2 (%)
1 Year	0.19
5 Years	0.79
10 Years	1.67
20 Years	1.80

Inflation

The long-term inflation assumption was determined on a basis consistent with the medium to long-term RBNZ inflation target of between 1% to 3%. The rate assumed is 2% pa (2019: 2%).

Future expenses & indexation

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

Per benefit maintenance expense assumptions:

Related Product Group	2020 $	2019 $
Lump Sum Level	21.53	18.30
Lump Sum YRT	42.94	42.83

Asymmetric risks

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

Rates of taxation

The rates of taxation enacted or substantially enacted at the date of the valuation are assumed to continue into the future. The corporate tax rate used is 28% (2019: 28%). Life insurance contract assets/liabilities are calculated gross of tax with a separate liability being held for tax.

Mortality & morbidity

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

Rates of discontinuance

Long-term discontinuance rates are based on recent company analysis and industry experience and vary by product, duration in force and age of insured, taking into account market conditions and internal strategies. The assumed rates of discontinuance for policies underwritten by the Parent (including cancelled from inception lapses) are between 6% and 55% (2019: between 7% and 56%).

Surrender values

The Group does not issue policies with a surrender value.

Participating business

The Group does not issue participating business.

Solvency requirement

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

Impact of changes in assumptions

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

5. Source of profit

This note relates to the Parent entity only.

	2020 $	2019 $
Life insurance contracts		
Planned profit margins	384,290	250,216
Difference between actual and assumed experience	(86,566)	(7,191)
Tax difference from prior years	-	62,514
Effects of Change in Underlying Assumptions		
Change in economic assumptions	(73,944)	(103,064)
	223,780	202,475
Investment earnings on assets in excess of policyholder liabilities	172,579	115,011
Other revenue (expenses)		
Other movements related to activity not insurance contract related	-	-
Profit after income tax	396,359	317,486

6. Investment income

	2020 $	2019 $
Interest income	241,550	242,654
Total investment income	241,550	242,654

7. Expenses

(a) Commission & other expenses

	2020 $	2019 $
Life insurance contracts		
Acquisition costs		
Commission expenses	1,944,670	1,316,177
Other expenses	543,589	496,861
Maintenance costs		
Commission expenses	1,227,408	941,899
Other expenses	1,162,976	777,598
Total commission and other expenses	4,878,643	3,532,535
Non-Statutory Fund		
Other expenses	81,911	(290)
Consolidated		
Total commission and other expenses	4,960,554	3,532,245

Commission expenses are presented net of the reinsurance commission income due to the inherent dependence and relationship of the two. The gross reinsurance commission income of $3,677,550 and gross commission expenses of $6,849,628 are presented in the statement of comprehensive income. Commission expenses are split into acquisition costs of $5,622,220 and maintenance costs of $1,227,408.

7. Expenses (continued)

(b) Finance costs

	2020 $	2019 $
Finance costs		
Interest and finance charges paid/payable	55,839	126,174
Realised foreign exchange losses on international payments	11,955	26,320
Unrealised foreign exchange losses on foreign currency loans	79,240	(107,865)
Total finance costs	147,034	44,629

8. Remuneration of auditors

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

	2020 $	2019 $
Audit & other assurance services – PricewaterhouseCoopers New Zealand		
Audit	41,071	44,740
Additional audit fees – audit of tax	-	10,000
Solvency Return	17,000	15,000
	58,071	69,740
Audit & other assurance services – PricewaterhouseCoopers Australia		
Audit	75,536	62,538
Total remuneration of PricewaterhouseCoopers	133,607	132,278

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

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

9. Income tax expense

(a) Income tax expense

	2020 $	2019 $
Current tax	770,998	838,055
Deferred tax	(269,363)	(413,132)
Adjustments for current tax of prior periods	-	(397)
Adjustments for deferred tax of prior periods	-	(62,117)
Total income tax expense	501,635	362,409

