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Partners Life Limited

Annual Report & Financial Statements

For the year ended 31 March 2022

Financial Statements

For the year ended 31 March 2022

Partners Life Limited

Table of Contents

Approval of Annual Report

Approval of Annual Report

The Board of Directors ('the Board') are pleased to present the annual report, including the financial statements of Partners Life Limited ('the Company') for the year ended 31 March 2022.

For and on behalf of the Board

J R Minto
Chairman of the Board
16 June 2022

J M G Perry
Chair of the Audit Committee
16 June 2022

Company Directory

As at 31 March 2022

Nature of Business

The provision and administration of life insurance and related products, including trauma insurance, disability insurance, total and permanent disability insurance, and major medical insurance.

Registered Office

Level 1, 33-45 Hurstmere Road
Takapuna
Auckland 0622

Company Number

3072505

Directors

J R Minto (Chairman)
J M G Perry
M O Chee
J A Fahey
S M Ruha
N E Ballantyne
T O Bennett
P Chrystall
D E Kearns

Auditor

KPMG
18 Viaduct Harbour Avenue
Auckland, 1010

Bankers

Westpac New Zealand Limited
16 Takutai Square
Auckland, 1010

Solicitors

Chapman Tripp
Level 23, PwC Tower
15 Customs Street West
Auckland 1140

Statement of Comprehensive Income

For the year ended 31 March In thousands of New Zealand Dollars	Note	2022	2021 (*restated)
Premium revenue	8	370,111	325,880
Less: Outward reinsurance expense	8	(186,473)	(178,542)
Net premium revenue		**183,638**	**147,338**
Reinsurance commission revenue	9	44,875	40,392
Investment revenue	10	621	1,751
Other revenue		4	-
Net revenue		**229,138**	**189,481**
Claims expense	11	174,197	146,900
Less: Reinsurance recoveries	11	(92,956)	(78,017)
Net claims expense		**81,241**	**68,883**
Net movement in insurance contract assets and liabilities	14	(36,955)	(57,930)
Commission and operating expenses	12	182,330	159,498
Total expenses including movement in insurance contracts		**226,616**	**170,451**
Operating profit		**2,522**	**19,030**
Finance costs	21	56	91
Profit before income tax		**2,466**	**18,939**
Income tax expense	13	-	-
Total comprehensive income	1	**2,466**	**18,939**
Underlying insurance profit (non-statutory measure)			
Total comprehensive income		**2,466**	**18,939**
Less:			
Investment and other revenue		(625)	(1,751)
Changes to economic assumptions	6	14,776	11,015
Business transaction costs	20	7,024	2,562
Underlying insurance profit	1	**23,641**	**30,765**

*Prior year comparatives have been restated as a result of change in accounting policy. Refer to note 4 for further details.

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

KPMG

Statement of Financial Position

As at 31 March In thousands of New Zealand Dollars	Note	2022	2021 (restated*)
Assets			
Cash and cash equivalents	10	37,676	13,281
Trade and other receivables	15	94,652	80,500
Investments	16	211,187	154,871
Insurance contract assets	14	919,026	870,903
Property, plant and equipment	17	3,163	2,437
Intangible assets	18	9,574	5,822
Total Assets		**1,275,278**	**1,127,814**
Liabilities			
Trade and other payables	19	161,846	145,572
Lease liabilities	21	1,108	2,146
Insurance contract liabilities – reinsurance	14	117,297	140,113
Present value of future tax payable in insurance contract assets and liabilities	14	275,208	241,224
Total Liabilities		**555,459**	**529,055**
Net Assets		**719,819**	**598,759**
Equity			
Contributed capital	26	513,134	394,540
Retained earnings		206,685	204,219
Total Equity		**719,819**	**598,759**

*Prior year comparatives have been restated as a result of change in accounting policy. Refer to note 4 for further details.

For and on behalf of the Board who authorised the issue of this report on 16 June 2022.

J R Minto
Chairman of the Board

J M G Perry
Chair of the Audit Committee

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

KPMG

Statement of Changes in Equity

For the year ended 31 March In thousands of New Zealand Dollars	Note	Contributed capital	Retained earnings	Total equity
Balance at 1 April 2021		**394,540**	**204,219**	**598,759**
Total comprehensive income		**-**	**2,466**	**2,466**
Transactions with owners of the Company				
Shares issued	26	118,195	-	118,195
Equity settled share based payments	26,27,28	399	-	399
Total transactions with owners of the Company		**118,594**	**-**	**118,594**
Balance at 31 March 2022		**513,134**	**206,685**	**719,819**
Balance at 1 April 2020		**314,453**	**186,538**	**500,991**
Impact of change in accounting policy	4	-	(1,258)	(1,258)
Adjusted balance 1 April 2020		**314,453**	**185,280**	**499,733**
Total comprehensive income		**-**	**18,939**	**18,939**
Transactions with owners of the Company				
Shares issued	26	77,600	-	77,600
Equity settled share based payments	26,27,28	2,487	-	2,487
Total transactions with owners of the Company		**80,087**	**-**	**80,087**
Balance at 31 March 2021		**394,540**	**204,219**	**598,759**

*Prior year comparatives have been restated as a result of change in accounting policy. Refer to note 4 for further details.

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

KPMG

Statement of Cash Flows

For the year ended 31 March In thousands of New Zealand Dollars	Note	2022	2021 (restated*)
Cash flows from operating activities			
Premiums received		370,323	326,229
Reinsurance recoveries received		85,573	69,823
Reinsurance commission received		46,299	52,954
Interest received		1,492	1,457
Other revenue		4	-
Reinsurance premiums paid		(188,232)	(173,720)
Claims paid		(162,062)	(130,618)
Commission paid to advisers		(102,060)	(90,086)
Payments to suppliers and employees		(78,081)	(60,601)
Net cash flow from operating activities	24	**(26,744)**	**(4,562)**
Cash flows from investing activities			
Net decrease in loans to advisers		-	470
Net (increase)/decrease in receivables from group companies		(521)	67
Net advances to related parties		-	36
Net acquisition of investments	16	(57,685)	(111,632)
Net acquisition of property, plant and equipment	17	(2,099)	(436)
Net acquisition of intangible assets	18	(5,754)	(1,668)
Net cash flow from investing activities		**(66,059)**	**(113,163)**
Cash flows from financing activities			
Proceeds from issue of shares	26	118,195	77,600
Repayment of lease liabilities	21	(941)	(1,025)
Interest paid	21	(56)	(91)
Net cash flow from financing activities		**117,198**	**76,484**
Net increase / (decrease) in cash and cash equivalents		**24,395**	**(41,241)**
Cash and cash equivalents at 1 April		13,281	54,522
Cash and cash equivalents at 31 March		**37,676**	**13,281**
Being:			
On demand bank deposits		37,676	13,281
Cash and cash equivalents at 31 March		**37,676**	**13,281**

*Prior year comparatives have been restated as a result of change in accounting policy. Refer to note 4 for further details.

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

KPMG

Notes to the Financial Statements

1. Sources of Profit

For the year ended 31 March In thousands of New Zealand Dollars	Note	2022	2021 (restated*)
Profits emerging under the Margin on Services ('MoS') methodology were as follows:			
Planned margins of revenues over expenses		33,414	32,374
Interest on net insurance contract assets		1,476	1,334
Experience variances		(11,249)	(2,943)
Underlying insurance profit		**23,641**	**30,765**
Investment and other revenue		625	1,751
Changes to economic assumptions	6	(14,776)	(11,015)
Business transaction costs	20	(7,024)	(2,562)
Total comprehensive income		**2,466**	**18,939**

*Prior year comparatives have been restated as a result of change in accounting policy. Refer to note 4 for further details.

2. Reporting entity

The Company is a profit-oriented company domiciled in New Zealand and registered under the Companies Act 1993. The company is 100% owned by Partners Group Holdings Limited ('PGHL').

