Lifetime Income Limited
Financial Statements
For the year ended 31 March 2021

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 James Noel Beale
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 the Financial Statements of the Company for the year ended 31 March 2021.

The shareholder of the Company has exercised their right under section 211 (3) of the Companies Act 1993 and has 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 26 August 2021

Director 26 August 2021

LIFETIME INCOME LIMITED
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 March 2021

	Note	2021	2020
		$	$
Revenue			
Premium revenue from insurance contracts		1,827,155	1,738,235
Less: outward reinsurance expense		(397,944)	-
Net Premium revenue		1,429,211	1,738,235
Management fee revenue		140,778	199,110
Investment revenue		214,491	136,942
Other revenue		-	50,000
Net Revenue	1	**1,784,480**	**2,124,287**
Other gains/(losses)			
Gains/(losses) on financial instruments at fair value	7	(13,756,388)	10,758,600
Total gains/(losses)		**(13,756,388)**	**10,758,600**
Annuity payments to customers		(1,316,753)	(1,501,983)
Change in policyholder liabilities	4	18,822,041	(12,368,468)
Other expenses	2	(6,412,327)	(713,414)
Net claims and operating expenses		**11,092,961**	**(14,583,865)**
Profit/(Loss) before tax		**(878,947)**	**(1,700,978)**
Income tax benefit/(expense)	10	2,279,295	(2,354,917)
Profit/(Loss) after tax		**1,400,348**	**(4,055,895)**
Other comprehensive income		-	-
Total comprehensive profit/(loss) attributable to parent		**1,400,348**	**(4,055,895)**

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 2021

	Note	Share Capital $	(Accumulated Losses) / Retained Earnings $	Total $
Opening balance as at 1 April 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**
Total comprehensive profit/(loss)		-	1,400,348	**1,400,348**
Transactions with owners				
Issue of shares		-	-	-
Balance as at 31 March 2021		**17,160,000**	**(2,264,815)**	**14,895,185**

The 312 ordinary shares (2020: 312 paid shares) all rank equally with one vote attached to each fully paid up share. During the period no new shares were issued to the parent entity, Retirement Income Group Limited (2020: 170 fully paid shares issued for consideration of $9,350,000). 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 2021

	Note	2021 $	2020 $
Assets			
Current Assets			
Cash and cash equivalents		8,737,758	15,609,337
Margin account	8	-	6,400,181
Term Deposits		7,372,975	-
Insurance receivables	3	23,376	199,590
Prepayments		111,676	173,324
Related party receivables	17	42,969	72,627
Taxation		2,303,798	-
Intangible assets	12	-	26,833
Financial assets held at fair value through profit or loss	13	21,495,885	31,801,250
Total assets		**40,088,437**	**54,283,142**
Liabilities			
Current liabilities			
Accounts payable	11	5,088,183	316,804
Taxation		-	2,169,277
Financial Liabilities held at fair value through profit or loss	13	-	1,190,676
Life insurance contract liabilities	4	8,895,784	27,791,000
Life investment contract liabilities	4	11,209,285	9,320,548
Total liabilities		**25,193,252**	**40,788,305**
Net Assets		**14,895,185**	**13,494,837**
Equity			
Contributed equity		17,160,000	17,160,000
Retained earnings / (Accumulated losses)		(2,264,815)	(3,665,163)
Total equity		**14,895,185**	**13,494,837**

These financial statements were authorised for issue for and on behalf of the Directors on 26 August 2021.

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 2021

	2021 $	2020 $
Cash flows from operating activities		
Insurance premiums received	2,005,128	1,641,477
Management fees received	139,019	209,819
Interest received	67,262	96,040
Other income received	-	50,000
Inflow from sale of investments	1,011,291	2,167,351
Annuity payments to customers and transfers to Lifetime Income Fund	(1,305,369)	(1,498,997)
Inflow from/(outflow to) collateral provided to support futures and swap contracts	2,896,236	(1,619,689)
Investment linked withdrawal payments to customers	(368,173)	(1,086,851)
Payments to suppliers, reinsurers and employees	(1,013,248)	(607,239)
Tax (paid)/refunded	(2,187,297)	28,127
Net cash flows from/(to) operating activities	**1,244,849**	**(619,962)**
Cash flows to investing activities		
Outflow to investment in Term Deposits	(7,198,591)	-
Net cash flows to investing activities	**(7,198,591)**	**-**
Cash flows from financing activities		
Related party payments	(917,837)	(172,977)
Shareholder capital issued	-	9,350,000
Net cash flows (to)/from financing activities	**(917,837)**	**9,177,023**
Net (decrease)/increase in cash and cash equivalents	**(6,871,579)**	**8,557,061**
Cash and cash equivalents at beginning of period	15,609,337	7,052,276
Cash and cash equivalents at end of period	**8,737,758**	**15,609,337**
Cash is represented by*:*		
Cash at bank and in hand	**8,737,758**	15,609,337
Cash and cash equivalents at end of year	**8,737,758**	**15,609,337**

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 2021

	2021 $	2020 $
<u>**Operating activities reconciliation**</u>		
Profit/(loss) after tax	**1,400,348**	**(4,055,895)**
Add back non-cash items		
Change in policyholder liabilities	(18,822,041)	12,368,468
Unrealised (gains)/losses on financial instruments at fair value	13,756,388	(10,758,600)
Amortisation of intangible assets	26,833	18,209
Interest expense/(income) on collateral provided to support futures and swaps contracts	28,207	(40,902)
Changes in working capital items		
Decrease/(increase) in Margin account	2,896,236	(1,619,689)
Decrease/(increase) in Insurance receivables	176,214	(86,049)
Decrease/(increase) in Related party receivables	29,658	(11,827)
(Increase)/decrease in Taxation	(4,466,592)	2,383,045
Decrease/(increase) in Prepayments	61,648	(506)
Increase in Term Deposits	(174,384)	-
(Increase)/decrease in Financial assets held at fair value through profit or loss	(1,172,444)	2,589,775
Increase/(decrease) in Accounts payable	4,771,379	(228,262)
Decrease in Related party loans	-	(63,716)
Increase/(decrease) in Life investment contract liabilities	1,815,562	(1,286,989)
Items classified as Financing Activities		
Payments made to related parties	917,837	172,976
Net cash inflow / (outflow) from operating activities	**1,244,849**	**(619,962)**

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 provision and administration of Life Insurance and Life Investment products. Lifetime Income Limited is a financial market conduct reporting entity under the Financial Markets Conduct Act 2013 and a licenced insurer in accordance with the Insurance (Prudential Supervision) Act 2010.

