Pinnacle Life

Pinnacle Life Limited

Financial statements
for the year ended
31 March 2021

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PINNACLE LIFE LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2021

	Note	2021 $	2020 $
Revenue and other income			
Gross premium revenue	3	21,574,157	15,748,140
Gross reinsurance ceded	3	(9,139,582)	(6,823,182)
Gross reinsurance profit share income	3	-	(119,226)
Net premium revenue		12,434,575	8,805,732
Interest income	3	141,347	112,883
Fair value loss on financial assets at fair value through profit and loss		(541,917)	(13,928)
Administration fee income	3	-	47,028
Total revenue		12,034,005	8,951,715
Less: expenses			
Claims expense		(5,028,605)	(7,011,085)
Reinsurance recoveries		3,324,326	5,290,752
Net claims expense		(1,704,279)	(1,720,333)
Net movement in life insurance contract assets and reinsurance contract liabilities	16	(1,455,555)	4,173,683
Operating expenses	4	(8,621,182)	(6,916,515)
Total expenses		(11,781,016)	(4,463,165)
Profit before income tax expense		252,989	4,488,550
Taxation benefit / (expense)	5	311,133	(875,012)
Net profit after income tax expense		564,122	3,613,538
Other comprehensive income for the year		-	-
Total comprehensive income		564,122	3,613,538

The accompanying notes form part of these financial statements.

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PINNACLE LIFE LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2021

	Note	2021 $	2020 $
Assets			
Cash and cash equivalents	6	5,166,220	5,059,014
Receivables	7	1,630,611	1,658,465
Financial assets at fair value through profit and loss	8	6,707,526	5,099,265
Other assets	9	15,388	102,103
Current tax assets		33,686	273,366
Life insurance contract assets	16	67,913,806	56,432,567
Plant and equipment	10	39,776	33,544
Right of use assets	11	83,001	165,825
Intangible assets	12	996,908	574,918
Deferred tax assets	5	506,165	53,412
Total assets		83,093,087	69,452,479
Liabilities			
Payables	13	3,753,618	3,048,965
Provisions	14	167,720	144,791
Current tax liabilities		-	-
Other liabilities	15	1,208,113	1,195,261
Lease liabilities	11	87,080	169,836
Reinsurance contract liabilities	16	34,399,478	21,462,684
Deferred tax liabilities	5	4,757,852	4,575,838
Total liabilities		44,373,861	30,597,375
Net assets		38,719,226	38,855,104
Equity			
Share capital	17	22,284,453	22,284,453
Retained earnings	19	16,434,773	16,570,651
Total equity		38,719,226	38,855,104

Signed on behalf of the board of directors, dated 17 June 2021

Director: ______________________ Director: ______________________

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The accompanying notes form part of these financial statements.

PINNACLE LIFE LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2021

	Note	Share capital $	Retained earnings $	Total equity $
Balance as at 1 April 2019		20,425,523	13,457,113	33,882,636
Profit for the year		-	3,613,538	3,613,538
Comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	3,613,538	3,613,538
Transactions with owners in their capacity as owners:				
Issue of preference share capital	17	2,000,000	-	2,000,000
Transaction costs relating to shares issued, net of tax	17	(141,070)	-	(141,070)
Dividends	19	-	(500,000)	(500,000)
Total transactions with owners in their capacity as owners		1,858,930	(500,000)	1,358,930
Balance as at 31 March 2020		22,284,453	16,570,651	38,855,104
Balance as at 1 April 2020		22,284,453	16,570,651	38,855,104
Profit for the year		-	564,122	564,122
Comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	564,122	564,122
Transactions with owners in their capacity as owners:				
Dividends	19	-	(700,000)	(700,000)
Total transactions with owners in their capacity as owners		-	(700,000)	(700,000)
Balance as at 31 March 2021		22,284,453	16,434,773	38,719,226

The accompanying notes form part of these financial statements.

PINNACLE LIFE LIMITED

STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 31 MARCH 2021

	Note	2021 $	2020 $
Cash flow from operating activities			
Premium receipts from customers		21,674,116	15,763,946
Reinsurance profit share income		-	1,098,131
Reinsurance recoveries		3,321,376	4,151,926
Interest received		85,044	93,526
Payments to suppliers		(6,512,967)	(5,237,696)
Payments to employees		(1,335,563)	(1,278,722)
Payments to reinsurers		(9,007,254)	(6,624,427)
Claims paid		(4,679,162)	(7,023,976)
Net GST paid		(111,379)	107,615
Interest paid on lease liabilities	11	(6,106)	(10,046)
Income tax paid		280,074	(686,771)
Net cash provided by operating activities	6	3,708,179	353,506
Cash flow from investing activities			
Proceeds from maturity of investments		1,420,436	3,288,164
Payment for property, plant and equipment	10	(33,158)	(20,673)
Payment for intangible assets	12	(634,719)	(352,995)
Payment for investments		(3,570,614)	(5,113,194)
Net cash used in investing activities		(2,818,055)	(2,198,698)
Cash flow from financing activities			
Proceeds from preference share issue	17	-	2,000,000
Share issue costs	17	-	(141,070)
Dividends paid	19	(700,000)	(500,000)
Repayment of lease liabilities	11	(82,918)	(78,902)
Net cash used in financing activities		(782,918)	1,280,028
Reconciliation of cash and cash equivalents			
Cash and cash equivalents as at the beginning of the year		5,059,014	5,624,178
Net (decrease) / increase in cash and cash equivalents held during the year		107,206	(565,164)
Cash and cash equivalents as at the end of the year	6	5,166,220	5,059,014

The accompanying notes form part of these financial statements.

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NOTE 1: ABOUT THESE FINANCIAL STATEMENTS

The notes to the financial statements include information that is considered relevant and material to assist the reader in understanding changes in Pinnacle Life Limited's ('the Company') financial position or performance.

Information is considered relevant and material if:

- the amount is significant because of its size and nature;
- it is important for understanding the results of the Company;
- it helps explain changes in the Company's business; or
- it relates to an aspect of the Company's operations that is important to future performance.

Pinnacle Life Limited is incorporated and domiciled in New Zealand. Pinnacle Life Limited is registered under the Companies Act 1993. The principal activity of the Company is that of a life insurer.

With the implementation of the Insurance (Prudential Supervision) Act 2010 all life insurance entities undertaking insurance business in New Zealand are required to be licensed by the Reserve Bank of New Zealand (RBNZ). The Company has been granted a full licence. As a result of being a licensed insurer, the Company is deemed to be a FMC reporting entity under the Financial Markets Conduct Act 2013 (FMCA).

Basis of preparation

These financial statements have been prepared:

- in accordance with New Zealand Generally Accepted Accounting Practices in New Zealand ('GAAP'). They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS'), International Financial Reporting Standards ('IFRS') and other applicable Financial Reporting Standards as appropriate for Tier 1 profit-orientated entities;
- in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 2013, the Insurance (Prudential Supervision) Act 2010 and the Financial Markets Conduct Act 2013;
- on the basis of historical cost convention, as modified by revaluations for certain classes of assets and liabilities to fair value and life insurance contract assets and related liabilities to net present value as described in the notes below;
- on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business; and
- in New Zealand dollars (which is the Company's functional and presentation currency).

The financial statements were authorised for issue by the directors on 17 June 2021.

Adoption of new and revised Standards and Interpretations

New standards, amendments and interpretations to existing standards that came into effect during the current reporting period

The Company has adopted all new or revised standards, amendments and interpretations that became effective for the year beginning 1 April 2020.

These standards, amendments and interpretations adopted include: NZ IAS 1 *Presentation of Financial Statements* and NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* - Definition of Material. These amendments while adopted, either had no material impact or relate to standards not currently applied by the Company.

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NOTE 1: ABOUT THESE FINANCIAL STATEMENTS (CONTINUED)

Adoption of new and revised standards and interpretations (Continued)

New standards, amendments and interpretations to existing standards that are not yet effective for the current accounting period

- **NZ IFRS 17 *Insurance contracts***

  NZ IFRS 17 *Insurance Contracts* is a New Zealand Equivalent to International Financial Reporting Standard 17 Insurance Contracts that was issued by the New Zealand Accounting Standards Board (NZASB) in August 2017 and on 13 August 2020, the NZASB issued the Amendments to NZ IFRS 17, which includes deferral of NZ IFRS 17's effective date. NZ IFRS 17 will replace NZ IFRS 4 *Insurance Contracts* on accounting for insurance contracts and has an effective date of annual periods beginning on or after 1 January 2023.

  Under the NZ IFRS 17, insurance contract liabilities will be calculated as the present value of future insurance cash flows with a provision for risk. The discount rate applied will reflect current interest rates. If the present value of future cash flows would produce a gain at the time an insurance contract is issued the model would also require a "contractual service margin" to offset the day 1 gain. The contractual service margin would amortize over the life of the insurance contract. There would also be a new statement of comprehensive income presentation for insurance contracts, including a revised definition of revenue, and additional disclosure requirements.

  The Company has yet to assess NZ IFRS 17's full effect and impact on the Company's financial statements and does not intend to early adopt NZ IFRS 17 .

There are a number of new standards and amendments to standards and interpretations that are not yet effective for the year beginning 1 April 2020. None of these new standards and amendments to standards and interpretations have been early adopted by the Company in preparing these financial statements or been identified as having a material effect on the Company's financial statements in future.