Financial statements for the Company for the year ended 31 March 2022 ('the financial statements') are presented. The Company is a reporting entity for the purposes of the Companies Act 1993 and the Financial Markets Conduct Act 2013, and its financial statements comply with these Acts. The Company is a licenced life insurer under the Insurance (Prudential Supervision) Act 2010 ('IPSA') and its financial statements also comply with this Act.

The annual report was authorised for issue by the Board on 16 June 2022.

3. Statement of compliance and reporting framework

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ('NZ GAAP'), as a for-profit entity, and comply with International Financial Reporting Standards ('IFRS') and the New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS').

4. Basis of preparation

The financial statements have been prepared on a going concern basis.

The financial statements have been prepared on a historical cost basis except for:

- Insurance contract assets and liabilities which are stated at actuarially assessed values; and
- Investments in government bonds which are designated, at inception, as at fair value through profit or loss.

The Company has adopted all new and revised mandatory standards, amendments, and interpretations in the current year. None had a material impact on these financial statements, with the exception of International Financial Reporting Standards Interpretations Committee ('IFRIC') interpretations relating to Software-as-a-Service ('SaaS') arrangements as outlined below.

Certain disclosure formats have been adjusted and where applicable comparative figures have been aligned to the new disclosure format.

4. Basis of preparation (continued)

With the exception of the accounting policy relating to SaaS arrangements, as outlined below, the principal accounting policies adopted are consistent with those applied in the prior year.

There are a number of standards, amendments and interpretations which have been approved but are not yet effective. The Company expects to adopt these when they become due for adoption and is assessing their impact on the financial statements.

NZ IFRS 17

The most significant of these is NZ IFRS 17 Insurance Contracts ('NZ IFRS 17') which is, following amendments during 2021, effective for annual periods beginning on or after 1 January 2023.

NZ IFRS 17 establishes principles for the recognition, measurement, presentation, and disclosure of insurance contracts issued, and will supersede NZ IFRS 4 Insurance Contracts ('NZ IFRS 4'). Disclosure and measurement under NZ IFRS 17 may differ significantly from NZ IFRS 4 and as such the Company is not yet able to reasonably estimate the impact of NZ IFRS 17 on its financial statements.

NZ IFRS 17 will be effective for the Company for the year ending 31 March 2024, with a comparative period restatement for the year ending 31 March 2023, and will result in significant changes to presentation in the Statement of Financial Position and the Statement of Comprehensive Income, as well as associated detailed disclosures under the notes to the financial statements.

The Company has progressed the interpretation, analysis, and impact assessment phase of its NZ IFRS 17 implementation project and concluded the majority of key technical matters subject to final impact assessment. NZ IFRS 17 has complex transition requirements, with insurers able to choose between different approaches, and the company continues to evaluate this key area of judgement.

The Company is advancing the technology implementation process across the impacted actuarial, data management, and accounting platforms, as well as reviewing remaining technical considerations, which will further assist in determining the impact of NZ IFRS 17 on the financial statements.

Changes to significant accounting policy

The IFRIC has issued two final agenda decisions which impact SaaS arrangements:

- Customer's right to receive access to the supplier's software hosted on the cloud (March 2019) – this decision considers whether a customer receives a software asset at the contract commencement date or a service over the contract term.
- Configuration or customisation costs in a cloud computing arrangement (April 2021) – this decision discusses whether configuration or customisation expenditure relating to SaaS arrangements can be recognised as an intangible asset and if not, over what time period the expenditure is expensed.

The Company's accounting policy has historically been to capitalise all costs related to SaaS arrangements as intangible assets in the Statement of Financial Position where they were expected to be of enduring economic benefit to the Company. The adoption of the above agenda decisions has resulted in a reclassification of these SaaS related intangible assets to either a prepaid asset in the Statement of Financial Position and/or recognition as an expense in the Statement of Comprehensive Income, impacting both the current and prior periods presented. A portion of those expenses has impacted the insurance contract assets and movements in policy holder liabilities to the extent that the reclassification as an expense has impacted acquisition expenses which are deferred. The new accounting policy is presented in Note 18.

Historical financial information has been restated as follows to account for the impact of this change in accounting policy in relation to SaaS arrangements.

Statement of Comprehensive Income

For the year ended 31 March In thousands of New Zealand Dollars	2021	Adjust-ments	2021 (restated)
Net movement in insurance contract assets and liabilities	(58,377)	447	(57,930)
Commission and operating expenses	159,310	188	159,498
Total expenses including movement in insurance contracts	**169,816**	**635**	**170,451**
Operating profit	**19,665**	**(635)**	**19,030**
Profit before income tax	**19,574**	**(635)**	**18,939**

Statement of Financial Position

As at In thousands of New Zealand Dollars	1 April 2020 (restated)	31 March 2021	Adjust-ments	31 March 2021 (restated)
Trade and other receivables	67,098	79,120	1,380	80,500
Insurance contract assets	898,720	867,783	3,120	870,903
Intangible assets	5,520	12,215	(6,393)	5,822
Total Assets	**1,072,719**	**1,129,707**	**(1,893)**	**1,127,814**
Net Assets	**499,733**	**600,652**	**(1,893)**	**598,759**
Retained earnings	**185,280**	**206,112**	**(1,893)**	**204,219**
Total Equity	**499,733**	**600,652**	**(1,893)**	**598,759**

Statement of Cash Flows

For the year ended 31 March In thousands of New Zealand Dollars	2021	Adjust-ments	2021 (restated)
Payments to suppliers and employees	(57,731)	(2,870)	(60,601)
Net Cash flows from operating activities	**(1,692)**	**(2,870)**	**(4,562)**
Net acquisition of intangible assets	(4,538)	2,870	(1,668)
Net Cash flows from investing activities	**(116,033)**	**2,870**	**(113,163)**

5. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

Insurance contract assets and liabilities

Insurance contract assets and liabilities are valued using actuarial methods that take into account the risks and uncertainties of the particular classes of insurance business written (refer to note 6).

The key factors that affect the estimated value of the insurance contract assets and liabilities are:

- The cost of providing benefits and administering the insurance contracts.
- The costs incurred in acquiring the insurance policies (acquisition costs), including adviser commissions, underwriting and policy issue costs.
- Mortality and morbidity experience on life insurance products.
- Discontinuance experience which affects the ability to recover acquisition costs.
- Reinsurance arrangements and timing of future cash flows under these arrangements, which include reinsurance expense, reinsurance recoveries and reinsurance commission revenue.
- Future premium rates.
- Use of tax losses and the ability to generate tax losses in the future.
- Other factors such as regulation, competition, interest rates, and general economic conditions which are used in the valuation of insurance contract assets and liabilities.

Share based payments

The value of shadow shares previously issued to advisers, and share rights issued to key management personnel ('KMP'), were calculated using a binomial option pricing model which uses a number of assumptions. Management used professional judgement, in line with prior year independent advice, with respect to the volatility and risk-free rate assumptions which were applied in the model. Refer to notes 27 and 28.

Impact of COVID-19

For the year ended March 2022 the Company reviewed assumptions around the current and expected impact of COVID-19. As a result of this review no material changes have been made to existing COVID-19 related assumptions.

For the year ended 31 March 2021, the Company made specific assumptions of additional disability claims related to the potential economic impacts of COVD-19 for the following two years. At 31 March 2022 this assumption remains, but is now only for 12 months from 31 March 2022.

6. Actuarial methods and assumptions

An actuarial report on insurance contract assets and liabilities, as at 31 March 2022, was prepared by K Dron ('the Actuary'), Fellow of the New Zealand Society of Actuaries, and signed on 16 June 2022.

The actuarial report indicates that the Actuary was satisfied as to the accuracy of the data upon which the insurance contract assets and liabilities have been determined and the level of additional reserves for claims (net of reinsurance) included within Trade and other payables and Trade and other receivables.

Methods used in the valuation of insurance contract assets and liabilities

The Actuary certified that the value of insurance contract assets and liabilities, including reserves for claims, has been determined in accordance with methods and assumptions disclosed in the actuarial report and with Professional Standard No. 20 'Determination of Life Insurance Policy Liabilities' ('PS20') of the New Zealand Society of Actuaries.