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.

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 not been prepared on a going concern basis. During the financial year, the Reserve Bank of New Zealand (‘RBNZ’) required the Company to increase the minimum solvency margin it must hold for its retirement income products to better withstand severe adverse scenarios that might occur in the future. The Company’s Parent entity, Retirement Income Group Limited (“Parent”, “Group”) has not been able to raise enough capital to meet the higher RBNZ regulatory capital reserve requirements and has therefore made the decision to close its insurance products. The Company closed to new business in December 2020. In March 2021, two of the three group variable annuity policies were cancelled, with one variable annuity group policy remaining in force at 31 March 2021.

The Company has been working through finding alternative options for policyholders. As there are no other variable annuity providers in New Zealand, for these customers the option is to transfer to another fund without a guaranteed income for life or receive the return of their account balance in addition to receiving some compensation. For the customers holding lifetime annuity and life investment contracts, the Company is seeking approval from the High Court to commute their annuity payments into a single lump sum payment and return the proceeds of their life investment contracts to them. These options are intended to lead to the Company ceasing to trade in the foreseeable future.

The following are major milestones that are yet to be met for the proposed closure of the business to proceed:

- Regulatory approval of the compensation to policyholders and the closure of the statutory funds;
- Approval of the final proposal to policyholders by the Board of Directors;
- Consideration by policyholders; and
- Approval by the High Court of the proposed Scheme of Arrangement.

If these milestones are achieved, the Company’s operations will cease shortly thereafter. The intention of the Board of Directors is for the Company to cease trading. Given this intention, the Company has not applied the going concern assumption in the preparation of the financial statements. The financial statements have been prepared on a realisation basis.

The change in measurement basis and presentation had the following effect on the financial statements:

- Policyholder liabilities have been valued on a realisation basis. Policyholder liabilities represent the amounts expected to be paid to lifetime annuity and life investment policyholders following the commutation of their annuity payments into a single lump sum payment and the proceeds of their life investment contracts.
- Business close down and compensation costs of $4,500,000 have been included in other expenses in the current year.
- Intangible assets have been fully amortised.

Going Concern continued

Business close down and compensation costs represents the estimated costs that the Company expects to incur because of the cessation and closure of operations, including a component for compensation payments to variable annuity policyholders. There is significant uncertainty around how much will be payable and how long it will take to complete the closure of the Company. As a result, there is a range of outcomes that could eventuate based on differing views of the amount of compensation payable to policyholders. Business close down and compensation costs are estimated to range from $2,000,000 to $4,800,000.

These outcomes are sensitive to:

- The methodology and assumptions applied for compensation payments;
- The costs of reaching a consensus on the methodology to apply; and
- The timeframes involved including when compensation is paid.

The Board of Directors view is that a business close down and compensation provision of $2,000,000 would result in a fair and equitable compensation payment for policyholders and would provide sufficient costs to close down the Company within certain timeframes. However, regulatory approval is required for several major milestones and as at the date of signing these financial statements, these approvals have not been received by the Company. The Company has determined that its best estimate of the likely amount required to compensate policyholders and close down operations should be recognised at the upper end of the range indicated above. This reflects the level of uncertainty associated with the estimate, and the complexity of reaching consensus on amounts due. As a result, $4,500,000 has been included in other expenses in the current year. The final amount of business close down and compensation costs could materially differ to this recognised provision.

Comparatives

No changes have been made to comparative balances.

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

a. Insurance Profit

1. Revenue

Revenue is categorised and recognised using the methods outlined below.

Net Premium Revenue from insurance contracts	2021 $	2020 $
Life insurance premiums	1,827,155	1,738,235
Less: outward reinsurance expense	(397,944)	-
Net premium revenue	1,429,211	1,738,235

Premium revenue is earned on life insurance contracts which the Company provides to the investors in the Lifetime Income Fund and its wholesale variable annuity customers. 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. As at 31 March 2021, one variable annuity group policy remained in force. Premium revenue for that contract continues to be recognised in accordance with the above policy. Premium revenue for the other two contracts ceased as of 1 December 2020 and 1 January 2021.

Premiums ceded to the reinsurer under the reinsurance contract, including the termination payment, are recorded as Outward reinsurance expense and are recognised when they become due and payable in accordance with the terms and conditions of the reinsurance contract. Following the Company ceasing to provide insurance products the reinsurance arrangement was terminated and a termination fee is payable to the reinsurer.

Management Fee Revenue		
Administration Fees - Foundation	140,778	199,110

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.

Investment Revenue		
Interest Income	214,491	136,942

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 investment management costs.

	2021	2020
	$	$
Management and Administration Costs	1,309,259	335,962
Maintenance and Investment Management Costs	603,068	377,452
Business close down and compensation costs	4,500,000	-
Total other expenses	**6,412,327**	**713,414**

Other 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.

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.