Global pandemic of coronavirus disease 2019

COVID-19 has had significant impacts on the global economy since the World Health Organisation declared the outbreak as a pandemic in March 2020 and it is expected to continue to have an impact over the medium term. While there is a degree of uncertainty around the impact the pandemic will have on the Company's future activity, the Company's earnings, cashflow and financial position have not been impacted since the outbreak began and up to the date of the signing of these financial statements.

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NOTE 1: ABOUT THESE FINANCIAL STATEMENTS (CONTINUED)

Other Accounting Policies

Accounting policies that are relevant to an understanding of the financial statements (other than those provided throughout the notes to the financial statements) are set out below:

Financial instruments

(a) Classification of financial assets

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

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

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

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

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

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

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

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

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

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

The Company has no financial assets classified at FVTOCI.

(i) Financial assets measured at amortised cost

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

The Company's financial assets measured at amortised cost consists of receivables disclosed in note 7.

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NOTE 1: ABOUT THESE FINANCIAL STATEMENTS (CONTINUED)

Financial instruments (continued)

(a) Classification of financial assets (continued)

(ii) Financial assets at FVTPL

At initial recognition financial assets are measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Subsequent fair value gains or losses recognised in profit or loss.

The Company's financial assets at FVTPL consists of term deposits and New Zealand Government securities disclosed in note 8.

(b) Impairment of financial assets

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

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

For all other financial instruments, the Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12 months ECL.

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

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12 months ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(c) Classification of financial liabilities

The Company classifies its financial liabilities into one of the following measurement categories:

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

The Company has no financial liabilities measured at FVTPL.

(i) Financial liabilities measured at amortised cost

At initial recognition financial liabilities are measured at fair value plus transaction costs that are directly attributable to the issue of the financial liabilities. The amortised cost of a financial liability is the amount at which the financial liability is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount.

The Company's financial liabilities measured at amortised cost consists of trade, claims and other payables disclosed in note 13.

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NOTE 1: ABOUT THESE FINANCIAL STATEMENTS (CONTINUED)

Impairment of non-financial assets

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is determined by estimating future cash flows from the use and ultimate disposal of the asset and discounting these to their present value using a pre-tax discount rate that reflects current market rates and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Impairment losses directly reduce the carrying amount of assets and are recognised in profit or loss.

Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Significant accounting estimates and judgements

In preparing these financial statements, management is required to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. These judgments, estimates and assumptions are based on experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the estimates, judgments and assumptions. Actual results may differ from the estimates, judgments and assumptions made by management.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The significant judgements relate to the valuation of Company's life insurance contract assets and reinsurance contract liabilities, and the judgments, estimates and assumptions applied (refer note 16).

NOTE 2: FINANCIAL RISK MANAGEMENT

The Company is exposed to a variety of financial risks comprising:

(a) Credit risk

(b) Liquidity risk

(c) Interest rate risk

(d) Market risk - fair value risk

The Board of Directors have overall responsibility for identifying and managing operational and financial risks.

The Company holds the following financial instruments:

	Note	2021 $	2020 $
Financial assets			
Cash and cash equivalents	6	5,166,220	5,059,014
Receivables	7	1,630,611	1,658,465
Financial assets at fair value through profit or loss	8	6,707,526	5,099,265
Total financial assets		13,504,357	11,816,744
Financial liabilities			
Payables	13	3,753,618	3,048,965
Total financial liabilities		3,753,618	3,048,965

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NOTE 2: FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The Company's exposure to credit risk, or the risk of counterparties defaulting arises mainly from cash at bank, trade and other receivables, reinsurance receivables and term investments. The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date of recognised financial assets is the carrying amount of those assets, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to financial statements.

With the exception of the cash deposits (refer note 6), term deposits (refer note 8), New Zealand Government securities (refer note 8), and reinsurance receivables (refer note 7), the Company does not have any other material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Company.

(i) Cash deposits (refer note 6), term deposits (refer note 8) and New Zealand Government securities (refer note 8)

Credit risk for cash at bank, term deposits and New Zealand Government securities is managed by holding all cash deposits with high credit rating financial institutions (i.e. ASB Bank Limited with a Standard and Poor's rating of 'AA- ' 'outlook negative' and New Zealand Government with a Standard and Poor's rating of 'AAA' 'stable outlook' (2020: 'AA+' 'positive outlook')).

(ii) Trade receivables and other receivables (refer note 7)

Credit risk for trade receivables is managed by dealing exclusively with high credit rating counterparties. The Company also undertakes transactions with a large number of customers throughout New Zealand, thus minimising concentrations of credit risk. Outstanding receivables are regularly monitored for payment in accordance with credit terms. Trade receivables that are neither past due nor impaired, are expected to be received in accordance with the credit risk. The aging analysis of trade and other receivables is provided in note 7.

(iii) Reinsurance receivables (refer note 7)

Credit risk for reinsurance receivables is managed by dealing exclusively with 'A' rated or above (Standard & Poor's) international reinsurers.

(b) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities and policyholder liabilities. The Company monitors its liquidity position on a continuous basis and plans its operating activities to ensure a balanced liquidity position. The Company practices prudent risk management by maintaining sufficient cash balances. If necessary the Company will build up cash reserves to meet longer term liabilities.

Maturity analysis

The table below represents the contractual settlement terms for financial instruments and insurance contract assets and liabilities and managements expectation for settlement of these.

	< 6 months $	6-12 months $	> 1 year $	Total contractual cash flows $	Carrying amount $
2021					
Cash and cash equivalents	5,166,220	-	-	5,166,220	5,166,220
Receivables	1,630,611	-	-	1,630,611	1,630,611
Financial assets at fair value through profit and loss	1,447,286	1,000,000	4,260,240	6,707,526	6,707,526
Life insurance contract assets	3,925,637	3,556,872	60,431,297	67,913,806	67,913,806
Payables	(3,753,618)	-	-	(3,753,618)	(3,753,618)
Lease liabilities	(43,009)	(44,071)	-	(87,080)	(87,080)
Reinsurance contract liabilities	(2,150,332)	(1,945,414)	(30,303,732)	(34,399,478)	(34,399,478)
Net maturities	6,222,795	2,567,387	34,387,805	43,177,987	43,177,987

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NOTE 2: FINANCIAL RISK MANAGEMENT (CONTINUED)

Maturity analysis (continued)

	< 6 months	6-12 months	> 1 year	Total contractual cash flows	Carrying amount
	$	$	$	$	$
2020					
Cash and cash equivalents	5,059,014	-	-	5,059,014	5,059,014
Receivables	1,658,465	-	-	1,658,465	1,658,465
Financial assets at fair value through profit and loss	1,420,435	-	3,678,830	5,099,265	5,099,265
Life insurance contract assets	3,636,982	1,823,970	50,971,615	56,432,567	56,432,567
Payables	(3,048,965)	-	-	(3,048,965)	(3,048,965)
Lease liabilities	(40,918)	(41,929)	(86,989)	(169,836)	(169,836)
Reinsurance contract liabilities	(1,740,735)	(872,162)	(18,849,787)	(21,462,684)	(21,462,684)
Net maturities	6,944,278	909,879	35,713,669	43,567,826	43,567,826

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates.

The Company's exposure to interest rate risk arises mainly from its interest earning cash and term deposits. The Company's exposure to interest rate risk is to the extent that it invests for a fixed term at fixed rates. The Company's policy is to obtain the most favourable term and interest rate available.

As these securities are carried at net market value, the effective interest rate is reflected in the market price. By investing with high credit rating financial institutions, the Company minimises the impact of market interest rate fluctuations.

The Company's exposure to interest rate risk in relation to future cashflows and the effective weighted average interest rates on classes of financial assets and financial liabilities is as follows:

	2021		
	Interest bearing	Weighted average effective interest rate	
	$	%	
Financial assets			
Cash	5,166,220	0.05%	Floating
Financial assets at fair value through profit and loss	6,707,526	2.18%	Fixed
Total financial assets	11,873,746		

	2020		
	Interest bearing	Weighted average effective interest rate	
	$	%	
Financial assets			
Cash	5,059,014	0.07%	Floating
Financial assets at fair value through profit and loss	5,099,265	3.29%	Fixed
Total financial assets	10,158,279		

No other financial assets or financial liabilities are expected to be exposed to interest rate risk.

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NOTE 2: FINANCIAL RISK MANAGEMENT (CONTINUED)

Sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. A 50 (2020: 100) basis point increase/decrease represents management's assessment of the reasonably possible change in interest rates. If interest rates were to increase/decrease by 50 (2020: 100) basis points from rates used to determine fair values as at the reporting date, assuming all other variables that might impact on fair value remain constant, then the impact on profit for the year and equity is as follows:

	Note	2021 $	2020 $
+ / - 50 (2020: 100) basis points			
Impact on profit before tax		59,369	50,791
Impact on equity		42,745	36,570

(d) Market risk - fair value risk

Fair values compared with carrying amounts

The carrying value of all financial assets and liabilities not measured at fair value approximates their fair values as they are either short term in nature or rate insensitive. Cash and cash equivalents are short term in nature and the carrying value is equivalent to their fair value. Trade and other receivables are short term in nature and are reviewed for impairment; the carrying value approximates their fair value. Trade and other payables are short term in nature; the carrying value approximates their fair value.