9. Income tax expense (continued)

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

	2020 $	2019 $
Profit before income tax expense	1,790,700	1,508,484
Tax at the New Zealand tax rate of 28.0% (2019: 28.0%)	501,396	422,376
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Sundry items	239	2,547
Adjustments for current tax of prior periods	-	(397)
Adjustments for deferred tax of prior periods	-	(62,117)
Income tax expense	501,635	362,409

10. Cash & cash equivalents

	2020 $	2019 $
Cash at bank and in hand	3,384,644	2,548,665

11. Financial assets

(a) Trade & other receivables

	2020 $	2019 $
Trade receivables	476,845	681,985
Premium receivables	16,065	2,842
Interest receivable	64,815	73,094
Total trade and other receivables	557,725	757,921

(b) Term deposits

	2020 $	2019 $
Financial assets at amortised cost (2019: Held to maturity)		
Term deposits	8,081,876	6,500,000

12. Trail commission asset

	2020			2019		
	Current $	Non-current $	Total $	Current $	Non-current $	Total $
Trail commission asset	1,908,166	9,718,153	11,626,319	2,116,489	10,623,091	12,739,580

12. Trail commission asset (continued)

The following table presents the asset movements for the years ended 30 June 2020 and 30 June 2019:

	Trail Commission asset $
Opening balance 1 July 2018	**14,466,016**
Trail commission asset received	(2,679,752)
Change in net present value of future cash flows	953,316
Net movement	**(1,726,436)**
Closing balance 30 June 2019	**12,739,580**
Opening balance 1 July 2019	**12,739,580**
Trail commission asset received	(2,324,511)
Change in net present value of future cash flows	1,211,250
Net movement	**(1,113,261)**
Closing balance 30 June 2020	**11,626,319**

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

The following table summarises the significant inputs:

Significant inputs	Key assumptions	Sensitivity
Discount rate	The discount rate used was 8% (2019: 8%).	An increase in the discount rate by 1% would result in a decrease in the asset value by $526,958 (2019: $577,805) and a reduction in the discount rate by 1% would result in an increase in the asset value by $577,393 (2019: $633,284).
Lapse rate	The lapse rate reflects the number of policies that are expected to be discontinued during the projection period and varies by age of the policy from 7% to 40% (2019: 7% to 40%) per year. These include the cancel from inception lapses.	An increase in the lapse rate 0.5% per year would result in a decrease in the asset value by $1,890,475 (2019: $1,809,275) and a reduction in the lapse rate by 0.5% per year would result in an increase in the asset value by $1,867,543 (2019: $1,791,060).
Projection period	The projection period assumed was 20 years (2019: 20 years).	An increase in the projection period by 2 years would result in an increase in the asset value by $91,522 (2019: $103,365) and a decrease in the projection period by 2 years would result in a decrease in the asset value by $138,052 (2019: $154,468).

13. Trade & other payables

	2020 $	2019 $
Trade payables	539,483	273,291
Related entities trade payables	412,986	595,126
Accrued expenses	50,000	184,167
Payroll tax and other statutory liabilities	9,560	6,045
Other payables	2,909	3,106
Total trade and other payables	1,014,938	1,061,735

14. Borrowings

	2020 Current $	2020 Non-current $	2020 Total $	2019 Current $	2019 Non-current $	2019 Total $
Unsecured						
Loans from related parties	-	3,329,902	3,329,902	-	3,250,799	3,250,799

15. Employee benefit obligations

	2020 $	2019 $
Leave obligations	7,726	8,132

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

16. Tax liabilities

(a) Current income tax

	2020 $	2019 $
Movements		
Opening balance	713,802	736,832
Payments made during the year	(871,470)	(860,688)
Charged:		
- Profit or loss	770,998	838,055
- Adjustments for current tax of prior periods	-	(397)
Closing balance	613,330	713,802