Insurance contract assets and liabilities were measured as the present value of expected future cash flows plus allowances for the cost of policyholders electing to exercise various options in the future.

The profit carrier, net claims, was used as the basis on which to spread the expected future profit.

There have been no material changes to the valuation methods used in the prior year.

Actuarial assumptions used in the valuation of insurance contract assets and liabilities

a) Discount rates

Benefits under the insurance contracts are not contractually linked to the performance of assets held. As a result, the insurance contracts were discounted for the time value of money using risk-free discount rates derived from returns on New Zealand government bonds as at the valuation date.

The risk-free rates (before tax) applied in the valuation process were monthly forward rates. Equivalent annual rates are:

For the year ended 31 March	2022	2021
Years from valuation date		
1	2.31%	0.24%
5	3.37%	1.82%
10	3.42%	3.29%
15	3.57%	3.74%
20	3.64%	3.83%
40	4.17%	4.30%

b) Acquisition expenses

Acquisition expense assumptions were based on the actual acquisition expenses incurred for the year ending 31 March 2022.

c) Maintenance expenses

Maintenance expense assumptions were based on the Company's business plan for the period to 31 March 2023, allowing for new business expected. Subsequent to March 2023, the unit expenses have been increased at 2.00% per annum, as per inflation. (31 March 2021: 2.00% per annum inflation rate was used after March 2025).

d) Taxation

The future rate of taxation is assumed to be 28%, applicable after an initial period of 80 months (31 March 2021: 111 months) during which it was assumed $295 million of existing tax losses would be utilised (31 March 2021: $303 million).

This initial period was determined by projecting cash flows from business in-force at balance date, together with cash flows from future new business the Company is expecting to write, and including the best estimate of probable use of past losses available to carry forward which reflects shareholding changes that are currently forecast to occur in future and application of loss continuity rules and the business continuity tests, which applies to tax losses which are incurred post 1 April 2013.

6. Actuarial methods and assumptions (continued)

Increasing the assumed tax free period by 12 months results in a $20.4 million decrease (2021: $18.5 million decrease) to present value of future tax payable (and corresponding increase to present value of future planned margins of revenue over expenses). Decreasing the assumed tax free period by 12 months results in a $21.6 million increase (2021: $19.3m increase) to present value of future tax payable (and corresponding decrease to present value of future planned margins of revenue over expenses).

e) Mortality and morbidity

Assumptions have been developed based on recent historical experience, reinsurers tables and expectations of current and expected future experience. Morbidity assumptions have been expressed as a percentage of the reinsurer's table, with the exception of medical claims and disability income claims. Medical claims have been derived from previous experience, varying by age, gender, and smoker status. Disability Income claims are modelled using an incidence termination methodology using data from the Australian FSC07-11 ADI table.

f) Lapses

Voluntary discontinuances were assumed to vary according to the age of the life insured and the length of time the policy has been in force, in line with the Company's expected experience taking into account other market information and matters specific to the Company.

The range of lapse rates for each related product group are tabled below.

As at 31 March	2022	2021
Related product group		
Life	2.34% – 15.80%	2.34% – 15.80%
Trauma	3.13% – 20.33%	3.13% – 20.33%
Total and permanent disability	2.33% – 30.53%	2.33% – 30.53%
Disability income	3.55% – 21.68%	3.55% – 21.68%
Medical	4.28% – 11.95%	4.28% – 11.88%

g) Inflation

Indexation of certain benefits (where applicable) was assumed to be 4.9% for the calendar year 2023, and 2.00% per annum for 2024 and thereafter (31 March 2021: 2.00% per annum for 2022 and thereafter).

The inflation rate assumption was determined on a basis consistent with the Reserve Bank of New Zealand ('RBNZ') long term inflation target of between 1% and 3% and its short term expectations (31 March 2021: 2.00% per annum).

h) Premiums

No increases in premium rates for non-medical policies have been assumed. In the prior year non-medical policies were assumed to increase by an average of 5% in October 2021.

Medical premiums are assumed to increase in line with Medical Claims inflation 12% in financial year 2023, and 8% thereafter.

Premium increases are applied at each policy's anniversary date post the effective date of the increase.

i) Reinsurance

The cost of reinsurance is based on future expected mortality, morbidity and lapse assumptions, and the commercial terms of the reinsurance treaties. The cost of reinsurance has changed primarily due to a decrease in the future cost of reinsurance premiums as set by the Company's reinsurers.

Impact of changes in assumptions between 31 March 2021 and 31 March 2022

The following table shows the effect of changes in the actuarial assumptions on the present value of planned profit margins and insurance contract assets and liabilities as at, and total comprehensive income for the year ended, 31 March 2022. The effect is measured only on business in force at 31 March 2021, which remains in force at 31 March 2022.

For the year ended 31 March In thousands of New Zealand Dollars	Increase / (decrease) in the present value of future profit margins		Increase / (decrease) in Net insurance contract assets and Total comprehensive income	
	2022	2021	2022	2021
Assumption category				
Discount rates and indexation*	(30,508)	(40,093)	(16,601)	(11,511)
Lapses	(47,283)	203	-	-
Expenses	(55,846)	(49,405)	-	-
Tax	(14,850)	43,695	-	-
Premiums	87,561	55,777	-	-
Claims	(120,571)	(16,083)	-	-
Reinsurance	55,864	(67,839)	-	-
Model changes	(983)	24,806	-	-
Impact of changes in assumptions	**(126,616)**	**(48,939)**	**(16,601)**	**(11,511)**

* The effect of discount rates on claims reserves which do not form part of the insurance contract assets and liabilities is excluded from the table above.

7. Risk management

The Company's risk management strategy is designed to implement a consistent and effective approach to identify, evaluate, and respond to key risks that may impact business objectives. This enterprise risk management framework is built on a three lines of defence risk management model and is supported by the key components, including:

Risk Strategy and Appetite

The implementation of the business strategy is kept within the Company's risk appetite to ensure the delivery of best-in-market life and health insurance to customers and sustainable growth in shareholder value while managing enterprise risks. The Company's appetite is set by and is regularly reviewed by the Board and monitored through the Risk Committee in consideration of the business strategy.

Risk Governance

The Company's Risk Committee is chartered to monitor and assess the Company's compliance with significant laws and regulations, identify key risks, and initiate and monitor actions to mitigate these risks in line with the Company's Risk Management Programme. The Risk Management Programme is also regularly reviewed to ensure it continues to be relevant in effectively managing our risks. The Risk Committee is chaired by an independent, non-executive director.

7. Risk management (continued)

Management-level committees are in place to deliberate on key risk matters, the primary one being the Management Risk Committee ('MRC') that meets every second month and supports the Risk Committee in the execution of its duties. An Asset and Liability Management Committee ('ALCO') also meets on a regular basis to monitor and manage financial risks. The ALCO reports to the Audit Committee and Board on a regular basis. A Statement of Investment Policy and Objectives ('SIPO'), a Capital Management Policy ('CMP'), and a Treasury Policy establish parameters for the management of investment assets and solvency capital. The SIPO and CMP are both approved by the Board.

Risk Culture

Risk culture is formed by values and behaviours that shape decisions around day-to-day risk-taking activities. The Company maintains a strong risk culture that is underpinned by overall Company values and is supported by effective communication and training, and tone from the top.

Risk Management Process

A comprehensive and consistent process aligned with AS/NZ ISO31000 best practice is applied in the identification, assessment, management, and monitoring of risks across the Company. Its implementation employs the use of an integrated governance, risk management and compliance system, which also houses the Enterprise Risk Register and Sub-Risks Register. Collectively, these form part of the Company's overall risk and control environment which are regularly reviewed and discussed in the MRC and Risk Committee meetings.

The financial condition and operating results of the Company are exposed to a number of risks, the primary risks being insurance, credit, liquidity, and capital risk.

Insurance risk

Insurance risk is risk, other than financial risk, that is transferred from the holder of a contract to the issuer.