Business close down and compensation costs

Business close down and compensation costs represents the estimated costs that the Company expects to incur because of the cessation and closure of operations, including a component for compensation payments to variable annuity policyholders. There is significant uncertainty around how much will be payable and how long it will take to complete the closure of the Company. As a result, there is a range of outcomes that could eventuate based on differing views of the amount of compensation payable to policyholders. Business close down and compensation costs are estimated to range from $2,000,000 to $4,800,000. Despite the uncertainty, the Company expects that the provision will be settled within 12 months.

These outcomes are sensitive to:

- The methodology and assumptions applied for compensation payments;
- The costs of reaching a consensus on the methodology to apply; and
- The timeframes involved including when compensation is paid.

The Board of Directors view is that a business close down and compensation provision of $2,000,000 would result in a fair and equitable compensation payment for policyholders and would provide sufficient costs to close down the Company within certain timeframes. However, regulatory approval is required for several major milestones and as at the date of signing these financial statements, these approvals have not been received by the Company. The Company has determined that its best estimate of the likely amount required to compensate policyholders and close down operations should be recognised at the upper end of the range indicated above. This reflects the level of uncertainty associated with the estimate, and the complexity of reaching consensus on amounts due. As a result, $4,500,000 has been included in other expenses in the current year. The final amount of close down costs could material differ to this recognised provision.

2. Other expenses continued

Analysis of expenses by nature

	2021 $	2020 $
Bank fees	1,010	1,421
Fees paid to auditors		
- Audit fees	98,780	80,820
- Audit fees relating to the prior year	58,065	14,375
- Solvency return reasonable assurance	9,267	9,267
Management and Administration costs	1,037,492	208,729
Business close down and compensation payments	4,500,000	-
Professional consultancy fees	646,919	381,973
Legal	33,961	12,996
Amortisation	26,833	18,209

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.

	2021 $	2020 $
Outstanding premiums	11,963	189,936
Outstanding Management Fees	11,413	9,654
Total Insurance receivables	**23,376**	**199,590**

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 (2020: $Nil). No assets are considered impaired (2020: $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.

The financial reporting methodology used to determine the value of life insurance contracts and life investment contracts as at 31 March 2021 is realisation basis accounting. As at 31 March 2020, Life insurance contracts are accounted for in accordance with the requirements of NZ IFRS 4 Insurance Contracts and Life investment contracts are accounted for in accordance with NZ IFRS 15 Revenue from Contracts with Customers and NZ IFRS 9 Financial Instruments. The following note contains details for both 2021 and the 2020 comparative year.

Policyholder liabilities have been calculated using statistical modelling and mathematical methods. For the 31 March 2021 year, policyholder liabilities represent the amounts expected to be paid to lifetime annuity and life investment policyholders following the commutation of their annuity payments into a single lump sum payment and the proceeds of their life investment contracts.

No policyholder liabilities have been recognised for variable annuity contracts at 31 March 2021. A separate provision for compensation payments to variable annuity policyholders has been recognised in these financial statements, with this liability included within the Accounts Payable balance (see note 2 and 11).

The effective date of the policy liabilities and solvency calculation is 31 March 2021. The Appointed Actuary, Charles Hett MA, FNZSA, FIA has calculated policy liabilities for the Company. The Actuary is satisfied as to the accuracy of the data from which policy liabilities have been determined.

4. Critical Accounting Estimate: policyholder liabilities continued

31 March 2021

As previously noted, the intention of the Board of Directors is for the Company to cease trading. Plans are now underway to return the assets held with the statutory funds to policyholders and the shareholder. The policy liabilities reflect an assessment of the realisation value at 31 March 2021.

Policyholder liabilities are split between life insurance contracts and life investment contracts. They represent the amounts expected to be paid to lifetime annuity and life investment policyholders following the commutation of their annuity payments into a single lump sum payment and the proceeds of their life investment contracts.

Life insurance contracts policyholder liabilities have been calculated based on the present value of the policyholders' regular annuity payment plus an additional component for cancellation of the contract. This value cautiously reflects the remaining lifetime of the annuitant given their age (on the basis of a published statistical mortality table) and a 1% per annum discount rate representing a low-risk asset investment return that such policyholders could decide to hold. Life investment contract policyholder liabilities reflects the full value of the explicit policy funds held by the Company plus an additional component in respect of any attaching levels of life cover for cancellation of the contract. The method adopted to determine these amounts for policyholders does not depend upon market interest rates and is therefore not sensitive to interest rate changes.

31 March 2020

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.

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

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.

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.

4. Critical Accounting Estimate: policyholder liabilities continued

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. The methodology considers the risks and uncertainties of particular classes of life insurance business written.

(a) Disclosure of methods

The realisation accounting basis applied at 31 March 2021 is described above, for lifetime annuities this applies the best estimate basis described below plus an additional component to meet a realisation basis for policy liabilities. The information below for variable annuities covers 31 March 2020 liabilities.

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.

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). 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. 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

4. Critical Accounting Estimate: policyholder liabilities continued

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
1	0.51%
5	0.70%
10	1.08%
15	1.32%
20	1.48%
25	1.64%
30	1.80%

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 at 31 March 2020. For 31 March 2021 a rate of 1.0% per annum was applied for lifetime annuity liabilities.

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**	**March 2020 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 following years business plan. Maintenance expenses of 0.55% of account values were assumed and there were no acquisition costs. For 31 March 2020, the Lifetime Annuity business investment expenses of 0.30% p.a. of annuity fund assets and administration expenses of $120 per policy p.a. escalating with inflation at 1% p.a. were assumed.

v. Tax Rates and Basis

The tax rate for 2020 is 28% for all classes of business 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.

4. Critical Accounting Estimate: policyholder liabilities continued

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% 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 provided reinsurance against mortality experience varying from the levels expected (i.e. mortality best estimate assumptions). For this protection the Company paid Hannover Re a reinsurance fee. The reinsurance for variable annuity business was cancelled effective 31 December 2020.