16. Tax liabilities (continued)

(b) Deferred income tax

	2020 $	2019 $
The balance comprises temporary differences attributable to		
Deferred tax liabilities		
Trail commission asset	3,255,369	3,567,082
Life insurance contracts, net of reinsurance	109,919	96,220
Deferred tax assets		
Expense accruals	(26,773)	(55,424)
Net deferred tax liabilities	3,338,515	3,607,878
Movements		
Opening balance	3,607,878	4,083,127
Charged/credited:		
Deferred tax liabilities		
- Profit or loss	(269,363)	(419,825)
Deferred tax assets		
- Profit or loss	-	6,693
- Adjustments for deferred tax of prior periods	-	(62,117)
Closing balance	3,338,515	3,607,878

17. Life insurance contracts assets/liabilities

Net life insurance contract assets contain the following components:

	2020 $	2019 $
Future premiums	91,834,929	64,670,909
Future policy benefits	(42,841,441)	(27,284,611)
Future expenses	(20,848,311)	(15,657,896)
Future reinsurance	(7,078,056)	(6,938,296)
Planned profit margins gross of reinsurance	(21,045,778)	(14,615,495)
Total life insurance contract assets, net of reinsurance	21,343	174,611
Estimated discounted net cash inflows from life insurance contract assets:		
- Less than one year	118,246	399,098
- One year to five years	56,144	446,293
- Later than five years	(153,047)	(670,780)
Total net life insurance contract assets future net cash inflows	21,343	174,611

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

17. Life insurance contracts assets/liabilities (continued)

	2020 $	2019 $
Reconciliation of movements in life insurance contracts assets / liabilities		
Life insurance contract assets		
Opening balance	7,112,907	4,204,789
Recognised in statement of comprehensive income	(13,508)	2,908,118
Closing balance	7,099,399	7,112,907
Current	2,096,421	2,804,762
Non-current	5,002,978	4,308,145
	7,099,399	7,112,907
Life insurance contract liabilities ceded under reinsurance		
Opening balance	6,938,296	4,160,748
Recognised in statement of comprehensive income	139,760	2,777,548
Closing balance	7,078,056	6,938,296
Current	1,978,176	2,405,676
Non-current	5,099,881	4,532,620
	7,078,056	6,938,296

18. Insurance risk

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

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

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

Insurance risk management strategy

The Group's Risk Management Programme objectives are:

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

(ii) To maintain an adequate financial strength;

(iii) To facilitate prudent liquidity and capital management;

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

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

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

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

Methods to limit or transfer insurance risk exposures

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

18. Insurance risk (continued)

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

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

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

Concentrations of insurance risk

Concentrations of insurance risk arise due to:

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

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

	Sum insured 2020 $	Sum reinsured 2020 $	Sum insured 2019 $	Sum reinsured 2019 $
Aggregate Sums Assured				
Life*	842,343,470	639,292,674	647,218,150	490,331,380
Trauma / Accidental Serious Injury*	60,726,580	45,544,935	69,271,300	51,953,475
Total	903,070,050	684,837,609	716,489,450	542,284,855

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

Terms & conditions of insurance contracts

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

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

18. Insurance risk (continued)

Sensitivity to insurance risk

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

		2020			2019	
	Impact on future margins $	Impact on profit before reinsurance $	Impact on profit after reinsurance $	Impact on future margins $	Impact on profit before reinsurance $	Impact on profit after reinsurance $
Discontinuance + 10%	(908,517)	-	-	(457,020)	-	-
Mortality + 10%	(879,678)	-	-	(545,285)	-	-
Morbidity +10%	(7,618)	-	-	(8,394)	-	-
Expenses + 10%	(507,650)	-	-	(395,385)	-	-
Discount rates + 1%	(630,473)	254,977	47,304	(351,869)	139,705	37,332
Inflation rates + 1%	(466,129)	-	-	(336,560)	-	-
Discontinuance - 10%	1,242,220	-	-	611,791	-	-
Mortality - 10%	914,180	-	-	564,368	-	-
Morbidity -10%	8,138	-	-	8,940	-	-
Expenses - 10%	507,650	-	-	395,385	-	-
Discount rates - 1%	767,175	(388,643)	(59,767)	429,075	(374,547)	(181,723)
Inflation rates - 1%	407,180	-	-	292,314	-	-