The Company's objectives in managing insurance risk are:

- To continuously meet internal and external solvency requirements.
- To utilise reinsurance to keep the retained portion of claims in line with the Company's risk appetite.
- To set premium rates, based on expected claims and expenses, that will ensure an appropriate return on capital.
- To maintain a sound internal control environment.

The Company takes a sustainable approach to all aspects of its product portfolio, including new business underwriting, and the management of its in-force book, regularly reviewing assumptions against experience. Assumptions are based on the Company's own experience, industry benchmarks and reinsurer data to reflect the Company's risk profile as well as observable market trends.

A number of variables give rise to insurance risk:

- The risks associated with mortality and morbidity – Higher mortality rates and/or an increased incidence and duration of illness is likely to lead to higher claims expense, reducing profit and shareholder's equity.
- Policy lapses and cancellations – The impact of lapses and rate of policy cancellations depends upon the type of contract and duration in force, but generally an increase in lapses and cancellations will reduce profit and shareholder's equity.
- Expense levels – If expenses are higher than assumed levels this will reduce profit and shareholder's equity.

The table below illustrates the sensitivity of this year's profit before tax and equity (before any compensating changes to premium rates) to changes in insurance risk variables.

As at 31 March In thousands of New Zealand Dollars	Change	2022		2021	
		Before reinsurance	After reinsurance	Before reinsurance	After reinsurance
Mortality and morbidity	+10%	(27,400)	(19,706)	(47,461)	(30,510)
	-10%	11,244	3,550	10,174	3,171
Discontinuance	+10%	-	-	(6,478)	(3,829)
	-10%	-	-	-	-
Maintenance expenses	+10%	-	-	-	-
	-10%	-	-	-	-

Insurance risk management

a) Reinsurance

Individual risk

The Company has entered into reinsurance treaties (the 'treaties') with SCOR SE ('SCOR') in respect of all individual risk sold, with the exception of medical benefits. The treaties are designed to limit the Company's exposure to insurance risk to a level appropriate to its age and capital base. Group business reinsurance and additional cover for significant event losses are with separate counterparties as set out below.

The SCOR treaties meet the definition of an insurance contract under NZ IFRS 4 as there is a significant transfer of insurance risk from the Company to SCOR through the reinsurance of an agreed percentage of insurance risks on all reinsured benefits. Further, SCOR bears lapse risk through the treaties.

Reinsurance premiums are paid to SCOR for benefits reinsured. A defined percentage of claims paid on reinsured benefits is recoverable from SCOR. SCOR pays the Company a commission on the issue of new business covered by the treaties which contributes towards the costs of acquiring new insurance business and supports the Company to continue to write new business and to continuously meet solvency standards.

Treaty terms for new business are agreed periodically. If SCOR ceases to take new business under the treaties, it remains on risk for policies previously reinsured.

Group and other risk

The Company has entered into separate reinsurance treaties for group risk business written by the Company. There are no commissions payable or profit share arrangements under these treaties; their purpose is to limit the claims risk in respect of group risk business written.

The Company has entered into an Adverse Mortality Stop Loss Reinsurance treaty which mitigates the risk of significant losses arising from concentrations of insurance risk due to pandemic events.

The Company has entered into a Per Event Excess of Loss Reinsurance treaty which mitigates the risk of significant losses arising from concentrations of insurance risk due to a catastrophic, accidental event.

Reinsurance availability

Market conditions beyond the Company's control may impact the availability and cost of reinsurance. Accordingly, the Company may be forced to incur additional expenses for reinsurance or may be unable to obtain sufficient reinsurance on acceptable terms from SCOR or alternative reinsurers, in which case the Company would need to accept an increase in its exposure to insurance risk under new business, equity fund new business acquisition costs, reduce the amount of new business written, or seek alternative arrangements.

7. Risk management (continued)

b) Underwriting processes

Underwriting decisions are made in accordance with rules and procedures detailed in the Company's underwriting manual.

Such rules and procedures include limits to delegated authorities and signing powers for individual underwriters and limits over which individual cases must be referred to the Company's reinsurers for an underwriting decision.

Underwriting is monitored by the Chief Underwriter and Underwriting General Managers to ensure adequate controls are in place over the various processes and the effectiveness of those controls. The Company's reinsurers and underwriting management team carry out regular audits to ensure underwriting decisions made are in accordance with rules, limits, and the Company's underwriting philosophy.

c) Claims management

Claims management procedures are in place to ensure the timely and accurate payment of all valid claims in accordance with policy conditions.

The Company has a Customer Outcomes Review Committee, comprising KMP. This Committee is responsible for providing a forum to discuss and make decisions relating to customer-related issues. These could be, but are not limited to:

- Referred claims.
- A request by a customer or Partners Life for a letter of deadlock.
- Issues related to the treatment of vulnerable customers.
- Oversight of potential and ongoing customer remediations.
- Significant complaints against third party advisers.

This Committee provides a customer advocacy forum, when necessary to support the Company in delivering good customer outcomes.

Concentration of insurance risk

Exposure to concentration of insurance risk is mitigated through surplus reinsurance provided by SCOR, which limits the Company's exposure for lump sum claims to a maximum retention per benefit per life assured.

The table below illustrates the concentration of insurance risk based on six bands of life sums assured for each client.

As at 31 March	2022		2021	
	Before reinsurance	After reinsurance	Before reinsurance	After reinsurance
Sum Assured				
$0 – $250,000	7.7%	20.3%	8.2%	21.4%
$250,001 – $500,000	24.2%	79.7%	26.2%	78.6%
$500,001 – $1,000,000	43.0%	0.0%	42.1%	0.0%
$1,000,001 – $2,000,000	18.9%	0.0%	17.6%	0.0%
$2,000,001 – $5,000,000	5.6%	0.0%	5.4%	0.0%
Greater than $5,000,000	0.6%	0.0%	0.5%	0.0%
	100.0%	100.0%	100.0%	100.0%

Market risk

Market risk is the risk of loss arising from adverse movements in market prices or rates, such as from changes in interest rates, currency exchange and prices of equity securities. The Company is not exposed to equity price risk or currency risk as it does not hold equity securities or have any assets or liabilities denominated in foreign currencies.

Interest rate risk

The Company is exposed to interest rate risk through revaluations in its insurance contract assets and insurance contract liabilities – reinsurance, as well as investments in New Zealand government bonds (refer to note 16).

The table below illustrates the sensitivity of this year's profit and equity to changes in discount rate movement at year end.

As at 31 March In thousands of New Zealand Dollars	Change	2022		2021	
		Before reinsurance	After reinsurance	Before reinsurance	After reinsurance
Discount rates	+1%	(13,416)	(33,385)	(12,718)	(33,636)
	-1%	10,746	36,781	10,393	36,293

Interest rate risk management

New Zealand government bonds are used to minimise interest rate exposures resulting from movements in claim reserves, net of reinsurance. To the extent that maturity profiles are aligned, interest rate movement impacts on 'claim accruals and provisions' and 'Reinsurance recoverable on accrued claims' will be materially offset by opposite impacts on New Zealand government bond yields and therefore values. As interest rates and net claim reserves change, the Government bond portfolio is rebalanced through sales and purchases to ensure the net interest rate exposure of net claim reserves and government bonds remains minimised.

Credit risk

Credit risk is the risk of loss arising from the failure of a counterparty to meet their contractual obligations as they relate to amounts recognised at balance date. The Company is exposed to credit risk from the investment of surplus capital, reinsurance recoverable on accrued claims, and trade receivables (amounts due from policyholders and advisers).

The maximum exposure to credit risk at balance date for each class of financial asset is the carrying amount of those assets as indicated in the Statement of Financial Position.

Credit risk management

The Company manages credit risk by adopting a conservative investment philosophy and spreading its exposures. The SIPO establishes minimum credit ratings and exposure limits for investment counterparties.

Surplus capital is invested in call and term deposit facilities, spread across a number of high credit quality registered banks, as well as New Zealand government bonds of various maturities (refer to note 16).

Reinsurance credit risk is managed by considering the current and a potential reinsurer's credit quality, as evidenced by their credit rating and balance sheet strength as well as their reputation in the market for paying claims.