Fair value measurement

Financial assets and liabilities recognised and measured at fair value have been determined by the following fair value measurement hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Input other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Inputs for the asset or liability that are not based on observable market data

			2021		
	Note	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets					
Financial assets at fair value through profit or loss					
- Term deposits	8	-	2,447,286	-	2,447,286
- New Zealand Government securities	8	-	4,260,240	-	4,260,240
Total financial assets		-	6,707,526	-	6,707,526

			2020		
	Note	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets					
Financial assets at fair value through profit or loss					
- Term deposits	8	-	1,420,435	-	1,420,435
- New Zealand Government securities	8	-	3,678,830	-	3,678,830
Total financial assets		-	5,099,265	-	5,099,265

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NOTE 3: REVENUE

Net premium revenue is comprised of the following: Gross premium income; Gross reinsurance ceded; and Gross reinsurance profit share income.

- Premium revenue
  Premium revenue on life insurance contracts are recognised when due. Premiums received in advance of due date are deferred and amortised through the profit and loss over the period of the services provided under the insurance contract.
- Reinsurance ceded
  Reinsurance premium ceded to the reinsurer under reinsurance contracts are recognised as an outwards reinsurance expense through the profit and loss when due.
- Reinsurance profit share income
  Reinsurance profit share income due from the reinsurer under reinsurance contracts is recognised through profit and loss when earned from the reinsurer.

Other income comprises interest income.

- Interest income
  Interest income is recognised in profit or loss as it accrues, using the effective interest method.
- Administration fee income
  The Company earns administration fee income from the administration of an agreement ('the contract'), whereby it provides insurance products to customers introduced to the Company by another party. Under the contract, the other party is required to introduce to the Company a specific minimum level of customer premiums on an annual basis. Should the required level of customer premiums not be met, the other party must compensate the Company by way of an administration fee, representing the shortfall between customer premiums introduced and the minimum threshold. This shortfall is calculated and accrued by the Company on a monthly basis, with the year-end total payable by the other party to the Company within 20 business days of the end of the financial year.

NOTE 4: EXPENSES

Expenses are recognised as incurred in profit or loss on an accrual basis.

The following specific recognition criteria must also be met before expenses are recognised:

- Claims expense
  Claims incurred that relate to the underwriting of life insurance contracts and bearing of risks are recognised as an expense through profit and loss when the liability to the policyholder has been established or upon notification of the insured event. Outstanding claims are recognised as claims payable in the statement of financial position to provide for the estimated costs of all claims notified, but not settled at reporting date. The estimated cost of claims incurred but not reported until after year end are separately recognised in the statement of financial position as provisions.

- Basis of expense apportionment
  For the purposes of actuarial reserving, all operating expenses have been apportioned between policy acquisition and policy maintenance expenses. These are further explained under note 16.

  (i) Policy acquisition costs

  Acquisition costs are the fixed and variable costs of acquiring new business including commissions and similar distribution costs, costs of accepting, issuing and initially recording policies. Acquisition expenses are initially recognised through profit and loss. This expense in profit and loss is then offset by the recognition of movements in life insurance contract assets and reinsurance contract liabilities through the profit and loss. The Actuary determines the insurance contract assets and reinsurance contract liabilities and the movements therein, taking account of any deferral and future recovery of acquisition costs which are capitalised by way of the movement in insurance contract assets and reinsurance contract liabilities. These are then amortised over the period in which they will be recoverable, being recorded as part of movements in insurance contract assets and liabilities through the profit and loss.

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NOTE 4: EXPENSES (CONTINUED)

- Basis of expense apportionment (continued)

  (ii) Policy maintenance expenses

  Maintenance costs are the fixed and variable costs of administering policies subsequent to sale and maintaining the Company's operations such that they are sufficient to service in force policies. Maintenance costs include all operating and management costs other than acquisition and investment management costs. Maintenance expenses are recognised through profit and loss at cost in the period to which they relate.
- Reinsurance recoveries

  Reinsurance recoveries are recognised separately through the profit and loss when the related incurred claim is recognised.

	Note	2021 $	2020 $
Operating expenses split between policy acquisition and maintenance costs			
Acquisition expenses		5,338,546	4,361,525
Maintenance expenses		3,169,324	2,504,662
One-off expenses		113,309	50,328
Total operating expenses		8,621,179	6,916,515

Expenses of $1,029,936 for the year ended 31 March 2020 were reclassified from maintenance expenses to acquisition expenses to conform with the presentation in the current financial year.

	Note	2021 $	2020 $
Operating expenses by nature			
Advertising expense		1,005,321	2,062,495
Depreciation and amortisation expense	10, 11, 12	322,641	252,554
Employee benefits expense		1,338,492	1,316,316
Occupancy expense		34,240	31,442
Underwriting and commission expense		4,003,366	1,575,572
Interest expense on lease liabilities	11	6,106	10,046
Other operating expenses		1,911,013	1,668,090
Total operating expenses		8,621,179	6,916,515
Remuneration of auditors, KPMG (included in 'other operating expenses'):			
Audit of financial statements		93,000	106,300
Review of the solvency projection model		52,821	-
Audit of solvency return		30,000	30,000
Total remuneration of auditors		175,821	136,300

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NOTE 5: TAXATION

Income tax on net profit for the reporting period comprises current and deferred tax. Income tax is recognised in profit or loss except when it relates to items recognised outside profit or loss (equity or other comprehensive income), in which case it is also recognised outside profit or loss.

Current tax

Current income tax is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax

Deferred income tax assets are recognised for all deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred income tax liabilities are recognised when tax deductions have exceeded accounting expenditure for temporary differences and depreciation.

Components of tax expense / (benefit) & prima facie tax payable

	Note	2021 $	2020 $
Current tax		(40,394)	(276,305)
Deferred tax		(270,739)	1,151,317
		(311,133)	875,012
The prima facie tax payable on profit before income tax is reconciled to the income tax (benefit) / expense as follows:			
Profit before income tax		252,989	4,488,550
Prima facie income tax payable on profit before income tax at 28.0%		70,837	1,256,794
Net insurance and reinsurance contract related adjustments		(342,456)	(380,053)
Non-deductible expenses		880	1,210
Over provision of prior year taxation expense - income tax		(40,394)	(2,939)
Income tax expense / (benefit) attributable to profit		(311,133)	875,012

Deferred tax

	New Zealand Government securities $	Tax losses recognised $	Other *(Provisions & Leases)* $	Deferred tax assets $	Deferred acquisition costs $	Deferred tax liabilities $
Balance as at 1 April 2019	-	-	48,099	48,099	(3,419,208)	(3,419,208)
Charge through the profit and loss	-	-	5,313	5,313	(1,156,630)	(1,156,630)
Balance as at 31 March 2020	-	-	53,412	53,412	(4,575,838)	(4,575,838)
Charge through the profit and loss	138,860	306,586	7,307	452,753	(182,014)	(182,014)
Balance as at 31 March 2021	138,860	306,586	60,719	506,165	(4,757,852)	(4,757,852)

Imputation credit account

	Note	2021 $	2020 $
Opening balance at 1 April		(686,771)	-
Income tax payments		-	(689,710)
Income tax receipts		222,497	2,827
Imputation credits attached to preference share dividends		240,139	
Other credits		(26,925)	(22)
Other debits		64	134
Imputation lost on shareholder continuity breach		231,682	-
At reporting date		(19,313)	(686,771)

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NOTE 6: CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts.

	Note	2021 $	2020 $
Cash at bank - on call		3,016,698	3,836,131
Cash at bank - other		2,149,522	1,222,883
		5,166,220	5,059,014

Reconciliation of cash flow from operations with profit after income tax	Note	2021 $	2020 $
Profit from ordinary activities after income tax		564,122	3,613,538
Adjustments and non-cash items			
Amortisation	12	212,729	154,437
Depreciation on plant and equipment	10	26,926	15,204
Depreciation on right-of-use assets	11	82,986	82,913
Fair value loss on financial assets at fair value through profit and loss		541,917	13,928
Net movement in life insurance contract assets and reinsurance contract liabilities		1,455,555	(4,173,683)
Current tax		(33,686)	(273,366)
Deferred tax		(270,739)	1,151,317
Changes in assets and liabilities			
(Increase) / decrease in receivables		27,854	27,327
(Increase) / decrease in other assets		101,063	12,105
Increase / (decrease) in payables		690,305	361,277
Increase / (decrease) in provisions		22,929	57,594
Increase / (decrease) in other liabilities		12,852	625
Increase / (decrease) in current tax liabilities		273,366	(689,710)
		3,144,057	(3,260,032)
Cash flows from operating activities		3,708,179	353,506

NOTE 7: RECEIVABLES

Receivables are measured on initial recognition at fair value and subsequently at amortised cost using the effective interest method, less appropriate allowances for expected irrecoverable amounts (if any). There are no trade and other receivables with a significant financing component.

	Note	2021 $	2020 $
CURRENT			
Reinsurance recoveries receivable		1,534,600	1,531,650
Administration fee receivable		-	47,028
Other receivables		96,011	79,787
		1,630,611	1,658,465

Trade and other receivables ageing analysis:	Note	Gross 2021 $	Impairment 2021 $	Gross 2020 $	Impairment 2020 $
Not past due		1,630,611	-	1,658,465	-
		1,630,611	-	1,658,465	-

* Receivables that are 'not past due' as those that are within trading terms of 0 to 30 days.

NOTE 8: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

Term deposits and New Zealand Government securities are designated as FVTPL upon initial recognition. Term deposits are recognised at fair value based on the interest rate set at inception of the term deposit. New Zealand Government securities are valued using quoted yields for the specific securities.

	Note	2021 $	2020 $
CURRENT			
Term deposits		2,447,286	1,420,435
New Zealand Government securities		4,260,240	3,678,830
		6,707,526	5,099,265

NOTE 9: OTHER ASSETS

Prepayments
Other expenses are recognised as incurred in profit and loss on an accruals basis.