Liability adequacy test

At 31 March 2020, liability adequacy tests were 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 were grouped into related product group and each group 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.

	2021	2020
Movements in policyholder liabilities	**$**	**$**
Net policyholder liabilities at the end of the year	20,105,069	37,111,548
Net policyholder liabilities at the end of the previous year	37,111,548	26,030,071
Net change in policyholder liabilities	**(17,006,479)**	**11,081,477**
Net change in policyholder liabilities as above	**(17,006,479)**	**11,081,477**
Increase/(Withdrawals) recognised in life investment contract liabilities	1,815,562	(1,286,991)
Net (decrease)/increase in policyholder liabilities as per Statement of Profit or Loss and Other Comprehensive Income	**(18,822,041)**	**12,368,468**
Value of policy liabilities – projection method		
Life insurance contract liabilities:		
- Value of future profits	-	1,269,000
- Value of future policy claims	-	39,612,000
- Value of future expenses	-	4,773,000
- Value of future reinsurance fee	-	4,393,000
- Value of (balance of) future premiums	-	(22,256,000)
Gross life insurance liabilities at 31 March	-	**27,791,000**

4. Critical Accounting Estimate: policyholder liabilities continued

	2021	2020
Value of policy liabilities - Accumulation Method	**$**	**$**
Life insurance contract liabilities	8,895,784	-
Life investment contract liabilities	11,209,285	9,320,548
Gross life insurance and investment contract liabilities at 31 March	**20,105,069**	**9,320,548**
Policyholder liabilities as per Statement of Financial Position	**20,105,069**	**37,111,548**
Value of policy benefits subject to capital guarantees included in policy liabilities		
Current termination values	115,243	112,926
Total	**115,243**	**112,926**

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 2021 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 2021						
Assets						
Cash and cash equivalents	7,431,333	215,368	334,702	520,407	235,948	8,737,758
Term Deposits	5,555,165	-	851,755	966,055	-	7,372,975
Insurance receivables	-	11,413	-	11,963	-	23,376
Prepayments	-	111,676	-	-	-	111,676
Related party receivables	-	-	-	-	44,119	44,119
Taxation receivable	2,211,663	84,940	298	62	6,835	2,303,798
Financial assets at fair value through profit or loss	-	21,495,885	-	-	-	21,495,885
Interfund balances	-	-	-	-	109,362	109,362
Less Liabilities						
Accounts payable	4,289,372	318,425	70,000	129,999	280,387	5,088,183
Related party payables	-	1,150	-	-	-	1,150
Interfund balances	49,585	44,642	7,580	7,555	-	109,362
Life insurance contract liabilities	-	8,895,784	-	-	-	8,895,784
Life investment contract liabilities	-	11,209,285	-	-	-	11,209,285
Total Equity	**10,859,204**	**1,449,996**	**1,109,175**	**1,360,933**	**115,877**	**14,895,185**

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 2021						
Income						
Net premium revenue	1,251,693	2,723	65,563	109,232	-	1,429,211
Management fee and Other revenue	-	140,778	-	-	-	140,778
Investment revenue	147,973	12,867	24,998	28,470	183	214,491
Unrealised Gains/(Losses) on financial instruments at fair value	(13,427,312)	70,924	(295,000)	(105,000)	-	(13,756,388)
Less Expenses						
Payments and withdrawals to annuity holders	-	1,316,753	-	-	-	1,316,753
Change in policyholder liabilities	(14,757,000)	(2,836,041)	(515,000)	(714,000)	-	(18,822,041)
Operating expenses	5,453,048	444,962	220,270	283,678	10,369	6,412,327
Profit/(loss) before tax	**(2,723,694)**	**1,301,618**	**90,291**	**463,024**	**(10,186)**	**(878,947)**
Less Income tax expense/(benefit)	(2,279,295)	-	-		-	(2,279,295)
Profit/(loss) after tax	**(444,399)**	**1,301,618**	**90,291**	**463,024**	**(10,186)**	**1,400,348**
Other comprehensive income	-	-	-		-	-
Total comprehensive income/(expense)	**(444,399)**	**1,301,618**	**90,291**	**463,024**	**(10,186)**	**1,400,348**
Statement of Movements in Equity						
Opening Share Capital	**12,938,929**	**500,198**	**1,559,681**	**1,758,291**	**402,901**	**17,160,000**
Issue of shares	-	-	-	-	-	-
Closing Share Capital	**12,938,929**	**500,198**	**1,559,681**	**1,758,291**	**402,901**	**17,160,000**
Opening Accumulated losses	**(3,125,326)**	**808,180**	**(440,797)**	**(610,382)**	**(296,838)**	**(3,665,163)**
Equity transfer	1,490,000	(1,160,000)	(100,000)	(250,000)	20,000	-
Total comprehensive income/(expense)	(444,399)	1,301,618	90,291	463,024	(10,186)	1,400,348
Closing Retained Earnings	**(2,079,725)**	**949,798**	**(450,506)**	**(397,358)**	**(287,024)**	**(2,264,815)**
Total Equity	**10,859,204**	**1,449,996**	**1,109,175**	**1,360,933**	**115,877**	**14,895,185**
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
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**

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 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)**	**(3,665,163)**
Total Equity	**9,813,603**	**1,308,378**	**1,118,884**	**1,147,909**	**106,063**	**13,494,837**

6. Solvency Margin

Solvency requirements

In April 2020, the Company identified a material issue in how the solvency position had been calculated and sought clarification from the RBNZ. The RBNZ has provided directions on the capital methodology to apply in August 2020. The corrected method requires the Company to hold more capital.