Commission recoveries due from advisers are regularly reviewed and an allowance for expected credit losses is raised. Amounts due from advisers are disclosed net of expected credit losses in Trade and other receivables.

7. Risk management (continued)

Concentration of credit risk

Concentration of credit risk at balance date is shown in the table below:

As at 31 March In thousands of New Zealand Dollars	2022		2021	
	Aggregated credit exposure	Credit rating*	Aggregated credit exposure	Standard & Poor's credit rating
Institution:				
Westpac New Zealand Limited	30,840	AA-	14,706	AA-
Bank of New Zealand Limited	27,500	AA-	14,500	AA-
ANZ Bank New Zealand Limited	50,000	AA-	40,000	AA-
ASB Bank Limited	33,030	AA-	26,024	AA-
Kiwibank Limited	50,000	AA	16,000	A
Rabobank New Zealand Limited	42,806	A	25,574	A
SCOR SE	80,986	AA-	72,139	AA-
New Zealand Government	14,687	AAA	31,348	AAA

*All credit ratings as per Standard and Poor's with the exception of Kiwibank which is per Fitch.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities. This exposure arises from the need to match cash inflows and outflows to support day-to-day operations.

A reinsurer's insolvency, inability, or refusal to make timely payments under the terms of its treaty with the Company could have a materially adverse effect on the Company's liquidity.

Liquidity risk management

Liquidity risk is managed by maintaining a highly liquid portfolio of assets.

The SIPO establishes a minimum holding of liquid assets, a maximum overall portfolio duration, and limits the asset classes that may be considered for investment. New Zealand government bond investment maturities are matched to expected claim reserve profiles and are tradable on an active secondary market should additional cashflow be required.

Term bank deposits are structured so that investments are maturing at regular intervals to accommodate future obligations and mitigate cash flow volatility; for example, higher than expected claims.

The Company monitors liquidity risk by forecasting future daily cash requirement and ALCO regularly reviews these projections.

Concentration of liquidity risk

The table below summarises the undiscounted maturity profile of the Company's contractual financial liabilities at balance date:

At 31 March 2022 In thousands of New Zealand Dollars	On demand	Less than 3 months	3 to 12 months	Greater than 1 year	Total
Financial liabilities					
Expense creditors and accruals	-	7,549	140	-	7,689
Employee entitlements (excluding employee leave provisions)	-	-	5,673	-	5,673
Claim accruals and provisions	-	48,639	10,292	61,737	120,668
Trade creditors	271	21,660	-	-	21,931
Total Financial Liabilities	**271**	**77,848**	**16,105**	**61,737**	**155,961**

At 31 March 2021 In thousands of New Zealand Dollars	On demand	Less than 3 months	3 to 12 months	Greater than 1 year	Total
Financial liabilities					
Expense creditors and accruals	-	5,846	113	-	5,959
Employee entitlements (excluding employee leave provisions)	-	-	4,128	-	4,128
Amounts due to group companies	84	-	-	-	84
Claim accruals and provisions	-	45,465	8,722	54,346	108,533
Trade creditors	292	21,308	-	-	21,600
Total Financial Liabilities	**376**	**72,619**	**12,963**	**54,346**	**140,304**

Refer to note 14 for the estimated timing of net cash inflows from insurance contract assets and liabilities.

Capital risk

The primary objectives of the Company in the management of capital are to ensure that:

- The Company continuously meets the requirements of the Solvency Standard for Life Insurance Business (the 'Solvency Standard') released by the RBNZ as part of IPSA.
- The interests of policyholders and creditors are protected.
- Shareholder value is created.

The Company is required to retain actual solvency capital of at least $5 million and maintain a positive solvency margin in each fund under the Solvency Standard. The Company's reinsurance treaties also impose minimum solvency requirements.

7. Risk management (continued)

Capital risk management

The Board maintains overall responsibility for the management and monitoring of capital, and the determination of the level of 'buffer' capital to be held in addition to the capital requirements of the Solvency Standard. A Target Surplus is established under the Capital Management policy for the purpose of monitoring and managing capital. Capital requirements are projected for the next four-year period and are subjected to stress testing. ALCO regularly reviews these projections and reports to the Board at every Board meeting.

During the years ended 31 March 2022 and 31 March 2021, the Company complied with all externally imposed capital requirements.

As a means of protecting the interests of life insurance policyholders, IPSA requires licensed insurers to establish and maintain at least one statutory fund in respect of its life insurance business. The Company has established one statutory fund for its life insurance business. Medical insurance business and any other items that do not relate to contracts of life insurance are contained within the shareholder fund.

The solvency positions of the Company, the statutory fund, and the shareholder fund determined under the requirements of the Solvency Standard are set out below. The Appointed Actuary has issued a report relating to the Company under section 78 of IPSA, a copy of which is available with the Company's financial statements.

As at 31 March 2022 In thousands of New Zealand Dollars	Total	Statutory fund	Shareholder fund
Actual solvency capital	710,244	505,410	204,834
Minimum solvency capital	559,048	459,782	99,266
Solvency margin	**151,196**	**45,628**	**105,568**
Solvency ratio	**127%**	**110%**	**206%**

As at 31 March 2021 (restated*) In thousands of New Zealand Dollars	Total	Statutory fund	Shareholder fund
Actual solvency capital	592,938	484,832	108,106
Minimum solvency capital	533,740	440,769	92,971
Solvency margin	**59,198**	**44,063**	**15,135**
Solvency ratio	**111%**	**110%**	**116%**

*Prior year comparatives have been restated as a result of change in accounting policy. Refer to note 4 for further details.

8. Net premium revenue

Premium revenue

Premiums for insurance contract business are recognised as revenue on an accrual basis. The unearned portion of premium revenue is recognised in the Statement of Financial Position, in Trade and other payables, and in Insurance contract assets.

Outward reinsurance expense

Premiums ceded to reinsurers under reinsurance contracts are recorded as Outward reinsurance expense and are recognised when they become due and payable in accordance with the terms and conditions of the reinsurance contracts. The prepaid portion of premium ceded is recognised in the Statement of Financial Position, in Trade and other receivables, and in Insurance contract liabilities – reinsurance.

9. Reinsurance commission revenue

Reinsurance commission revenue is inwards reinsurance commission on issued policies containing reinsured benefits, net of commission repayable, as a result of policy discontinuances. It is recognised as revenue on an accrual basis.

10. Investment revenue

Cash and cash equivalents comprise on call and term deposit facilities (under 5 months) subject to an insignificant risk of changes in value.

Interest on investments relates to bank term deposit facilities (5 months and over).

Interest on adviser balances relates to Trade receivables – Due from advisers.

Interest on New Zealand government bonds is calculated based on the applicable coupon rates.

Revaluation of New Zealand government bonds excludes interest received.

For the year ended 31 March In thousands of New Zealand Dollars	2022	2021
Interest on cash and cash equivalents and investments	1,990	2,118
Interest on adviser balances	-	25
Interest on New Zealand government bonds	599	931
Revaluation of New Zealand government bonds	(1,968)	(1,323)
Total investment revenue	**621**	**1,751**

11. Net claims expense

Claims expense

Claims expense is recognised when the liability to a policyholder has been established, or when the Company has been notified of a claim event. A provision is made for claims that have not yet been reported. The claims provision for disability income products is calculated as the present value of estimated payments.

Reinsurance recoveries

Reinsurance recoveries are recognised as revenue at the same time the claim expense is recognised if the underlying policy is reinsured. Reinsurance recovery provisions are established for claims that have not yet been reported. The reinsurance recovery provision for disability income products is calculated as the present value of recoverable amounts.

12. Commission and operating expense

Commission paid to independent advisers, and the Company's operating expenses, have been apportioned between acquisition and maintenance costs which determines the timing of expense recognition.

Commission and operating expenses are recognised on an accrual basis.

Acquisition costs

Acquisition costs are the costs of acquiring new business, including adviser commission and similar distribution costs related to accepting, issuing and initially recording policies.