Goods and services tax (GST)
As the Company is primarily in the business of providing life insurance services, the majority of income and expenditure is accounted for on a GST inclusive basis. The percentage of business income and expenditure on which GST is returned is 5.64% (2019: 5.64%).

	Note	2021 $	2020 $
CURRENT			
Prepayments		1,040	102,103
GST receivable		14,348	-
		15,388	102,103

NOTE 10: PLANT AND EQUIPMENT

Plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures all directly attributable costs necessary to purchase, create, produce and prepare the asset to be capable of operating in the manner intended by management. Depreciation is recognised in profit or loss over the estimated useful lives of the item of plant and equipment (which has been assessed to be between three to ten years) on a diminishing value basis. Plant and equipment carrying values, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

	2021			2020		
	Plant and equipment $	Furniture, fixtures and fittings $	Total plant and equipment $	Plant and equipment $	Furniture, fixtures and fittings $	Total plant and equipment $
Cost as at 1 April	145,284	17,740	163,024	125,464	16,887	142,351
Accumulated depreciation as at 1 April	(118,100)	(11,380)	(129,480)	(104,031)	(10,245)	(114,276)
Carrying value at 1 April	27,184	6,360	33,544	21,433	6,642	28,075
Additions	33,158	-	33,158	19,820	853	20,673
Depreciation expense	(25,931)	(995)	(26,926)	(14,069)	(1,135)	(15,204)
Balance as at reporting date	34,411	5,365	39,776	27,184	6,360	33,544
Cost as at reporting date	178,441	17,740	196,181	145,284	17,740	163,024
Accumulated depreciation as at reporting date	(144,030)	(12,375)	(156,405)	(118,100)	(11,380)	(129,480)
Carrying value as at reporting date	34,411	5,365	39,776	27,184	6,360	33,544

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NOTE 11: RIGHT OF USE ASSETS AND LEASE LIABILITIES

Right of use assets

Right-of-use assets is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. Depreciation is charged so as to write off the cost of assets, over the lease term using the straight-line method.

	2021		2020	
	Property	Total right of use assets	Property	Total right of use assets
	$	$	$	$
Cost as at 1 April	248,738	248,738	-	-
Accumulated depreciation as at 1 April	(82,913)	(82,913)	-	-
Carrying value at 1 April	165,825	165,825	-	-
Additions	-	-	248,738	248,738
Remeasurement of lease liability	162	162		-
Depreciation expense	(82,986)	(82,986)	(82,913)	(82,913)
Balance as at reporting date	83,001	83,001	165,825	165,825
Cost as at reporting date	248,738	248,738	248,738	248,738
Accumulated depreciation as at reporting date	(165,737)	(165,737)	(82,913)	(82,913)
Carrying value as at reporting date	83,001	83,001	165,825	165,825

Lease liabilities

The lease liability is initially measured at the present value of the future lease payments over the lease term that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised, or any lease modification that are not accounted for as a separate lease.

The Company has applied judgement to determine the lease term for its lease contracts in which it is a lessee that include renewal options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

The Company decided to apply recognition exemptions to short-term leases of carparks, and to leases of low-value assets such as office equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

	Note	2021	2020
		$	$
Current		87,080	82,847
Non current		-	86,989
		87,080	169,836
Undiscounted lease liabilities as the lessee			
Less than one year		88,948	88,948
One to five years		-	88,948
Total undiscounted lease liabilities		88,948	177,896
Amounts recognised in statement of comprehensive income			
Interest expense on lease liabilities (included in operating expenses)		6,106	10,046
Expense relating to short-term leases (included in occupancy expenses)		7,122	7,116
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in other operating expenses)		1,874	1,872
Expense relating to variable lease payments not included in lease liabilities (included in occupancy expenses)		19,996	16,336

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PINNACLE LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

NOTE 12: INTANGIBLE ASSETS

Computer software measured at cost less accumulated amortisation and impairment losses. Cost includes expenditures that are directly attributable costs necessary to purchase, create, produce and prepare the asset to be capable of operating in the manner intended by management. Amortisation is recognised in profit or loss over the estimated useful lives of the item of computer software (which has been assessed to be between three to five years) on a diminishing value basis. Computer software carrying values, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Costs associated with maintaining computer software programs are recognised as an expense as incurred.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following six criteria are met:

1. the Company's ability to measure reliably the expenditure attributable to the software under development;
2. the software is technically and commercially feasible;
3. the software's future economic benefits are probable;
4. the Company's intention to complete the developed software and use or sell it;
5. the Company's ability to use or sell the developed software; and
6. the availability of adequate technical, financial and other resources to complete the software under development.

	2021			2020		
	Computer software	Computer software under development	Total intangible assets	Computer software	Computer software under development	Total intangible assets
	$	$	$	$	$	$
Cost as at 1 April	1,403,658	406,956	1,810,614	1,371,189	86,430	1,457,619
Accumulated amortisation at 1 April	(1,235,696)	-	(1,235,696)	(1,081,259)	-	(1,081,259)
Carrying value as at 1 April	167,962	406,956	574,918	289,930	86,430	376,360
Additions	1,020,723	634,719	1,655,442	32,469	352,995	385,464
Amortisation expense	(212,729)		(212,729)	(154,437)	-	(154,437)
Transfers to computer software	-	(1,020,723)	(1,020,723)	-	(32,469)	(32,469)
Balance as at reporting date	975,956	20,952	996,908	167,962	406,956	574,918
Cost as at reporting date	2,424,381	20,952	2,445,333	1,403,658	406,956	1,810,614
Accumulated amortisation at reporting date	(1,448,425)	-	(1,448,425)	(1,235,696)	-	(1,235,696)
Carrying value as at reporting date	975,956	20,952	996,908	167,962	406,956	574,918

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NOTE 13: PAYABLES

Trade and other payables are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest

	Note	2021 $	2020 $
CURRENT			
Trade creditors		1,608,972	1,138,515
Claims payable		2,010,003	1,680,560
GST payable		-	97,031
Other payables		134,643	132,859
		3,753,618	3,048,965

NOTE 14: PROVISIONS

Provisions are recognised when the Company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date taking into account the risks and uncertainties surrounding the obligation.

Employee benefits

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled.

Provision for incurred claims

Provision has been made for estimated liabilities that arise from claims notified but not settled at reporting date. An allowance has been made for unknown net claims as at the reporting date. This allowance is based on the actual delay the company experiences between the date of death and the date of notification. This provision represents the current best estimate of the net claims incurred but not reported ('IBNR') as at the end of the month.

	Note	2021 $	2020 $
CURRENT			
Employee entitlements		87,720	84,791
Claims		80,000	60,000
		167,720	144,791

NOTE 15: OTHER LIABILITIES

Premiums received in advance

Premiums received in advance of due date are deferred and carried as current liabilities in the statement of financial position as premiums in advance and amortised through the profit and loss over the period of the services provided under the insurance contract.

	Note	2021 $	2020 $
CURRENT			
Premiums received in advance		1,208,113	1,195,261
		1,208,113	1,195,261

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NOTE 16: LIFE INSURANCE CONTRACT ASSETS AND REINSURANCE CONTRACT LIABILITIES

(a) Actuarial information

The Company's Actuary, Ben Coulter, FIAA, FNZSA has calculated the life insurance contract and reinsurance contract assets and liabilities and solvency margin for the Company. The actuary is satisfied as to the accuracy of the data from which the life insurance contract and reinsurance contract assets and liabilities and solvency margin have been determined. This note summarises the life insurance contract and reinsurance contract assets and liabilities and solvency margin of the Company, the assumptions made and the methods adopted for the calculation of the Company's life insurance contract and reinsurance contract assets and liabilities and solvency margin.

Summary of significant actuarial methods and assumptions for life insurance contract assets and reinsurance contract liabilities

The life insurance contract assets and reinsurance contract liabilities have been determined in accordance with Professional Standard No.20 'Determination of Life Insurance Policy Liabilities' issued by the New Zealand Society of Actuaries. This standard requires that life insurance contract assets and reinsurance contract liabilities be calculated on the basis of best estimate assumptions and in a way that allows for the release of planned margins as services are provided to policyholders.

- *Valuation of life insurance contract assets and reinsurance contract liabilities*

  Life insurance contract assets and reinsurance contract liabilities comprise the amount required to pay the expected future benefits and expenses after receiving expected future premiums, future reinsurance premium ceded and reinsurance recoveries. The value of life insurance contract assets and reinsurance contract liabilities may also include a component for profit margins on existing business that will be earned as services are provided to policy owners over the time the relevant policies are held with the Company. The Company incurs costs in selling new policies. New business selling costs (or acquisition costs) related to the acquisition of new business are recovered from premiums receivable in the future as long as the underlying policies are expected to be profitable.