The RBNZ also issued amended licence conditions that required the Company to further increase its regulatory capital. Effective from 31 December 2020, the variable annuity statutory funds, statutory funds 1, 3 and 4, are required to maintain a minimum solvency margin of respectively $4,500,000, $250,000 and $250,000, with this increasing to $9,000,000, $500,000 and $500,000 on 30 June 2021.

The Company's Parent entity has not been able to raise enough capital to meet the higher RBNZ regulatory capital reserve requirements and has therefore made the decision to close its insurance products. The Company closed to new business in December 2020. As the Company is now in run-off, the RBNZ has issued further amended licence conditions requiring the Company to further increase its regulatory capital. Effective 30 June 2021, statutory fund 2 is required to maintain a minimum solvency margin of $10,000,000.

Further details about the proposed closure of the business are disclosed on pages 9 and 10 of these financial statements.

6. Solvency Margin continued

Separate to policy liabilities recognised in the Statement of Financial Position, the Company maintains capital to meet solvency requirements. These are amounts required to provide protection against the impact of fluctuations and unexpected adverse circumstances on life insurance companies.

The Company maintains solvency margins for its statutory and shareholder funds, which are calculated as the difference between actual solvency capital and minimum solvency capital as shown below. The methodology and bases for determining the solvency margin are in accordance with the Solvency Standard for Life Insurance Business 2014 and Solvency Standard for Variable Annuity Business 2015 (both incorporating amendments to November 2018), issued by the Reserve Bank of New Zealand and as clarified by the August 2020 RBNZ directions.

The actual solvency capital below is inclusive of the provision for business close down and compensation costs (note 2). As a result of the cancellation of the insurance contracts for statutory funds 1 and 3 at 31 March 2021, the minimum solvency capital calculation for these statutory funds only allows for asset risks. In respect of statutory funds 2 and 4 there is an allowance for insurance risk and asset risk in the minimum solvency capital calculations.

As at 31 March 2021		**Statutory Fund 1 $000**	**Statutory Fund 2 $000**	**Statutory Fund 3 $000**	**Statutory Fund 4 $000**	**Shareholder Fund $000**	**Company $000**
Equity		10,859	1,450	1,109	1,361	116	14,895
Deductions from Capital		-	-	-	-	(30)	(30)
Actual solvency capital	(A)	10,859	1,450	1,109	1,361	86	14,865
Minimum solvency capital	(B)	253	1,321	33	2,335	2	5,000
Solvency Margin	**(A)-(B)**	**10,606**	**129**	**1,076**	**(974)**	**84**	**9,865**
RBNZ minimum solvency margin		4,500	-	250	250	-	-
Margin in excess of minimum requirement		6,**106**	**129**	**826**	**(1,224)**	**84**	**9,865**
Solvency Ratio	**(A)/(B)**	**4292%**	**110%**	**3361%**	**58%**	**4300%**	**297%**

The Company is required to hold $5,000,000 minimum solvency capital at the company level. The RBNZ minimum solvency margin requirements are specific to the respective individual statutory funds.

As at 31 March 2020		**Statutory Fund 1 $000**	**Statutory Fund 2 $000**	**Statutory Fund 3 $000**	**Statutory Fund 4 $000**	**Shareholder Fund $000**	**Company $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)**
RBNZ minimum solvency margin		-	-	-	-	-	-
Margin in excess of minimum requirement		**(2,929)**	**336**	**176**	**203**	**49**	**(2,165)**
Solvency Ratio	**(A)/(B)**	**77%**	**135%**	**119%**	**121%**	**9283%**	**86%**

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)

Investment Movements

	2021	2020
	$	$
Realised gains/(losses) on items denominated in foreign currencies	(1,260,114)	481,684
Realised gains/(losses) on foreign exchange futures and interest rate derivatives	(12,567,198)	1,909,234
Unrealised gains/(losses) on fair value through profit or loss investments	70,924	507,400
Unrealised gains/(losses) on foreign exchange futures and interest rate derivatives	-	7,860,282
Total gains/(losses) on financial instruments at fair value	**(13,756,388)**	**10,758,600**

As part of the close down of the Company's operations, the Company settled its outstanding derivative positions. This resulted in a loss being recognised in profit or loss.

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. The Company currently has no open foreign exchange derivative contracts and interest rate swaps and therefore no cash at 31 March 2021 was held as collateral in the margin account with brokers.

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 of loss. All financial liabilities are valued at amortised cost.

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

Financial instruments have been valued on a realisation basis. This represents the amount that the Company expects to receive by selling the assets in an orderly disposal.

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 2021

	Amortised Cost	Fair value through profit or loss	Total
	$	$	$
Financial Assets			
Cash and cash equivalents	8,737,758	-	8,737,758
Term Deposits	7,372,975		7,372,975
Insurance receivables	23,376	-	23,376
Related party receivables	42,969	-	42,969
Financial assets held at fair value through profit or loss	-	21,495,885	21,495,885
Financial Liabilities			
Trade and other payables	(5,088,183)	-	(5,088,183)
Life investment contract liabilities	-	(11,209,285)	(11,209,285)
Total	**11,088,895**	**10,286,600**	**21,375,495**

As at 31 March 2020	$	$	$
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)
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**

Impairment

The expected credit loss model requires an entity to account for expected credit losses (‘ECLs’) and changes in those ECLs 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 ECLs 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.