Acquisition costs are spread over the period in which insurance services are provided. The expense is recognised as a component of Net movement in insurance contract assets and liabilities in the Statement of Comprehensive Income. Unamortised acquisition costs are a component of insurance contract assets and liabilities in the Statement of Financial Position.

Maintenance costs

Maintenance costs are the costs of administering policies subsequent to sale including renewal and as earned commission and all other operating costs of the Company other than acquisition costs.

For the year ended 31 March In thousands of New Zealand Dollars	Note	2022	2021 (restated*)
Acquisition costs			
Commission		62,373	53,332
Other acquisition expenses		35,542	36,721
Total acquisition costs		**97,915**	**90,053**
Maintenance costs			
Commission		39,544	34,788
Other maintenance expenses		37,847	32,095
Total maintenance costs		**77,391**	**66,883**
Other costs			
Business transaction costs	20	7,024	2,562
Total commission and operating expenses		**182,330**	**159,498**
Included within Total commission and operating expenses are the following specific items:			
Contributions to defined contribution superannuation schemes		813	775
Equity settled share based payments to executive staff	26	399	2,487
Employee benefits		38,230	37,887
Amortisation of right of use assets		809	793
Amortisation of software assets		1,992	1,378
Movement in bad and doubtful debts		(39)	(89)
Donations		28	41

*Prior year comparatives have been restated as a result of change in accounting policy. Refer to note 4 for further details.

There were fees paid and payable to the Company's auditor, KPMG, of $0.3 million for the audit of financial statements (31 March 2021: $0.4 million), $0.08 million for the assurance over regulatory reporting (31 March 2021: $0.06 million), and $0.01 million for audit services in relation to NZ IFRS17 (31 March 2021: $0.01 million advisory services in relation to conduct monitoring).

13. Taxation

The discounted tax cash flows embedded in the Insurance contract assets and Insurance contract liabilities – reinsurance balances, are netted and disclosed separately in the Statement of Financial Position as Present value of future tax payable in insurance contract assets and liabilities.

The movement in Present value of future tax payable is included in Net movement in insurance contract assets and liabilities reported in the Statement of Comprehensive Income.

For the year ended 31 March In thousands of New Zealand Dollars	2022	2021 (restated*)
Reconciliation of prima facie income tax		
Profit before income tax	2,466	18,939
Income tax expense at statutory income tax rate of 28%	690	5,303
Reduction in income tax expense due to non-assessable net income	(8,073)	(14,649)
Income tax effect of changes in temporary differences not recognised	2,655	1,236
Income tax effect of net reinsurance items taxed under the financial arrangements regime	14,390	14,719
Income tax effect of prior period tax losses utilised	(9,662)	(6,609)
Income tax expense reported in the Statement of Comprehensive Income	-	-

*Prior year comparatives have been restated as a result of change in accounting policy. Refer to note 4 for further details.

The Company has income tax losses available to carry forward of $338 million (31 March 2021: $372 million).

The availability of income tax losses carried forward is subject to statutory requirements being met, including the shareholder continuity rules and failing that, the continuity of business test. Future availability of tax losses could be adversely affected by future changes in ownership that breach the 49% shareholder continuity test and the business continuity test. Accordingly, the availability of tax losses could be adversely affected by a major change in the business within 5 years (or less if losses are used earlier) following a breach of shareholder continuity.

The Company has unrecognised deductible temporary differences of $14 million (31 March 2021: $3 million).

The Company has nil imputation credit as at balance date (31 March 2021: nil).

14. Insurance contract assets and liabilities

Insurance contracts transfer significant insurance risks from the policyholder to the insurer.

The methodology used to determine the value of life insurance contract assets and liabilities is referred to as MoS, as set out in PS20.

MoS is designed to recognise profits on insurance as services are provided to policyholders and income is received. Profits are deferred and recognised over the life of the insurance policies, whereas losses are recognised immediately as they arise.

Insurance contract assets and liabilities reflect the present value of expected future premiums, claims, taxes, and expenses, including profit margins, to be released when earned in future periods.

The movement in insurance contract assets and liabilities during the period is recognised in the Statement of Comprehensive Income.

The discounted tax cash flows embedded in the Insurance contract assets and Insurance contract liabilities – reinsurance balances, are netted and disclosed separately in the Statement of Financial Position as Present value of future tax payable in insurance contract assets and liabilities.

The movement in Present value of future tax payable is included in Net movement in insurance contract assets and liabilities reported in the Statement of Comprehensive Income.

Details of the actuarial assumptions used in the calculation of insurance contract assets and liabilities are set out in note 6.

The table below shows the discounted cash flows that comprise the insurance contract assets and liabilities, net of reinsurance and including profit margins.

As at 31 March In thousands of New Zealand Dollars	2022	2021 (restated*)
Net insurance contract assets contain the following components:		
Present value of future policy benefits	(2,481,299)	(2,246,962)
Present value of future expenses (including reinsurance)	(1,200,982)	(1,087,418)
Present value of future planned margins of revenues over expenses	(650,359)	(712,767)
Future tax payable	(275,208)	(241,223)
Present value of future premiums	5,142,915	4,783,650
Business valued using an accumulation model	(8,546)	(5,713)
Net insurance contract assets	**526,521**	**489,567**
Disclosed as:		
Insurance contract assets	919,026	870,903
Insurance contract liabilities – reinsurance	(117,297)	(140,113)
Present value of future tax payable within net insurance contract assets	(275,208)	(241,223)
Net insurance contract assets	**526,521**	**489,567**
Estimated discounted net cash inflows from net insurance contract assets		
Less than one year	29,241	7,380
One year to five years	154,997	121,520
Later than five years	342,283	360,667
Net insurance contract assets future net cash inflows	**526,521**	**489,567**

*Prior year comparatives have been restated as a result of change in accounting policy. Refer to note 4 for further details.

Reconciliation of movements in insurance contract assets and liabilities

For the year ended 31 March In thousands of New Zealand Dollars	2022	2021 (restated*)
Insurance contract assets		
Opening insurance contract assets	870,903	898,721
Movement recognised in the Statement of Comprehensive Income	48,123	(27,818)
Closing insurance contract assets	**919,026**	**870,903**
Expected maturity within 12 months	104,165	90,039
Expected maturity greater than 12 months	814,861	780,864
Insurance contract assets	**919,026**	**870,903**
Insurance contract liabilities – reinsurance		
Opening insurance contract liabilities – reinsurance	(140,113)	(180,386)
Movement recognised in the Statement of Comprehensive Income	22,816	40,273
Closing insurance contract liabilities – reinsurance	**(117,297)**	**(140,113)**
Expected maturity within 12 months	(74,924)	(82,659)
Expected maturity greater than 12 months	(42,373)	(57,454)
Insurance contract liabilities – reinsurance	**(117,297)**	**(140,113)**
Present value of future tax payable within net insurance contract assets		
Opening present value of future tax payable	(241,224)	(286,698)
Movement recognised in the Statement of Comprehensive Income	(33,984)	45,474
Closing present value of future tax payable within net insurance contract assets	**(275,208)**	**(241,224)**
Expected maturity greater than 12 months	(275,208)	(241,224)
Present value of future tax payable within net insurance contract assets	**(275,208)**	**(241,224)**
Reconciliation of movements in net insurance contract assets and liabilities		
Net insurance contract assets		
Opening net insurance contract assets	489,566	431,636
Movement recognised in the Statement of Comprehensive Income	36,955	57,930
Closing net insurance contract assets	**526,521**	**489,566**

*Prior year comparatives have been restated as a result of change in accounting policy. Refer to note 4 for further details.

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15. Trade and other receivables

Amounts due from advisers are shown net of a $0.1 million (31 March 2021: $0.1 million) provision for expected credit losses under NZ IFRS 9. The gross amount of the impaired receivables is $0.1 million (31 March 2021: $0.1 million).