- *Methods used to value life insurance contract assets and reinsurance contract liabilities - Projection method*

  The projection method uses expected cash flows (premiums, premium ceded, redemptions or benefit payments, reinsurance recoveries, expenses and profits) to establish the value of life insurance contract assets and reinsurance contract liabilities. The value of expected future premiums is deducted from the value of expected benefit and expense payments to arrive at the obligation to policy owners. Where the policy liability is determined by the projection method, 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 profit carriers adopted for the related product groups are shown in the table below:

Related product groups and profit carriers

Actuarial standards require products to be grouped for the purposes of loss recognition and prudential reserving in related product groups. These are groupings of products that have substantially the same contractual terms and were priced on the basis of substantially the same assumptions. As at 31 March 2020, Pinnacle Life has simplified its related product group structure. Where the policy liability is determined by the projection method, 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 related product groupings and their 'profit carriers' are shown in the table below:

Related product group	Method 2021	Profit carrier 2021	Method 2020	Profit carrier 2020
Lump Sum Risk	Projection	Gross premium	Projection	Gross premium
Funeral	Projection	Gross claims	Projection	Gross claims
Income Protection	Projection	Gross premium	Projection	Gross premium
Group Risk	Accumulation	N/A	Accumulation	N/A
Transferred yearly renewable and level term	N/A	N/A	N/A	N/A
Office yearly renewable and level term	N/A	N/A	N/A	N/A
Online yearly renewable term	N/A	N/A	N/A	N/A
Stand Alone Serious Illness, Cancer, Income Protection and Accident yearly renewable	N/A	N/A	N/A	N/A

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NOTE 16: LIFE INSURANCE CONTRACT ASSETS AND REINSURANCE CONTRACT LIABILITIES (CONTINUED)

Disclosure of assumptions

Assumptions used for measuring life insurance contract assets and reinsurance contract liabilities are reviewed each year. When the review leads to a change in assumptions, the change is deemed to have occurred from the end of the year, except for change in discount rates which are recognised in the year that the rates are changed. The financial effect of all other changes to the assumptions underlying the measurement of life insurance contract assets and reinsurance contract liabilities made during the year is recognised in profit or loss over the future reporting periods during which services are provided to policyholders.

The following table summarises the key assumptions used in the calculation of life insurance contract assets / (liabilities), together with notes on any significant changes in the assumptions:

Required assumption	Basis of assumption	Significant changes
Discount rates for life insurance contracts - all product groups	Risk free discount rates have been adopted for life insurance contracts where the benefits are not contractually linked to the performance of backing asset pools. The risk free discount rates have been determined based on the Treasury risk free discount rates and the term of the contract liabilities.	The discount rates used: - 2021: 0.24% to 4.30% (2020: 0.29% to 4.30%)
Inflation rates for life insurance contracts - all product groups	Inflation rates have been adopted for life insurance contracts to inflation future renewal expenses and where benefits increase in line with inflation. The inflation assumption has been determined as a long-term expectation based on the RBNZ's target inflation levels.	The inflation rates used: - 2021: 2% p.a. (2020: 2% p.a.)
Mortality rates	Risk product mortality rates based on reinsurance rates smoker/non-smoker adjusted reinsurance expenses and margins.	The mortality rates used: - Reinsurance rates for the particular related product group adjusted for expense, profit margins, and experience.
Discontinuances	Discontinuance rates have been assumed consistent with the Company's recent experience. Assumed discontinuance rates vary by product channel group (online, office, transfer, funeral, standalone business, Greenstone Funeral and OneChoice) and vary according to the length of time business has been in-force, and also by age for some products.	Discontinuance rates have been adjusted in line with experience.
Future renewal expense - for policies	Future renewal expenses have been set based on the projected budget expenses for the year ended 2022, as well as experience analyses conducted by the Company.	The future renewal expense used: - 2021: $120 per Direct Funeral life, $14 per Greenstone life (Funeral and OneChoice), $300 per life for Income Protection, and $240 per life for all other products (2020: $150 per Direct Funeral policy, $5 per Greenstone Funeral policy, and $250 per life for all other products).
Taxation rates	Rates of taxation have been set with regard to current tax laws.	The taxation rates used: - 2021: 28% (2020: 28%)
Surrender value	No policies have surrender values.	N/A
Participation	No policies participate in profits.	N/A

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NOTE 16: LIFE INSURANCE CONTRACT ASSETS AND REINSURANCE CONTRACT LIABILITIES (CONTINUED)

Acquisition expense assumptions were based on the actual acquisition expenses incurred for the year ending 31 March 2021. This method is unchanged from the prior year.

Maintenance expense assumptions were based on the Company's business plan for the period to 31 March 2022, allowing for new business expected. After this time an assumed inflation rate of 2.0% per annum was used. This method is unchanged from the prior year.

The impact of the consecutive assumption changes in the current period on future profit margins in respect of life insurance contracts (excluding new business contracts which are measured using assumptions at the valuation date) are shown below:

Assumption/ Model Change	Change in current period's contract assets / (liabilities)		Change in current period's profit and loss	
	2021	2020	2021	2020
	$	$	$	$
Interest	(1,047,537)	1,784,717	(1,047,537)	1,784,717
Model	-	-	-	-
Premium rates	43,181	24,562	43,181	24,562
Mortality	-	-	-	-
Morbidity	-	-	-	-
Discontinuances	-	-	-	-
Expenses	(25,355)	(43,159)	(25,355)	(43,159)
Reinsurance profit share	-	-	-	-
Taxation	-	-	-	-

Assumption/ Model Change	Change in future profit margins		Change in next period's planned profit	
	2021	2020	2021	2020
	$	$	$	$
Interest	(1,644,562)	1,469,611	(14,834)	(402,619)
Model	-	(131)	-	(9)
Premium rates	427,133	7,091,170	30,052	503,114
Mortality	9,827	789,417	691	56,009
Morbidity	146,310	-	10,294	-
Discontinuances	5,944,032	(7,573,951)	418,200	(537,367)
Expenses	(2,497,326)	(1,708,639)	(175,703)	(121,227)
Reinsurance profit share	-	-	-	-
Taxation	222,897	-	15,682	-

Life insurance contract assets and reinsurance contract liabilities include the value of future profit margins that are to be released over future reporting periods.

Where the value of future profit margins is insufficient to absorb the assumption changes, the resulting losses are recognised in the current period via a change in the life insurance contract assets and reinsurance contract liabilities. These losses may be reversed in subsequent periods should experience improve.

The allowance for the life insurance tax basis and the end of the grandfathering arrangement is built into the valuation methodology.

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PINNACLE LIFE LIMITED

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FOR THE YEAR ENDED 31 MARCH 2021

NOTE 16: LIFE INSURANCE CONTRACT ASSETS AND REINSURANCE CONTRACT LIABILITIES (CONTINUED)

(b) Analysis of life insurance contract results

	Note	2021 $	2020 $
Planned profit margins		1,695,074	1,633,014
Income on liability		90,180	453,643
Investment earnings on assets in excess of policy liabilities		101,770	98,955
Fair value gain on financial assets at fair value		(388,711)	-
Effects of changes in discount rate		(1,047,537)	1,784,717
Capitalised (losses) / reversals		117,187	215,117
Other		(3,841)	(571,908)
Net profit / (loss) after income tax arising from life insurance contracts		564,122	3,613,538

(c) Net life insurance contract assets and reinsurance contract liabilities

	Note	2021 $	2020 $
Future policy benefits		(106,749,747)	(73,391,238)
Future expenses		(83,729,155)	(39,544,594)
Future taxes		(23,003,438)	(21,562,916)
Future reinsurance		(34,399,478)	(21,462,684)
Future profit margins		(30,743,425)	(23,916,120)
Future premiums		307,381,719	210,271,597
Net life insurance contract assets and reinsurance contract liabilities (including deferred tax)		28,756,476	30,394,045
Deferred tax liability	5	4,757,852	4,575,838
Net policy liabilities (excluding deferred tax)		33,514,328	34,969,883

(d) Reconciliation of gross life insurance contract assets

	Note	2021 $	2020 $
Opening balance as at 1 April		51,856,729	53,437,088
New life insurance assets and liabilities acquired		10,427,991	7,378,332
Adjustment for experience differences		871,234	(8,958,691)
Gross life insurance contract assets at reporting date (including deferred tax)		63,155,954	51,856,729
Deferred tax liability	5	4,757,852	4,575,838
Gross life insurance contract assets at reporting date (excluding deferred tax)		67,913,806	56,432,567

(e) Reconciliation of gross reinsurance contract liabilities

	Note	2021 $	2020 $
Opening balance as at 1 April		(21,462,684)	(26,060,096)
(Increase) / decrease in liabilities ceded under reinsurance contracts		(12,936,794)	4,597,412
Gross reinsurance contract liabilities at reporting date		(34,399,478)	(21,462,684)

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NOTE 16: LIFE INSURANCE CONTRACT ASSETS AND REINSURANCE CONTRACT LIABILITIES (CONTINUED)

(f) Life insurance risk

The risk under any one insurance contract is the possibility that an insured event occurs and there is uncertainty about the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This occurs when the frequency or severity of claims and benefits exceeds the estimates. Insurance events are random and the actual number of claims and the amount of benefits paid will vary each period from estimates established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population to reduce the variability of the expected outcome. The Company manages insurance risk through underwriting strategy, claims handling, reinsurance arrangements and insurance contract terms and conditions.

The life insurance business of the Company involves a number of non financial risks concerned with the pricing, acceptance and management of the mortality, morbidity and longevity risks accepted from policyholders.

Variable	Impact of movement in underlying variable
Expense risk	An increase in the level or inflationary growth of expenses over assumed levels will decrease profit and equity.
Interest rate risk	Depending on the profile of the investment portfolio, the investment income of the Company will decrease as interest rates decrease. This may be offset to an extent by changes in the market value of fixed interest investments. The impact on profit and equity depends on the relative profiles of assets and liabilities, to the extent that these are not matched.
Mortality rates	For insurance contracts providing death benefits, greater mortality rates would lead to higher levels of claims, increasing associated claims cost and therefore reducing profit and equity.
Morbidity rates	The cost of health-related claims depends on the incidence of policyholders becoming totally and permanently disabled or suffering serious illness. Higher than expected incidence would increase claim costs, reducing profit and equity.
Discontinuances	The impact of the discontinuance rate assumption depends on a range of factors including the type of contract and the duration in force. For example, an increase in discontinuance rates at earlier durations of life insurance contracts usually has a negative effect on profit and equity. However, due to the interplay between the factors, there is not always an adverse outcome from an increase in discontinuance rates.