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	2021 $	2020 $
Current tax (benefit)/expense	(2,279,295)	2,354,917
Deferred tax expense	-	-
Income tax (benefit)/expense	**(2,279,295)**	**2,354,917**
Loss before tax	(878,947)	(1,700,978)
Income tax credit at 28%	(246,105)	(476,274)
Prior year adjustment – reversal of prior period tax expense	(2,354,917)	(43,055)
Permanent differences		
- Life insurance premiums permanent differences	(511,603)	(486,706)
- Life Insurance liability permanent differences	(4,901,481)	3,883,726
- Non-deductible expenses	9,509	3,639
Current year tax losses carried back into prior year	2,885,836	-
Group tax loss offset	-	(526,413)
Tax losses not recognised	2,839,466	-
Income tax (benefit)/expense	**(2,279,295)**	**2,354,917**
Imputation credits available for use in subsequent periods	6,769	214,045

The Company had a tax expense for the year ended 31 March 2020. In a response to Covid-19, Parliament enacted as a temporary measure the ability of companies to carry tax losses backwards. This temporary measure assists taxpayers that have tax losses in either the 2020 or 2021 tax years and allows them to carry those losses back to an earlier year to seek an immediate refund of taxes paid in the earlier tax year. The Company elected to carry back tax losses from the 31 March 2021 year to offset the tax expense in the 31 March 2020 year. In the tax calculation for the year ended 31 March 2021, the tax expense for the year ended 31 March 2020 has been reversed as current year tax losses have been utilised to settle that obligation.

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. Due to the change in the basis of preparation to a non-going concern basis, all deferred tax is classified as current tax.

11. Accounts Payable / Other Payables

	Note	2021 $	2020 $
Sundry creditors and accruals		430,391	174,113
Related party payables		15,101	-
Unit linked maturities holding		142,691	142,691
Provision for business close down and compensation costs	2	4,500,000	-
Total accounts payable / other payables		**5,088,183**	**316,804**

Accounts and other payables have been recorded on a realisation basis. This is calculated as the amount of cash or cash equivalents required to settle the obligation.

12. Intangible assets

	2021	2020
Cost	**$**	**$**
Balance at 1 April	57,500	57,500
Movement	-	-
Cost at 31 March	**57,500**	**57,500**
Accumulated Depreciation		
Balance at 1 April	30,667	12,458
Movement	26,833	18,209
Accumulated Depreciation at 31 March	**57,500**	**30,667**
Net Book Value at 31 March	**-**	**26,833**

Intangible assets have been recorded on a realisation basis and fully amortised.

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.

13. 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. 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 2020, the Company established an Asset Liability Committee (“ALCO”) to advise both the Audit and Risk Committee and the Board. ALCO meets monthly or when required.

Following the Company’s decision to close its insurance products, the Company has been working through finding alternative options for policyholders. As there are no other variable annuity providers in New Zealand, for these customers the option is another fund without a guaranteed income for life or the return of their account balance in addition to receiving some compensation. For the customers holding lifetime annuity and life investment contracts, the Company is seeking approval from the High Court to commute their annuity payments into a single lump sum payment and return the proceeds of their life investment contracts to them. These processes are intended to lead to the Company ceasing to trade in the foreseeable future. This results in additional risk to the Company. The material risks from the implementation of this plan are:

- Reputation risk. This is the risk of loss resulting from damage to the Company’s reputation that could arise if policyholders indicate material objections with the plan;
- Risk of delay in obtaining regulatory approval of the compensation to policyholders or the amount of compensation approved by the regulator being materially higher than the provision included in these financial statements.
- Risk of the High Court not approving the Scheme of Arrangement. If the High Court does not approve the proposed plan or there are delays in the process, the expenses involved in developing the plan will not be recoverable or may increase.

The risks stated above are managed by the Board of Directors. These risks are additional to the ‘business as usual’ risks detailed on the following pages.

13. Financial Risk Management continued

Financial risk management objectives

The Company 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. Following the Company's decision to close its insurance products, dynamic hedging ceased in February 2021 and all open hedge contracts were closed out. At 31 March 2021 there were no open hedging contracts.

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.

(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. Following the Company's decision to close its variable annuity products, dynamic hedging ceased in February 2021 and all open hedge contracts were closed out. At 31 March 2021 there were no open hedging contracts.

In addition, the Company adopted a Milliman Managed Risk Strategy ('MMRS') for the Lifetime Income Fund. On 29 March 2021, investors in the Lifetime Income Fund were notified that the fund would be wound up in early May 2021 and provided them with the opportunity to transfer their investment to Lifetime Retirement Income Fund. At 31 March 2021 the MMRS for Lifetime Income Fund was still in place. MMRS ceased in May 2021.

In respect of life investment contracts, the Company utilises fixed interest and unlisted equity investments.

The Milliman Dynamic Hedge Strategy provided 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.

13. Financial Risk Management continued

(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. The Company cancelled its reinsurance arrangements effective 31 December 2020.

Dynamic Hedging

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

MMRS Hedging

Through the use of MMRS, there were 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.

Financial assets and liabilities have been valued on a realisation basis. This represents the amount that the Company expects to receive by selling the assets in an orderly disposal.

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.

2021	**<1 Month**	**1-3 Months**	**3-12 Months**	**>12 Months**	**Total**
Financial Liabilities	**$**	**$**	**$**	**$**	**$**
Payables	501,847	271,486	4,314,850	-	5,088,183
Life insurance contract liabilities	103,407	206,813	8,585,564	-	8,895,784
Life investment contract liabilities	-	-	11,209,285	-	11,209,285
Total	**605,254**	**478,299**	**24,109,699**	**-**	**25,193,252**

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13. Financial Risk Management continued

2020	**<1 Month**	**1-3 Months**	**3-12 Months**	**>12 Months**	**Total**
Financial Liabilities	**$**	**$**	**$**	**$**	$
Payables	119,561	54,552	142,691	-	316,804
Financial liabilities held at FVTPL	-	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**

(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 provided foreign exchange hedging for all overseas currency denominated assets. In February 2021, all open hedge contracts were closed and all cash held in the dynamic margin account held with Goldman Sachs was returned to the Company. 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 was 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 or in short-term deposits. The variable annuity asset and liability risk managed by Milliman used 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 $161,100 (2020: $156,000) 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 provided foreign exchange hedging for all overseas currency denominated assets. In February 2021, all overseas currency denominated assets were liquidated.