As at 31 March	Note	2022	2021 (restated*)
Sundry debtors and prepayments		8,059	3,506
Accrued investment income		1,479	981
Amounts due from related parties	23	965	561
Reinsurance premiums paid in advance		1,179	1,344
Reinsurance recoverable on accrued claims		80,986	72,139
Trade receivables:			
Due from reinsurers		10	19
Due from advisers		331	387
Due from policy holders		1,643	1,563
Trade and other receivables		**94,652**	**80,500**
Expected maturity within 12 months		47,836	40,111
Expected maturity greater than 12 months		46,816	40,389
Trade and other receivables		**94,652**	**80,500**

*Prior year comparatives have been restated as a result of change in accounting policy. Refer to note 4 for further details.

16. Investments

Investments comprise bank term deposits of 5 to 24 months in duration designated, at inception, as recorded at cost, and New Zealand government bonds designated, at inception, as at fair value through profit and loss.

As at 31 March In thousands of New Zealand Dollars	2022	2021
Bank term deposits	196,500	123,523
New Zealand government bonds	14,687	31,348
Total investments	**211,187**	**154,871**

Investments in government bonds

The Company invests in government bonds with maturities ranging from 12 to 350 months to materially match the solvency liability and associated interest rate exposures resulting from movements in claim reserves.

Investments in government bonds are measured at fair value at inception and at each reporting date, with changes recognised immediately in profit or loss.

Measurement of fair values

Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the evaluation techniques as follows:

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

The fair value of Investments in government bonds reflects the price that would be received to sell the government bonds. This fair value measurement has been categorised as Level 2 fair value based on inputs that are observable for the asset. The fair value at balance date was derived by discounting all expected future cash flows from the asset using the closing market yield to maturity quoted for each government bond.

Credit risk

The Company is exposed to credit risks arising from Investments in government bonds. At 31 March 2022, the maximum exposure to credit risk of the Investments in government bonds designated as measured at fair value through profit or loss is their carrying amount of $14.7 million (31 March 2021: $31.3 million).

The change in fair value attributable to changes in credit risk is determined based on the changes in the prices of credit-default swaps referenced to similar obligations of New Zealand Government, as these swaps best reflect the market assessment of credit risk for the government bonds. The increase in fair value of Investments in government bonds attributed to credit risk, for the year ended 31 March 2022, is nil (31 March 2021: $0.06 million increase).

KPMG

17. Property, plant, and equipment

Property, plant, and equipment is recorded at cost less accumulated depreciation and impairment.

Depreciation is charged on a straight-line basis over the period for which benefits are expected to be derived, which is assessed to be between three to seven years.

Cost comprises all directly attributable costs necessary to purchase, create, produce, and prepare the asset to be capable of operating in the manner intended by management.

In thousands of New Zealand Dollars	Leasehold improvements	Office furniture and equipment	Computer equipment	Right-of-use assets – property	Total
Gross carrying value					
Balance at 1 April 2021	378	437	937	6,232	7,984
Additions	1,319	319	461	8	2,107
Disposals and write-offs	-	(9)	(120)	(105)	(234)
Balance at 31 March 2022	**1,697**	**747**	**1,278**	**6,135**	**9,857**
Accumulated depreciation					
Balance at 1 April 2021	238	281	436	4,592	5,547
Depreciation expense	47	75	343	809	1,274
Disposals and write-offs	-	(9)	(118)	-	(127)
Balance at 31 March 2022	**285**	**347**	**661**	**5,401**	**6,694**
Net carrying value at 31 March 2022	**1,412**	**400**	**617**	**734**	**3,163**

In thousands of New Zealand Dollars	Leasehold improvements	Office furniture and equipment	Computer equipment	Right-of-use assets – property	Total
Gross carrying value					
Balance at 1 April 2020	378	438	587	5,904	7,307
Additions	-	-	436	328	764
Disposals and write-offs	-	(1)	(86)	-	(87)
Balance at 31 March 2021	**378**	**437**	**937**	**6,232**	**7,984**
Accumulated depreciation					
Balance at 1 April 2020	184	211	254	3,799	4,448
Depreciation expense	54	71	264	793	1,182
Disposals and write-offs	-	(1)	(82)	-	(83)
Balance at 31 March 2021	**238**	**281**	**436**	**4,592**	**5,547**
Net carrying value at 31 March 2021	**140**	**156**	**501**	**1,640**	**2,437**

18. Intangible assets

Costs incurred for the development of software code that enhances or modifies, or creates additional capability to, existing systems and meets the definition of and recognition criteria for an intangible asset are recognised as intangible software assets, and recorded at cost less accumulated amortisation and impairment.

Amortisation is charged on a straight-line basis over the period for which benefits are expected to be derived, which is assessed to be three or five years.

Cost comprises all directly attributable costs necessary to purchase, create, produce and prepare the asset to be capable of operating in the manner intended by management.

As explained in Note 4, following the issue of two final agenda decisions by the IFRIC regarding SaaS arrangements, the Company's financial statements have undergone a change of accounting policy. Under this policy, SaaS arrangements are service contracts providing the Company with the right to access the cloud provider's application software over the contract period. As such the Company does not receive a software intangible asset at the contract commencement date. A right to receive future access to the supplier's software does not, at the contract commencement date, give the customer the power to obtain the future economic benefits flowing from the software itself and to restrict others' access to those benefits.

KPMG

18. Intangible assets (continued)

Costs incurred for the development of software code that enhances or modifies, or creates additional capability to, existing on-premise systems and meets the definition of and recognition criteria for an intangible asset are recognised as intangible software assets as above.

The following table outlines the accounting treatment of common costs incurred in relation to SaaS arrangements:

Recognised as an operating expense over the term of the service contract	Recognised as an operating expense as the service is received
Fee for use of application software	Configuration costs
Customisation costs	Data conversion and migration costs
	Testing costs
Technical support costs	Training costs
	Project management expenses

In thousands of New Zealand Dollars	Computer software	Other intangible assets	Total
Gross carrying value			
Balance at 1 April 2021	9,121	27	9,148
Additions	5,753	-	5,753
Balance at 31 March 2022	**14,874**	**27**	**14,901**
Accumulated amortisation			
Balance at 1 April 2021	3,310	16	3,326
Amortisation expense	1,992	9	2,001
Balance at 31 March 2022	**5,302**	**25**	**5,327**
Net carrying value at 31 March 2022	**9,572**	**2**	**9,574**

In thousands of New Zealand Dollars	Computer software	Other intangible assets	Total
Gross carrying value			
Balance at 1 April 2020	6,172	101	6,273
Additions	3,092	-	3,092
Disposals and write-offs	(143)	(74)	(217)
Balance at 31 March 2021	**9,121**	**27**	**9,148**
Accumulated amortisation			
Balance at 1 April 2020	2,000	77	2,077
Amortisation expense	1,378	13	1,391
Disposals and write-offs	(68)	(74)	(142)
Balance at 31 March 2021	**3,310**	**16**	**3,326**
Net carrying value at 31 March 2021	**5,811**	**11**	**5,822**

*Prior year comparatives have been restated as a result of change in accounting policy. Refer to note 4 for further details.

19. Trade and other payables

As at 31 March In thousands of New Zealand Dollars	Note	2022	2021
Expense creditors and accruals		7,689	5,959
Employee entitlements		7,886	6,016
Amounts due to related parties	23	-	84
Claim accruals and provisions		120,668	108,533
Unearned premiums		3,672	3,380
Trade creditors:			
Due to advisers		493	690
Due to reinsurers		21,438	20,910
Trade and other payables		**161,846**	**145,572**
Expected maturity within 12 months		100,108	91,226
Expected maturity greater than 12 months		61,738	54,346
Trade and other payables		**161,846**	**145,572**

20. Commitments

In December 2020 the Company entered into a conditional agreement to acquire 100% ownership of BNZ Life for $290 million, together with a multi-year bank customer referral agreement. At 31 March 2022 this agreement remained subject to regulatory and other approvals.

The Company had no other material commitments for the purchase of intangible assets and property, plant and equipment at 31 March 2022 (31 March 2021: nil).

21. Leases

The Company leases office premises. The initial lease term was 4 years, with one renewal option of four years. The Company has exercised this renewal option with effect from 1 April 2019.