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NOTE 16: LIFE INSURANCE CONTRACT ASSETS AND REINSURANCE CONTRACT LIABILITIES (CONTINUED)

Sensitivity analysis

The liabilities included in the reported results are calculated using certain assumptions about key variables as disclosed above. Sensitivity analysis is conducted to assess the movements in any key variable will impact the profit and equity.

A change in actual experience relative to that expected will affect the period's expected profit and loss disclosed below.

For the period ended the following adverse percentage changes in respect of the listed assumptions would result in the presented decreases in future margins and profit, before and after reinsurance:

	Impact on future margins	Impact on profit and equity		Impact on future margins	Impact on profit and equity	
		Before reinsurance	After reinsurance		Before reinsurance	After reinsurance
	$	$	$	$	$	$
	2021	2021	2021	2020	2020	2020
Expenses + 10%	(1,572,445)	(15,213)	(15,213)	(1,285,115)	(7,699)	(7,699)
Mortality + 10%	(3,256,815)	(177)	(156)	(2,703,079)	3,537	2,462
Morbidity + 10%	(299,824)	(34,810)	(7,064)	(276,210)	(23,706)	(8,264)
Discontinuances + 10%	(7,341,440)	(21,368)	(18,181)	(7,064,234)	(7,001)	(6,161)
Interest rates + 1%	(3,111,446)	(1,966,171)	(1,963,226)	(2,275,185)	(3,754,834)	(2,609,045)

With respect to the interest rate assumption, it is important to note that this does not affect future expected profits other than from the unwinding of the discount rate and is not a sensitivity in the case of the Company.

Risk management

Insurance risks are controlled through the use of underwriting procedures and adequate premium rates and policy charges. Tight controls are also maintained over claims management practices to ensure the correct and timely payment of insurance claims.

- Underwriting management procedures

Underwriting is managed by a separate department with underwriting limits in place to enforce appropriate risk selection criteria. The Company provides appropriate training and development of underwriting staff. Individual policies carrying insurance risk are underwritten on their merits and are generally not issued without having been examined and underwritten individually.

- Claims management procedures

Claims are managed through a dedicated claims team, with appropriate training and development of staff to ensure procedures are adhered to. Claims are managed to ensure timely and correct payment in accordance with policy conditions. Claims experience is reviewed regularly and appropriate actuarial reserves are established.

- Reinsurance management procedures

The Company holds appropriate reinsurance arrangements to limit exposure to individual and catastrophe risks. All reinsurance arrangements are approved by the Directors of the Company.

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NOTE 16: LIFE INSURANCE CONTRACT ASSETS AND REINSURANCE CONTRACT LIABILITIES (CONTINUED)

- Terms and conditions of life insurance contracts

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

Type of contract	Details of contract workings	Nature of compensation for claims	Key variables affecting future cashflows
Life insurance contracts with fixed and guaranteed terms (term life and disability including renewable term).	Guaranteed benefits paid on death, permanent and temporary disablement that are fixed and guaranteed and not at the discretion of the issuer.	Benefits, defined by the insurance contract are determined by the contract and not directly affected by the performance of underlying assets or the performance of the contracts as a whole.	Mortality, morbidity, lapses and expenses.

Concentration of insurance risk

The Company aims to maintain a portfolio of policyholders with a broad spread of insurance risk types, ages, sexes, occupation classes and geographical locations for the individual risk business. The Company uses reinsurance to limit the insurance risk exposure for any one individual.

(g) Statutory fund

The Company established the Rimu Statutory Fund ('the RSF') on 1 May 2013. The RSF is the sole statutory fund held by the Company.

The Company operates solely in the life insurance business. The RSF relates solely to the life insurance business of the Company. All of the current and future policies are non participating, risk based term insurance and are classified as "life policies" under section 84 of the Insurance (Prudential Supervision) Act 2010. None of the Company's policies are "investment linked" in character and all of the Company's policies are similar in nature.

The Company's shareholders' access to the retained earnings of the RSF is restricted by the Insurance (Prudential Supervision) Act 2010. The Company shareholders' entitlement to monies held in the RSF is subject to the distribution and transfer restrictions on the Insurance (Prudential Supervision) Act 2010. Any distribution of the shareholders' capital or retained profits will only be made after advice from the Company's appointed Actuary is received regarding the effect of such a distribution. No distribution will be made if it would cause the solvency margin of RSF to drop below the minimum margin target set by the Company's Board, or if such distribution was otherwise in breach of Insurance (Prudential Supervision) Act 2010.

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PINNACLE LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

NOTE 16: LIFE INSURANCE CONTRACT ASSETS AND REINSURANCE CONTRACT LIABILITIES (CONTINUED)

Disaggregated Information

The disaggregated information for the Company's shareholder fund and sole statutory fund, the Rimu Statutory Fund ('the RSF') is presented below. The Company does not have any life investment contracts on issue or any investment linked business.

	Shareholder Fund $ 2021	Rimu Statutory Fund $ 2021	Total $ 2021	Shareholder Fund $ 2020	Rimu Statutory Fund $ 2020	Total $ 2020
Summary Income Statement						
Net premium income	-	12,434,575	12,434,575	-	8,805,732	8,805,732
Investment revenue	1,217	140,130	141,347	641	112,242	112,883
Net claims expense	-	(1,704,279)	(1,704,279)	-	(1,720,333)	(1,720,333)
Net movement in life insurance and reinsurance	-	(1,455,555)	(1,455,555)	-	4,173,683	4,173,683
All other net income / (net expense)	(353)	(9,162,746)	(9,163,099)	(3)	(6,883,412)	(6,883,415)
Profit / (loss) before income tax expense	864	252,125	252,989	638	4,487,912	4,488,550
Income tax expense	-	311,133	311,133	-	(875,012)	(875,012)
Net profit / (loss) after income tax expense	864	563,258	564,122	638	3,612,900	3,613,538
Summary Balance Sheet						
Assets						
Investments backing insurance policy liabilities	1,061,356	10,812,390	11,873,746	1,760,492	8,397,787	10,158,279
Life insurance contract assets	-	67,913,806	67,913,806	-	56,432,567	56,432,567
Other assets	-	3,305,535	3,305,535	-	2,861,633	2,861,633
Total assets	1,061,356	82,031,731	83,093,087	1,760,492	67,691,987	69,452,479
Liabilities						
Reinsurance contract liabilities	-	34,399,478	34,399,478	-	21,462,684	21,462,684
Other liabilities	-	9,974,383	9,974,383	-	9,134,691	9,134,691
Total liabilities	-	44,373,861	44,373,861	-	30,597,375	30,597,375
Net assets	1,061,356	37,657,870	38,719,226	1,760,492	37,094,612	38,855,104
Share capital						
Opening balance as at 1 April	3,255,036	19,029,417	22,284,453	1,396,106	19,029,417	20,425,523
Transfers between the Funds	-	-	-	-	-	-
Issue of preference share capital	-	-	-	2,000,000	-	2,000,000
Transaction costs relating to shares issued, net of tax	-	-	-	(141,070)	-	(141,070)
Balance as at reporting date	3,255,036	19,029,417	22,284,453	3,255,036	19,029,417	22,284,453
Retained earnings						
Opening balance as at 1 April	(1,494,544)	18,065,195	16,570,651	(995,182)	14,452,295	13,457,113
Operating profit / (loss)	864	563,258	564,122	638	3,612,900	3,613,538
Dividends paid	(700,000)	-	(700,000)	(500,000)	-	(500,000)
Transfers between the Funds	-	-	-	-	-	-
Balance as at reporting date	(2,193,680)	18,628,453	16,434,773	(1,494,544)	18,065,195	16,570,651
Total equity	1,061,356	37,657,870	38,719,226	1,760,492	37,094,612	38,855,104

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NOTE 17: SHARE CAPITAL

Share capital

Ordinary share capital and preference share capital is classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Costs which are not directly attributable to the issue of new shares are shown as an expense and included in administrative expenses in the statement of comprehensive income.

Pinnacle Life Custodial Services Limited, holds all of the Company's share capital in trust for its ultimate beneficial shareholders at reporting date.

		2021		2020	
	Note	Number	$	Number	$
Ordinary shares	(a)	7,689,514	15,684,417	7,689,514	15,684,417
Series A convertible preference shares	(b)	937,500	2,762,819	937,500	2,762,819
Series B convertible preference shares	(c)	500,000	1,978,287	500,000	1,978,287
Series C convertible preference shares	(d)	666,667	1,858,930	666,667	1,858,930
		9,793,681	22,284,453	9,793,681	22,284,453

	Ordinary shares	
	Number	$
Balance as at 1 April 2019	7,689,514	15,684,417
Balance as at 31 March 2020	7,689,514	15,684,417
Balance as at 31 March 2021	7,689,514	15,684,417

	Series A convertible preference shares		Series B convertible preference shares		Series C convertible preference shares	
	Number	$	Number	$	Number	$
Balance as at 1 April 2019	937,500	2,762,819	500,000	1,978,287	-	-
Shares issued:						
31 March 2020					666,667	2,000,000
Transaction costs relating to shares issued, net of tax	-	-	-	-	-	(141,070)
Balance as at 31 March 2020	937,500	2,762,819	500,000	1,978,287	666,667	1,858,930
Balance as at 31 March 2021	937,500	2,762,819	500,000	1,978,287	666,667	1,858,930

(a) Ordinary shares

Ordinary shares are fully paid and have no par value. The holder of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company, and rank equally with regards to the Company's residual assets.