If the New Zealand dollar had been 5% higher/lower during the year the loss would have been approximately $60 (2020: $370,700) 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 and short-term 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.

13. Financial Risk Management continued

(i) Concentration of credit risk

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

	Carrying Value	
	2021	**2020**
	$	**$**
Related party receivables	42,969	72,627
Banks	16,719,799	16,567,111
New Zealand government	585,819	234,282
Local government bonds	4,337,574	3,839,472
Financial institutions	15,963,426	33,169,903
Other receivables	23,376	199,590
	37,672,963	**54,082,985**

(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	
	2021	**2020**
	$	**$**
Cash and cash equivalents	8,737,758	15,609,337
Margin account	-	6,400,181
Term Deposits	7,372,975	-
Related party receivables	42,969	72,627
Outstanding premiums and trade receivables	23,376	199,590
Financial assets at fair value through profit or loss	21,495,885	31,801,250
	37,672,963	**54,082,985**

(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	
Credit exposure by credit rating	**2021**	**2020**
	$	**$**
AAA	3,990,156	4,880,946
AA+	5,602,282	4,973,125
AA	426,473	424,906
AA-	16,719,800	16,543,493
A+	-	17,946,641
A	199,395	202,574
A-	-	-
BBB+	-	-
BBB	-	-
BBB-	-	-
Cash	-	-
Sub investment grade	-	-
Total counterparties with external credit rating by Standard and Poor's	**26,938,106**	**44,971,685**

13. Financial Risk Management continued

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

	Carrying Value	
Credit exposure by credit rating	**2021**	**2020**
	$	**$**
Group 1: trade debtors outstanding for less than 6 months or secured	23,376	199,590
Group 1A: related party receivable	42,969	72,627
Group 2: trade debtors (more than 6 months) with some defaults in the past	-	-
Group 3: unrated investments	10,668,512	8,839,083
Total counterparties with no external credit rating	**10,734,857**	**9,111,300**
Total financial assets neither past due nor impaired with credit exposure	**37,672,963**	**54,082,985**

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 $1,065,000 (2020: $985,000) lower/higher.

(g) 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.

(h) 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.

Financial assets and liabilities have been valued on a realisation basis. This represents the amount that the Company expects to receive by selling the assets in an orderly disposal. The following methods and assumptions were used by the Company in estimating the fair values of financial instruments.

13. 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	**2021**	**2020**
	$	**$**
Fixed Interest	10,434,514	10,882,484
Cash equivalents held as part of an investment portfolio	193,463	556,841
Unlisted Funds/Trusts	10,867,908	8,815,466
Interest rate derivatives	-	11,482,464
Foreign exchange futures	-	63,995
Total financial assets at fair value through profit or loss	**21,495,885**	**31,801,250**

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 2021

	Total	**Level 1**	**Level 2**	**Level 3**
Financial Assets	**$**	**$**	**$**	
Investment in unlisted funds/trusts	10,867,908	-	10,867,908	-
Investments in fixed interest securities	10,434,514	-	10,434,514	-
Cash	193,463	193,463	-	-
Total financial assets	**21,495,885**	**193,463**	**21,302,422**	**-**
Derivative financial liabilities	-	-	-	-
Total financial liabilities	**-**	**-**	**-**	**-**

Life investment contract liabilities have been valued on a realisation basis, representing the amount the Company expects to pay-out when these liabilities are settled. These liabilities were previously measured at fair value.

13. Financial Risk Management continued

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)**	**-**

(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

	2021	2020
	$	$
Interest rate derivatives	-	666,416
Foreign exchange futures	-	524,260
Total financial assets at fair value through profit or loss	**-**	**1,190,676**

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.

13. Financial Risk Management continued

Interest rate derivatives and foreign exchange futures disclosed in note 13 (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.

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.

14. 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.

15. Contingent liability

The Company had no material contingent liabilities at balance date (2020: Nil).

16. Capital commitments

The Company had no material capital commitments at balance date (2020: Nil).

17. Related party information

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

Entity	Activity
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

		2021 $	2020 $
Transactions during the year:			
Retirement Income Group Limited	Management fees/reimbursement expenses	947,495	97,434
Retirement Income Group Limited	Receipt of receivables/(payment owing)	(1,025,330)	(203,776)
Lifetime Asset Management Limited	Reimbursement of expenses	179,993	-
Stewart Capital Holdings Limited	Repayment/(provision) of loan	-	-

17. Related party information continued

		2021 $	2020 $
Receivables			
Stewart Capital Holdings Limited	Related party loan	30,000	30,000
Retirement Income Group Limited	Related party receivable	12,969	42,627
Payables			
Retirement Income Group Limited	Related party payable	-	-
Lifetime Asset Management Limited	Related party payable	15,101	-

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.

18. New standards adopted by the Company or not yet adopted

The Company's financial statements are prepared on a realisation basis for the reasons outlined in the basis of preparation and going concern sections on page 9. As a result, standards, amendments and interpretations to existing standards that came into effect in 2021 or were available for early adoption are not applicable / relevant to the Company. Further, the NZ IFRS currently on issue and not yet effective are not expected to have any impact on the Company.

19. 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 2021 or on the results and cash flows of the Company for the period ended on that date. The Company continues to work with its regulator to determine an appropriate and fair compensation payment which will then enable the Company to initiate its closure plan.

Life Management Limited
Charles Hett - Consulting Actuary

Wellington
26th August 2021

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 2021

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 2021 financial statements of LIL. I am mindful there have been some significant changes in the nature of the business and some further changes likely to occur. All of which have been discussed with the Reserve Bank of New Zealand ("RBNZ").