19. Contributed equity

(a) Share capital

	2020 Shares	2019 Shares	2020 $	2019 $
Ordinary shares				
Class C shares - Fully paid $1 per share	100	100	100	100
Class D shares - Fully paid $1 per share	960	960	960	960
Class D shares - Fully paid $2,788.05 per share	40	40	111,522	111,522
Total share capital	1,100	1,100	112,582	112,582

(b) Ordinary shares

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

20. Capital management

(a) Capital management policies

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

During the year ended 30 June 2020, the Parent has complied with all externally imposed capital requirements.

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

(b) Solvency requirements and statutory funds

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

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

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

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

20. Capital management (continued)

	30 June 2020			30 June 2019		
	Statutory fund $	Shareholder fund $	Total $	Statutory fund $	Shareholder fund $	Total $
Summarised statement of comprehensive income						
Premium revenue	7,957,625	-	7,957,625	5,173,971	-	5,173,971
Premium ceded to reinsurers	(2,525,593)	-	(2,525,593)	(1,553,285)	-	(1,553,285)
Other income	3,677,550	-	3,677,550	4,636,939	-	4,636,939
Investment income	159,313	81,149	240,462	200,892	39,863	240,755
Change in life insurance contract assets/liabilities	(153,268)	-	(153,268)	130,571	-	130,571
Net claims expenses	(89,651)	-	(89,651)	(31,097)	-	(31,097)
Commission expenses	(6,849,628)	-	(6,849,628)	(6,895,015)	-	(6,895,015)
All other expenses	(1,706,565)	(101)	(1,706,666)	(1,274,456)	(70,718)	(1,345,174)
Profit/(loss) before income tax	469,783	81,048	550,831	388,520	(30,855)	357,665
Profit/(loss) after income tax	338,005	58,354	396,359	339,143	(21,657)	317,486
Summarised balance sheet						
Assets						
Cash and cash equivalents	1,657,083	1,200,805	2,857,888	956,069	1,088,204	2,044,273
Term deposits	5,036,399	3,045,477	8,081,876	5,000,000	1,500,000	6,500,000
All other assets	338,395	3,326,848	3,665,243	529,194	4,923,826	5,453,020
Life insurance contract assets	7,099,399	-	7,099,399	7,112,907	-	7,112,907
Total assets	14,131,276	7,573,130	21,704,406	13,598,170	7,512,030	21,110,200
Liabilities						
All other liabilities	1,135,727	579	1,136,306	1,080,385	(2,166)	1,078,219
Life insurance contract liabilities ceded under reinsurance	7,078,056	-	7,078,056	6,938,296	-	6,938,296
Total liabilities	8,213,783	579	8,214,362	8,018,681	(2,166)	8,016,515
Equity						
Share capital	-	112,582	112,582	-	112,582	112,582
Retained earnings	5,917,493	7,459,969	13,377,462	5,579,489	7,401,614	12,981,103
Total equity	5,917,493	7,572,551	13,490,044	5,579,489	7,514,196	13,093,685
Solvency of the parent						
Actual solvency capital	5,917,494	4,275,529	10,193,023	5,579,489	2,617,175	8,196,664
Minimum solvency capital	758,090	107,558	5,000,000	1,501,846	48,862	5,000,000
Solvency margin	5,159,405	4,167,971	5,193,023	4,077,643	2,568,313	3,196,664
Solvency ratio	781%	3975%	204%	372%	5,356%	164%