(b) Series A convertible preference shares

The Series A convertible preference shares have the following terms and rights: Each share has a par value of $3.20 per share; Each share will convert one for one to ordinary shares on conversion; Convertible at any time by the holder; by the Company only on occurrence of an IPO or successful trade sale; The holder can decline the offer to convert if the implied value is below $3.20 at the time that the conversion offer is made by the Company; Carry a fixed non cumulative dividend of 32 cents per share (less dividend withholding tax), with the Company holding full discretion over the payment of the dividend; On a winding up of the Company they will rank for payment ahead of ordinary shares with regards to the Company's residual assets; and Carry no voting rights at meetings of the Company.

(c) Series B convertible preference shares

The Series B convertible preference shares have the following terms and rights: Each share has a par value of $4.00 per share; Each share will convert one for one to ordinary shares on conversion; The holder can convert at any time, whereas the Company can only convert 5 years after the issue date of the Series B convertible preference shares, on occurrence of an IPO or successful trade sale; Carry a fixed non cumulative dividend of 40 cents per share (less dividend withholding tax), with the Company holding full discretion over the payment of the dividend; On a winding up of the Company they will rank for payment ahead of ordinary shares with regards to the Company's residual assets; and Carry no voting rights at meetings of the Company.

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NOTE 17: SHARE CAPITAL (CONTINUED)

(d) Series C convertible preference shares

The Series C convertible preference shares have the terms and rights identical to that of the Series A convertible preference shares, with the exception of the following: each share has a par value of $3.00 per share; the holder can decline the offer to convert if the implied value is below $3.00 at the time that the conversion offer is made by the Company; and the shares carry a fixed non cumulative dividend of 30 cents per share (less dividend withholding tax), with the Company holding full discretion over the payment of the dividend.

On 31 March 2020 Greenstone Financial Services NZ Limited subscribed for 666,667 Series C convertible preference shares of the Company.

NOTE 18: CAPITAL MANAGEMENT

The Company considers its capital to comprise its ordinary share capital, accumulated retained earnings and solvency capital.

The Company's capital management objectives are to:

- Maintain an 'actual solvency capital' that exceeds the 'minimum solvency capital' requirements per the 'Solvency Standard for Life Insurance Business' issued by the Reserve Bank of New Zealand ('RBNZ') per the on-going licensing requirements of the Company's licence to carry on insurance business in New Zealand issued by the RBNZ 29 April 2013 under section 19 of the Insurance (Prudential Supervision) Act 2010 ('IPSA'). On 16 December 2019, effective 31 March 2020, and on 16 September 2020, effective 30 September 2020, the Company's license condition was modified to increase the minimum solvency margin to be maintained in the Company's Statutory Fund.
- Maintain a strong capital base to protect life insurance contract policyholders;
- Maintain a strong credit rating; and
- Ensure equity holder objectives are met, the primary purpose of which is to ensure the Company's continued ability to provide a consistent return to its equity shareholders through a combinations of capital growth and distributions.

The Company manages its capital by considering the capital needs of the business, the risks that the Company is exposed to and projections of the solvency capital margin. In making decisions to adjust its capital structure, either through altering its dividend policy, or new share issue, the Company takes into consideration not only its short term position but also its long term operational and strategic objectives.

During the reporting period, the Company has maintained compliance with all externally imposed capital and licensing requirements.

Solvency requirements under the Insurance (Prudential Supervision) Act 2010

Separate to the life insurance contract assets and liabilities recognised in the financial statements, life insurance companies are required to maintain sufficient capital to meet solvency requirements. These are amounts required to provide protection against the impact of fluctuations and unexpected adverse circumstances on the life insurance businesses. The methodology and bases for determining the solvency requirement are in accordance with the requirements of the Insurance (Prudential Supervision) Act 2010.

The Company's minimum solvency capital required to be retained to meet the requirements of the Solvency Standard for Life Insurance Business and the solvency margin above this requirement is shown below.

	Shareholder Fund $ 2021	Rimu Statutory Fund $ 2021	Total $ 2021	Shareholder Fund $ 2020	Rimu Statutory Fund $ 2020	Total $ 2020
Solvency capital						
Actual solvency capital	1,061,356	36,154,798	37,216,154	1,585,492	36,466,282	38,051,774
Minimum solvency capital	5,307	30,727,757	30,733,064	8,802	33,156,387	33,165,189
Excess solvency margin	1,056,049	5,427,041	6,483,090	1,576,690	3,309,895	4,886,585
Excess solvency ratio	200.00	1.18	1.21	180.12	1.10	1.15

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NOTE 19: RETAINED EARNINGS

	Note	2021 $	2020 $
Opening balance as at 1 April		16,570,651	13,457,113
Profit for the reporting period		564,122	3,613,538
Other comprehensive income		-	-
Dividends		- 700,000	- 500,000
Balance as at reporting date		16,434,773	16,570,651

Distributions

Dividends to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are approved but not distributed at reporting date.

During the year, the Company declared/paid the following dividends:

	Note	2021 ¢ per share	2021 $	2020 ¢ per share	2020 $
Series A convertible preference shares					
- 30 June 2020 (2020: 30 June 2019)		8.0	75,000	8.00	75,000
- 30 September 2020 (2020: 30 September 2019)		-	-	8.00	75,000
- 31 December 2020 (2020: 31 December 2019)		16.0	150,000	8.00	75,000
- 31 March 2021 (2020: 31 March 2020)		8.0	75,000	8.00	75,000
			300,000		300,000
Series B convertible preference shares					
- 30 June 2020 (2020: 30 June 2019)		10.0	50,000	10.00	50,000
- 30 September 2020 (2020: 30 September 2019)		-	-	10.00	50,000
- 31 December 2020 (2020: 31 December 2019)		20.0	100,000	10.00	50,000
- 31 March 2021 (2020: 31 March 2020)		10.0	50,000	10.00	50,000
			200,000		200,000
Series C convertible preference shares					
- 30 June 2020 (2020: 30 June 2019)		7.5	50,000	-	-
- 30 September 2020 (2020: 30 September 2019)		-	-	-	-
- 31 December 2020 (2020: 31 December 2019)		15.0	100,000	-	-
- 31 March 2021 (2020: 31 March 2020)		7.5	50,000	-	-
			200,000		-

The Company did not declare or pay the 30 September 2020 dividends on series A, B, and C Convertible preference shares as a result of restrictions imposed on licensed insurers by the Reverse Bank of New Zealand as a result of the COVID-19 pandemic. The 30 September 2020 dividends were instead paid in conjunction with the 31 December 2020 dividends on series A, B, and C Convertible preference shares.

NOTE 20: RELATED PARTY TRANSACTIONS AND BALANCES

Related parties

The Company had related party dealings with the following related parties during the year:

Related party	*Relationship*
Pinnacle Life Custodial Services Limited	Company shareholder
Jack Porus	Director, ultimate beneficial company shareholder and Series A convertible preference share holder
Noel Vaughan	Director, ultimate beneficial company shareholder and Series B convertible preference share holder
The Glaister Ennor Partnership	Common ultimate beneficial owners (shareholders/partners), a Partnership in which Jack Porus is a partner.
Spencers Chartered Accountants & Advisers Limited	A company in which Andrew Spencer is a shareholder.
Greenstone Financial Services NZ Limited	Company shareholder and Series C convertible preference share holder and distributor of Pinnacle Life's insurance products

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NOTE 20: RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Transactions

The Company undertook the following transactions with the above related parties during the year:	Note	2021 $	2020 $
Michael Murphy			
- directors fees		(40,000)	(40,000)
Noel Vaughan			
- directors fees		(40,000)	(40,000)
Spencers Chartered Accountants & Advisers Limited			
- director fees and consulting fees		(61,410)	(49,605)
The Glaister Ennor Partnership			
- Legal fees and directors fees		(193,595)	(171,707)
Greenstone Financial Services NZ Limited			
- Administration fee income		-	47,028
- Policy acquisition / distribution expense		(3,045,395)	(1,029,936)
- Policy maintenance / administration expense		(619,217)	(187,557)
- directors fees		(40,000)	-

Balances

The Company has the following receivable/ (payable) balances with the above related parties as at year end:	Note	2021 $	2020 $
Noel Vaughan		-	-
Spencers Chartered Accountants & Advisers Limited		-	-
The Glaister Ennor Partnership		-	-
Greenstone Financial Services NZ Limited			
- Administration fee income receivable		-	47,028
- Policy acquisition/distribution and maintenance/administration expense payable		(447,578)	(196,000)

No related party balances were impaired or written off during the year (2020: $Nil).

Life insurance policies held by related parties of the Company

Director, Jack Lee Porus (2020: Directors, Jack Lee Porus and Noel Vaughan and Noel Vaughan's spouse, Patricia Vaughan), has a life insurance policy (2020: have life insurance policies) with the Company. These policies were entered into and issued on an arm's length basis.

Key management compensation

Key management includes the directors and the CEO and General Manager of Operations of the Company.

Compensation received by key management personnel of the Company:	Note	2021 $	2020 $
Short-term employee benefits		492,087	410,790
Directors fees		226,711	186,623
		718,798	597,413

No other compensation was paid or payable to key management personnel of the Company.