The LIL financial statements for 2021 have been prepared on a realisation accounting approach. The review has been carried out in accordance with the applicable solvency standards as amended by subsequent 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.

(e) There are a number of conditions imposed under IPSA effective as at 31 March 2021.

The RBNZ on 28 August 2020, issued a change to LIL license conditions: the minimum solvency margin is to be $5.0m (across three VA Statutory Funds) from 31 December 2020 and $10m (across three VA Statutory Funds) from 30 June 2021. In addition, on 19 February 2021, the RBNZ issued a further change to LIL license conditions in respect of SF2 with a minimum solvency margin of $10m to apply from 30 June 2021.

Effective 31 March 2021, LIL license conditions require a minimum solvency margin of $5.0m across the 3 VA Statutory Funds (SF1, SF3 and SF4).

(f) LIL has not maintained a minimum solvency margin as at 31 March 2021 in SF4, and also at times during the year to 31 March 2021 for other statutory funds, 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). In addition, Lifetime informed RBNZ on 24 June 2021 of the SF2 solvency position effective from 30 June 2021.

These have been discussed with RBNZ.

A copy of the Section 78 report is included in the Lifetime Income Limited Financial Condition Report for the year-ended 31 March 2021.

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 2021 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

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 2021, 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).

What we have audited

The financial statements comprise:

- the statement of financial position as at 31 March 2021;
- 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.

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.

Independence

We are independent of the Company 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 carries out other services 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 these other services has not impaired our independence as auditor of the Company.

Emphasis of Matter – basis of preparation

We draw attention to the Going Concern disclosure within the notes to the financial statements - of the financial statements. This details that the financial statements of the Company have been prepared on a realisation basis. During the year the Company closed to new business and subject to the achievement of certain milestones, the Directors intend to cease operations. As a result, the Directors have determined that the use of the going concern basis of preparation is not appropriate.

Adjustments have been made in these financial statements to:

- reduce assets to their realisable values;
- recognise liabilities relating to the closure of the business and payment of compensation to policyholders; and
- reclassify non-current assets and non-current liabilities as current assets and liabilities.

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.

Description of the key audit matter	How our audit addressed the key audit matter
Estimation of business closure costs As disclosed in note 2, the Company is in the process of closing its operations**.** As part of the closure plans, the Company cancelled its variable annuity group policies. The Directors have determined that the Company will pay compensation to policyholders in respect to the cancellation of their policies. Additionally, the Company has recognised a provision in respect to the costs of closing the business. The extent of the business close down costs, including compensation payments, are uncertain and a significant range in potential costs exist (from \$2 million to \$4.8 million). This range results from a number of milestones remaining outstanding, which include: • reaching consensus with all parties, including regulators, as to the methodology to be applied to determine compensation • the time required to cease operations, which in turn has an impact on the quantum of closure costs that will be incurred. The Company has recognised a provision of \$4.5 million, which is at the upper end of the range. Recognition at this level is considered by the Directors to be prudent and takes into account the level of uncertainty associated with the estimate, and the complexity in reaching consensus on amounts due. We deem this matter a key audit matter due to the significant range of potential outcomes, and the extent of audit effort dedicated to the assessment of the provision.	We have obtained an understanding of the methodology used to determine the estimated business close down provision. To do this we have: • enquired of the Company's directors as to their intentions with respect to closure plans, including compensation payments; • reviewed minutes of Board meetings and correspondence between the Company and its Regulator; • obtained and reviewed correspondence with the Company's advisors including legal and actuarial advisors; • performed analytical procedures using historic audited information to assess the reasonableness of the disclosed lower end of the compensation range; • vouched policyholder information (including number of policies) used by independent actuarial advisors to assess the quantum of compensation payable to policyholders; and • tested a sample of close down costs to supporting information (invoices, approved budgets, and fee estimates). We also considered the appropriateness of the disclosures in the financial statements. We have no matters to report arising from the procedures performed.

Description of the key audit matter	How our audit addressed the key audit matter
Determination of the realisable value of life insurance contract liabilities Insurance liabilities are disclosed in note 4 to the financial statements. The realisable value of insurance liabilities has been determined based on the present value of the policyholder's annuity payments plus an amount in respect to the cancellation of the contract. Under the realisation basis, the level of judgement applied by the Company to measure life insurance contract liabilities has reduced. The valuation is also not sensitive to changes in judgements made by the Company. However, given the significance of the determination of the insurance contract liability upon the financial statements we deem this area to be a key audit matter. Life insurance policy data is used as a key input to these estimates.	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: • understood the methodology and approach taken by the Directors to determine the realisable value of insurance liabilities, including reviewing the analysis undertaken by the Company's Appointed Actuary; • reviewed advice received from an Independent Actuary engaged by the Company to assist in determining the methodology to be applied to the valuation of insurance liabilities; • compared key inputs (for example discount rates) used in the calculation to supporting evidence, such as external market data; and • challenged the key actuarial assumptions used against past experience, market observable data (as applicable) and our experience of market practice. 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. We also considered the appropriateness of the disclosures in the financial statements. We have no matters to report arising from the procedures performed.

Our audit approach

Overview

Materiality	Overall materiality: $287,000, which represents 1% of total investments including term deposits. We chose total investments as the basis for our materiality benchmark. The Company is closing its operations. Investment balances will be realised and used to settle liabilities with the residual amount being distributed to the shareholder. Total investments, in our view, is the measure of most significance to the shareholder and users of the financial statements.
Key audit matters	As reported above, we have two key audit matters, being: • Estimation of business closure costs • Determination of the realisable value of life insurance contract liabilities.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. 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.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears 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/assurance-standards/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
26 August 2021

Wellington