20. Capital management (continued)

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

	30 June 2020				30 June 2019			
	Parent $	Subsidiary $	Intra-Group Eliminations $	Group Consolidated $	Parent $	Subsidiary $	Intra-Group Eliminations $	Group Consolidated $
Summarised statement of comprehensive income								
Premium revenue	7,957,625	-	-	7,957,625	5,173,971	-	-	5,173,971
Premium ceded to reinsurers	(2,525,593)	-	-	(2,525,593)	(1,553,285)	-	-	(1,553,285)
Other income	3,677,550	1,320,591	-	4,998,141	4,636,939	1,077,915	-	5,714,854
Investment income	240,462	1,088	-	241,550	240,755	1,899	-	242,654
Change in life insurance contract liabilities	(153,268)	-	-	(153,268)	130,571	-	-	130,571
Net claims expenses	(89,651)	-	-	(89,651)	(31,097)	-	-	(31,097)
Commission expenses	(6,849,628)	-	-	(6,849,628)	(6,895,015)	-	-	(6,895,015)
All other expenses	(1,706,666)	(81,810)	-	(1,788,476)	(1,345,174)	129,442	(58,437)	(1,274,169)
Profit/(loss) before income tax	550,831	1,239,869	-	1,790,700	357,665	1,209,256	(58,437)	1,508,484
Profit/(loss) after income tax	396,359	892,706	-	1,289,065	317,486	887,026	(58,437)	1,146,075
Summarised balance sheet								
Assets								
Cash & cash equivalents	2,857,888	526,756	-	3,384,644	2,044,273	504,392	-	2,548,665
Term deposits	8,081,876	-	-	8,081,876	6,500,000	-	-	6,500,000
All other assets	3,665,243	11,815,923	(3,297,122)	12,184,044	5,453,020	12,941,603	(4,897,122)	13,497,501
Life insurance contract assets	7,099,399	-	-	7,099,399	7,112,907	-	-	7,112,907
Total assets	21,704,406	12,342,679	(3,297,122)	30,749,963	21,110,200	13,445,995	(4,897,122)	29,659,073
Liabilities								
All other liabilities	1,136,306	10,465,127	(3,297,022)	8,304,411	1,078,219	12,461,149	(4,897,022)	8,642,346
Life insurance contract liabilities ceded under reinsurance	7,078,056	-	-	7,078,056	6,938,296	-	-	6,938,296
Total liabilities	8,214,362	10,465,127	(3,297,022)	15,382,467	8,016,515	12,461,149	(4,897,022)	15,580,642
Equity								
Share capital	112,582	100	(100)	112,582	112,582	100	(100)	112,582
Retained earnings	13,377,462	1,877,452	-	15,254,914	12,981,103	984,746	-	13,965,849
Total equity	13,490,044	1,877,552	(100)	15,367,496	13,093,685	984,846	(100)	14,078,431

21. Financial risk management

(a) Credit risk

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

Credit risk is managed on a Group basis, except for credit risk relating to accounts receivable balances. Each entity is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Credit risk arises from cash and cash equivalents, trade and other receivables, term deposits and trail commission asset. The maximum exposure to credit risk is the sum of cash and cash equivalents, trade and other receivables, term deposits and trail commission asset. None of the financial assets are past due or impaired. Based on the ECL model, as detailed in Note 2 g (ii), no indication of impairment has been noted. The financial data used by the management are based on the forecast cash flows incorporating financial stability and credit ratings of the counter parties. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. If wholesale customers are independently rated, these ratings are used. If there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. See below and notes 11 & 12 for further disclosure on credit risk.

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

	Credit rating	2020	2019
Bank of New Zealand Limited	AA-	44%	39%
Westpac New Zealand Limited	AA-	54%	61%

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

	2020	2019
Hannover Life Re of Australasia Limited	AA-	AA-

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

	2020	2019
New Zealand licensed insured	A-	A-

(b) Market risk

Market risk is the risk of loss due to unfavourable market movements. Given the investment policy and the discount rate used to determine the policy liabilities, the primary market risk comes from interest rates. Except for the trail commission asset and life insurance contract assets and liabilities, none of the financial assets and liabilities are volatile to the market factors (such as interest rate, exchange rate and price). The fair value of all financial assets and liabilities is deemed to be equal to the carrying value as recorded in the statement of financial position. The maximum exposure to market risk comes from the trail commission asset and net value of life insurance contract assets and liabilities, as market data is relied upon in estimating their carrying amounts. Please refer to notes 4, 12, 17 and 18 for the qualitative and quantitative data used to manage market risk associated with them.