NOTE 21: CREDIT RATING

A.M. Best rates Pinnacle Life Limited 'B' financial strength (outlook 'stable') and a bb+ issuer credit rating (outlook 'stable') at 19 March 2021 (2020: 28 February 2020).

The financial strength rating scale used by A.M. Best is:

A++, A+ (Superior)	B, B- (Fair)	D (Poor)	F (In Liquidation)
A, A- (Excellent)	C++, C+ (Marginal)	E (Under Regulatory Supervision)	S (Suspended)
B++, B+ (Good)	C, C- (Weak)		

NOTE 22: CAPITAL AND LEASING COMMITMENTS

There were no material commitments at reporting date (2020: $Nil).

NOTE 23: CONTINGENT LIABILITIES

There were no material contingent liabilities at reporting date (2020: $Nil).

NOTE 24: EVENTS SUBSEQUENT TO REPORTING DATE

There has been no matter or circumstance, which has arisen since reporting date that has significantly affected or may significantly affect:

(a) the operations, in financial years subsequent to reporting date, of the Company, or

(b) the results of those operations, or

(c) the state of affairs, in financial years subsequent to reporting date, of the Company.

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Independent Auditor's Report

To the shareholders of Pinnacle Life Limited

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of Pinnacle Life Limited (the "Company") on pages 1 to 33:

i. present fairly in all material respects the Company's financial position as at 31 March 2021 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

— the statement of financial position as at 31 March 2021;

— the statements of comprehensive income, changes in equity and cash flows for the year then ended; and

— notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

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

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

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

Our firm has also provided other services to the Company in relation to the audit of the insurer insolvency return as at 31 March 2021 and review of the solvency projection model as at 30 September 2019. Subject to certain restrictions, partners and employees of our firm may also deal with the Company on normal terms within the ordinary course of trading activities of the business of the Company. These matters have not impaired our independence as auditor of the Company. The firm has no other relationship with, or interest in, the Company.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion.

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Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements.

The key audit matter	How the matter was addressed in our audit
Valuation of life insurance contract assets ($67.9m), reinsurance contracts liabilities ($34.4m) and net movement in life insurance contract assets and reinsurance contract liabilities (-$1.5m)	
Refer to Note 16 of the financial statements. The valuation of life insurance contract assets and reinsurance contract liabilities is a key audit matter because of the judgement required in projecting expected cash flows long into the future and the impact these have on profitability and the asset and liability base of the Company. The net movement in life insurance contract assets and reinsurance contract liabilities is a function of the same valuation uncertainties, being the year on year movement in the valuation. This movement includes the release of profit from the expected cash flows, using either gross premium or gross claims as a basis for the release. Specific audit and actuarial expertise are required to evaluate complex actuarial methodologies and assumptions that take into account the risks and uncertainties of the particular classes of insurance business written. All forward looking assumptions are inherently uncertain, with added uncertainty in respect of the current COVID-19 environment. The key factors that affect the valuation of these balances are: — The cost of providing benefits and administering the insurance contracts. — The costs incurred in acquiring the insurance policies (acquisition costs), including commissions, underwriting and policy issue costs. — Mortality and morbidity experience on life insurance products. — Discontinuance experience (where the policyholder cancels their policy) which affects the ability to recover acquisition costs. — Reinsurance arrangements and timing of future cash flows under these arrangements, which include reinsurance expense and reinsurance recoveries. — Future premium rates.	Our audit procedures included: — Checking the completeness and accuracy of the data used in the valuation process. The data is projected over the expected life of the policy. — Assessing the appropriateness of any valuation model changes and the change control processes surrounding any changes. — Using our actuarial specialist to challenge the actuarial methods and key assumptions used in the valuation by comparing key assumptions and expected experience to: — actual historical experience; — observable market data, including industry average and experience for certain classes of business and assumptions; and — actuarial and accounting standard requirements. — Assessing the appropriateness of the Company's documentation of the impact of COVID-19 on the adopted assumptions, including the process to determine these. — Assessing the historical accuracy of the estimate by testing the "analysis of profit", which compares the Company's expected profit to actual profit. This included challenging the consistency of the analysis compared with our understanding of the business and emerging claims and lapse experience. — Checking that information in the actuarial valuation report is consistent with the information disclosed in the financial statements, including the disclosures on the impact of COVID-19 on Note 1. — Obtaining and reviewing correspondence with the Reserve Bank of New Zealand ("RBNZ") during the period, and considering any impact on the valuation. — Evaluating the work of the Company's independent Appointed Actuary as well as his competence and objectivity.

KPMG

The key audit matter	How the matter was addressed in our audit
— Other factors such as regulation, competition, interest rates, and general economic conditions. — Determination of an appropriate basis on which to release profit in future periods.	

Other information

The Directors, on behalf of the Company, are responsible for the other information included in the entity's Annual Report. Other information may include the Chairman and CEO report, Summary Financials, Director Appointments and Statutory Disclosure. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

The Annual Report is expected to be made available to us after the date of this Independent Auditor's Report. Our responsibility is to read the Annual Report when it becomes available and consider whether the other information it contains is materially inconsistent with the financial statements, or our knowledge obtained in the audit, or otherwise appear misstated. If so, we are required to report such matters to the Directors.

Use of this independent auditor's report

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

Responsibilities of the Directors for the financial statements

The Directors, on behalf of the Company, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

KPMG

Auditor's responsibilities for the audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:
http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/

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

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

For and on behalf of

KPMG

KPMG
Auckland

18 June 2021

DIRECTORY

Company Number:	4187258
NZ Business Number:	9429030397248
Nature of Business:	Life insurer, the underwriting of non-participating, risk based term life insurance including modest additional covers for accident, sickness and disability.
Issued Capital:	7,689,514 Ordinary shares 937,500 Series A convertible preference shares 500,000 Series B convertible preference shares 666,667 Series C convertible preference shares
Directors:	Jack Lee PORUS Andrew SPENCER Noel Edmund VAUGHAN Michael MURPHY Brenard Jacobus GROBLER (Appointed 30 September 2020) Graeme Wayne BOOTH (Appointed 30 September 2020)
Registered Office:	27 Gillies Ave Newmarket, Auckland
Website:	www.pinnaclelife.co.nz
Statutory Fund:	Rimu Statutory Fund
Actuary:	Ben Coulter, FIAA, FNZSA
Reinsurer:	Hannover Life Re of Australasia
Bankers:	ASB Bank Limited Bank of New Zealand Limited Westpac New Zealand Limited
Solicitors:	Glaister Ennor
Accountants:	Baker Tilly Staples Rodway Auckland Limited
Auditors:	KPMG Auckland

Gillian Vaughan
Pinnacle Life Limited
PO Box 1471
Auckland 1140

17 June 2021

Appointed actuary's review of actuarial information for Pinnacle Life Limited for the year ending 31 March 2021

Dear Gillian

This letter has been prepared for Pinnacle Life Limited (Pinnacle Life) to meet the requirements of Section 78 of the Insurance (Prudential Supervision) Act 2010 (the Act) in respect of Section 77 of the Act, which requires that each licensed insurer must ensure that the actuarial information contained in, or used in preparation of, the financial statements of the insurer is reviewed by the appointed actuary.

I have reviewed the following actuarial information to be included in the audited financial statements for Pinnacle Life as at 31 March 2021:

- information relating to Pinnacle Life's calculations of premiums, claims, reserves, dividends, insurance rates and technical provisions;
- information relating to assessments of the probability of uncertain future events occurring and the financial implications for the insurer if those events do occur;
- information specified in the Solvency Standard for Life Insurance Business 2014 as being actuarial information for the purposes of section 77 of the Act.

I have been provided with all the information and explanations that I have required to complete my review.

I am the appointed actuary to Pinnacle Life and I am employed by PricewaterhouseCoopers New Zealand. I have a relationship with Pinnacle Life as a policyholder, but I am not a shareholder and I do not have any other financial interest in Pinnacle Life.

In my opinion:

- the actuarial information contained in the financial statements has been appropriately included in those statements; and
- the actuarial information used in the preparation of the financial statements has been used appropriately; and
- Pinnacle Life is maintaining a solvency margin as required under Solvency Standard for Life Insurance Business 2014 issued by the Reserve Bank of New Zealand in respect of its Rimu Statutory Fund, as required by section 21(2)(c), and at a total level, as required by section 21(2)(b).

Reliances and limitations

This letter has been prepared for Pinnacle Life Limited (Pinnacle Life) and is provided in accordance with the terms set out in our engagement letter dated 24 February 2021.

Our responsibilities and liabilities are limited to Pinnacle Life and exist only in the context of their use of our letter. No liability or responsibility will be accepted by us in relation to the use of our letter for any other purpose. We will not accept any liability or responsibility to any third party recipients.

We have relied on information provided to us in the course of carrying out our work. We have carried out data validation and reasonableness checks but we have not verified all of the information provided to us, nor have we carried out anything in the nature of an audit. We have no reason to believe that the information provided to us is inconsistent, incomplete, inaccurate or misleading.

This letter must be read in its entirety. Individual sections of this letter could be misleading if considered in isolation from each other. If distributed, this letter must be distributed in its entirety.

This letter is not considered an actuarial report under Professional Standard 90 of the New Zealand Society of Actuaries.

Yours sincerely
for **PricewaterhouseCoopers Consulting (New Zealand) LP**

Ben Coulter FNZSA
Appointed Actuary, Pinnacle Life Limited