(i) Cash flow and fair value interest rate risk

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

21. Financial risk management (continued)

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

The Group has established limits on investments in interest-bearing assets, which are monitored on a daily basis. The following table summarises the sensitivity of the Group's life insurance contract assets, net of reinsurance, to changes in interest rate movements at year end. The analysis is based on the assumptions that the relevant interest rate increased/ decreased by 1% (2019: 1%), with all other variables held constant. This represents a best estimate of a reasonable shift in the interest rates, with regard to historical volatility of those rates. The balances shown provide the impact on both profit before tax and equity. The effect of a similar movement in interest rates on investments is not material.

	30 June 2020		30 June 2019	
	+1% $	-1% $	+1% $	-1% $
Life insurance contract assets, net of reinsurance	(65,700)	83,010	(51,850)	252,393

(c) Liquidity risk

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

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

The maturity profile for the Parent's insurance contract liabilities is shown in note 17. Payables and other liabilities are payable within three months.

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

22. Related party transactions

(a) Parent entity

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

(b) Subsidiaries

Interests in subsidiaries are set out in note 24.

(c) Key management personnel

	2020 $	2019 $
Short-term employee benefits	361,892	542,734
Post-employment benefits	891	575
Total employment benefits	**362,783**	**543,309**

(d) Transactions with other related parties

The following transactions occurred with related parties:

	2020 $	2019 $
Distribution and marketing expenses		
Fellow subsidiaries	5,447,375	5,888,506

(e) Outstanding balances arising from other related parties

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

	2020 $	2019 $
Current payables		
Fellow subsidiaries	412,986	595,126

(f) Loans to/from related parties

	2020 $	2019 $
Loans from fellow subsidiaries		
Beginning of the year	3,250,799	3,686,897
Loans advanced	79,103	-
Loan repayments made	-	(436,098)
End of year	3,329,902	3,250,799

The loans to/from related parties are unsecured, non-interest bearing and the parties agreed that no repayments will be made over the next 12 months.

23. Contingent liabilities and commitments

The Group had no contingent liabilities or commitments at 30 June 2020 (2019: $nil).

24. Interest in other entities

(a) Material subsidiaries

The Group's principal subsidiaries at 30 June 2020 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

		Ownership interest held by the Group		
Name of entity	Place of business/country of incorporation	2020 %	2019 %	Principal activities
Momentum Life Services Limited	New Zealand	100	100	Insurance services

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

25. Events occurring after the reporting period

As part of a proposed corporate restructure of the parent entity, BlueInc Group Pty Limited, changes are being proposed in relation to the shareholding and ownership structure of the Group. The corporate restructure aims to separate BlueInc Group's Australian and New Zealand operations and is currently awaiting regulatory approval.

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Appointed Actuary's Report

TO THE DIRECTORS OF MOMENTUM LIFE LIMITED

This Appointed Actuary's report under Section 78 of the Insurance (Prudential Supervision) Act 2010 (IPSA) is prepared in respect of the financial statements of Momentum Life Limited (Momentum) for the year ended 30 June 2020.

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

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

In respect of my review, I confirm as follows:

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

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

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

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

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

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

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

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

   vii. The analysis of Momentum's profit;

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

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

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

xi. Momentum's checks and controls over data and valuation processes.

c) There were no limitations in performing the scope of my review, other than reliances on information prepared by Momentum. I have performed high level reasonableness checks and found this information to be materially accurate.

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

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

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

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

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

g) I consider that in my opinion and from an actuarial perspective, Momentum, as at 30 June 2020, is maintaining a solvency margin that complies with that required under the Solvency Standard for the purposes of sections 21(2)(b) of IPSA.

h) I consider that in my opinion and from an actuarial perspective as at 30 June 2020, Momentum is maintaining solvency margins that comply with those required under the Solvency Standard for the purposes of section 21(2)(c) of IPSA.

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

James Collier
Appointed Actuary
Momentum Life Limited
23 September 2020

Independent auditor's report

To the shareholder of Momentum Life Limited

We have audited the consolidated financial statements which comprise:

- the consolidated statement of financial position as at 30 June 2020;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the accompanying consolidated financial statements of Momentum Life Limited (the Company), including its subsidiary (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 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 consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

Key audit matters

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

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Description of the key audit matter	How our audit addressed the key audit matter
Measurement of life insurance contract assets and life insurance contract liabilities ceded under reinsurance As at 30 June 2020 the Group has life insurance contract assets of $7.1 million (30 June 2019: $7.1 million) and life insurance contract liabilities ceded under reinsurance of $7.1 million (30 June 2019: $6.9 million). The valuation of these balances involves complex and subjective actuarial judgements about future events, both internal and external to the business, for which small changes in assumptions can result in material impact to the measurement of these balances. The key actuarial assumptions represent best estimates at balance date and include projections for premiums and payments, future maintenance and investment expenses, projected future mortality and morbidity experience, discontinuance rates, inflation and discount rates. Refer to the following notes in the Group's consolidated financial statements: Notes 2(h) and 2(i) for related accounting policies, Note 3 for critical accounting estimates and judgements, Note 4 for summary of significant actuarial methods and assumptions, Note 17 and Note 18.	Together with our PwC actuarial experts, we: ● Evaluated the work of the Appointed Actuary, including assessing their professional competence, capability and objectivity; ● Assessed the reasonableness of the key actuarial assumptions by: ○ obtaining an understanding of the processes and controls in place to determine the assumptions; ○ examining the approach used by management to derive the assumptions by applying our industry knowledge and experience; and ○ challenging the appropriateness of key assumptions used by management against past experience, market observable data (as applicable) and our experience of market practice, ensuring that the impacts of COVID-19 had been considered in setting the assumptions; ● Assessed the actuarial valuation methodologies used by applying our industry knowledge and experience to compare whether the methodologies and changes to those are consistent with recognised actuarial practices and expectations derived from market experience; ● Assessed the mathematical accuracy of the valuation model; and ● Tested the completeness and accuracy of data between the source administration system and the actuarial valuation model.
Measurement of trail commission asset As at 30 June 2020 the Group has a trail commission asset of $11.6 million (30 June 2019: $12.7 million). The balance represents the present value of the future commission receipts arising from the distribution of life insurance products. The valuation of this balance involves subjective judgements and assumptions about the duration of future commission receipts (projection period), lapse (or discontinuance) rate and discount rate. Small changes in assumptions can result in material impact to the measurement of this balance.	We have: ● On a sample basis verified trail commission receipts for the year to supporting documents; ● Assessed the reasonableness of management’s assumptions by: ○ comparing them with our expectations based on industry and the Group’s past experience, ensuring that the impacts of COVID-19 had been considered in setting the assumptions; and ○ assessing the reasonableness of management's estimation by agreeing the actual commission received during the year against management's estimate in the prior year.

Refer to the following notes in the Group's consolidated financial statements: Note 2(c)and 2(o) for related accounting policies, Note 3 for critical accounting estimates and judgements and Note 12.	• Tested the reconciliation of the policy data to the trail commission asset valuation model and on a sample basis tested the underlying policy data to the source documents; and • Assessed the mathematical accuracy of the commission asset valuation model.

Our audit approach

Overview

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

Overall Group materiality: $78,657 which represents approximately 1% of premium revenue.

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

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

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

Materiality

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

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

Audit scope

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

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

Information other than the consolidated financial statements and auditor's report

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

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

Responsibilities of the Directors for the consolidated financial statements

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholder. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholder for our audit work, for this report or for the opinions we have formed.

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
8 October 2020

Auckland