The lease liability at 31 March 2022 relating to this commitment is $1.1 million (31 March 2021: $2.1 million) with a corresponding right-of-use asset valued at $0.7 million (31 March 2021: $1.6 million).

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability, and is subsequently depreciated using the straight-line method from commencement date to the end of the lease term.

The lease liability is measured at the present value of the lease payments for the lease term, discounted using the Company's incremental borrowing rate at lease commencement which has been assessed at 3.43%.

The Company presents right-of-use assets in Property, plant, and equipment (refer to note 17) and lease liabilities on the Statement of Financial Position.

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low value assets, including low value office equipment. The Company recognises the lease payments associated with these low value leases as an expense on a straight-line basis over the lease term in accordance with permitted exemptions under NZ IFRS 16.

21. Leases (continued)

The Company has committed to new lease agreements relating to future office premises as tabled below. Initial undiscounted cash flows are subject to future rent reviews under the individual agreements. A right-of-use asset and lease liability will be recognised for each lease on their respective commencement date.

	Location		
	Takapuna	Auckland CBD	Wellington
Commencement date	April 2023	June 2022	May 2022
Initial term	10 years	3 years	3 years
Number of renewal options	2	1	2
Term of renewal options (each)	4 years	3 years	3 years
Initial undiscounted cash flows (per annum)	$1.6m	$0.2m	$0.3m

The table below summarises the Company's current lease liabilities at 31 March.

As at 31 March In thousands of New Zealand Dollars	2022	2021
Contractual undiscounted cash flows		
Less than one year	1,129	1,098
Between one and two years	-	1,126
Total undiscounted lease liabilities	**1,129**	**2,224**
Lease liabilities included in the Statement of Financial Position		
Current	1,108	1,041
Non-current	-	1,105
Total lease liabilities included in the Statement of Financial Position	**1,108**	**2,146**

The table below shows finance costs relating to the lease liability, and other lease related expenditure for the year ended 31 March.

For the year ended 31 March In thousands of New Zealand Dollars	2022	2021
Interest on lease liabilities	56	91
Expenses relating to leases of low-value assets	103	102
Total amounts recognised in Statement of Comprehensive Income	**159**	**193**

Lease related cash flows for the year were as follows:

For the year ended 31 March In thousands of New Zealand Dollars	2022	2021
Interest on lease liabilities	56	91
Repayment of lease liabilities	941	1,025
Payments relating to leases of low-value assets	103	102
Total cash outflow for leases	**1,100**	**1,218**

22. Contingent liabilities

The Company has no material contingent liabilities as at 31 March 2022, or 31 March 2021.

23. Related parties

Transactions

The remuneration of directors and other key management personnel (being those persons having authority and responsibility for planning, directing, and controlling the activities of the Company) during the year was as follows:

For the year ended 31 March In thousands of New Zealand Dollars	Note	2022	2021
Short-term employee benefits		10,592	9,826
Share based payments	28	399	2,487
Fees paid to non-executive directors		511	462
Total compensation		**11,502**	**12,775**

Directors and other related parties have policies underwritten by the Company in the normal course of business. For all KMP excluding non-executive directors the premium value of the policies written forms part of the remuneration package and short-term employee benefits above. Any claims are paid out as made, on usual commercial terms.

Details of transactions between the Company and other related parties are disclosed below.

For the year ended 31 March In thousands of New Zealand Dollars	Note	2022	2021
Partners Group Holdings Limited			
Equity contribution	26	118,594	80,087
Directors, their associated entities and related parties			
Net commissions		-	(297)

The transactions were made on commercial terms in the normal course of business.

The Company pays all fees for the audit of financial statements on behalf of PGHL and its subsidiaries.

A small number of shareholders of PGHL are also part of the distribution network of the Company and are paid commissions on an arm's length basis.

As at 31 March In thousands of New Zealand Dollars	Note	2022 Receivable / (payable)	2021 Receivable / (payable)
Balances with related parties			
Partners Group Holdings Limited	15	440	3
Unique Solutions and Advice Limited (fellow subsidiary)		-	(84)
Employee entitlements payable to KMP		(856)	(765)
Loans to directors and KMP	15	525	558

KPMG

24. Reconciliation of net profit after tax to cash flows from operating activities

For the year ended 31 March In thousands of New Zealand Dollars	2022	2021 (restated*)
Net profit after tax	**2,466**	**18,939**
Non-cash items and non-operating items:		
Depreciation	1,274	1,183
Loss on disposal of property, plant and equipment	3	3
Amortisation of intangible assets	2,001	1,391
Loss on disposals of intangible assets	-	736
Equity settled share based payments	399	2,487
Net advances to group companies	521	(65)
Net cash advances to related parties	-	(37)
Interest expense	56	91
Provision for doubtful debts on loans	-	(98)
Net unrealised loss on investments	1,369	391
Movement in insurance contract assets and liabilities:		
Movement in insurance contract assets	(48,123)	27,816
Movement in insurance contract liabilities – reinsurance	(22,816)	(40,273)
Movement in present value of future tax payable within net insurance contract assets and liabilities	33,984	(45,474)
Movements in working capital:		
Increase in Trade and other receivables	(14,152)	(14,162)
Increase in Trade and other payables	16,274	42,510
Net cash flows from operating activities	**(26,744)**	**(4,562)**

*Prior year comparatives have been restated as a result of change in accounting policy. Refer to note 4 for further details.

25. Disaggregated information

IPSA requires a life insurer to allocate the operating profit or loss of a statutory fund (in accordance with the regulations) and identify any capital payments made to, or distributions from, a statutory fund. The table below presents disaggregated information in compliance with these requirements. There were no distributions made from the statutory fund in the current year (31 March 2021: nil).

Solvency information for the Company's statutory and shareholder funds is disclosed in the Capital risk section of note 7.

The Company has established one statutory fund for its life insurance business. Medical insurance business and any other items that do not relate to contracts of life insurance are contained within the shareholder fund.

In thousands of New Zealand Dollars	Statutory fund	Shareholder fund	Total
For the year ended 31 March 2022			
Premium revenue	303,702	66,409	370,111
Investment revenue	(56)	677	621
Claims expense	135,109	39,088	174,197
Commission and other operating expenses	149,429	32,901	182,330
Profit before tax	4,069	(1,603)	2,466
Profit after tax	4,069	(1,603)	2,466
Capital payments made to funds	16,509	102,085	118,594
As at 31 March 2022			
Investment assets	122,543	126,320	248,863
Insurance contract assets	772,985	146,041	919,026
Other assets	84,364	23,025	107,389
Insurance contract liabilities – reinsurance	117,297	-	117,297
Other liabilities	357,185	80,977	438,162
Retained profits / (losses) directly attributable to shareholders	212,402	(5,717)	206,685
Contributed capital	293,008	220,126	513,134

In thousands of New Zealand Dollars (restated*)	Statutory fund	Shareholder fund	Total
For the year ended 31 March 2021			
Premium revenue	269,791	56,089	325,880
Investment revenue	690	1,061	1,751
Claims expense	110,946	35,954	146,900
Commission and other operating expenses	132,234	27,264	159,498
Profit before tax	21,542	(2,603)	18,939
Profit after tax	21,542	(2,603)	18,939
Capital payments made to funds	73,785	6,302	80,087
As at 31 March 2021			
Investment assets	133,005	35,147	168,152
Insurance contract assets	735,046	135,857	870,903
Other assets	76,827	11,932	88,759
Insurance contract liabilities – reinsurance	140,113	-	140,113
Other liabilities	319,933	69,009	388,942
Retained profits / (losses) directly attributable to shareholders	208,333	(4,114)	204,219
Contributed capital	276,499	118,041	394,540

*Prior year comparatives have been restated as a result of change in accounting policy. Refer to note 4 for further details.

26. Contributed capital

For the year ended 31 March	In thousands of shares		In thousands of New Zealand Dollars	
	2022	2021	2022	2021
Ordinary capital				
Balance at 1 April	375,130	297,530	394,540	314,453
Shares issued	118,195	77,600	118,195	77,600
Equity settled share based payments to key management personnel	-	-	399	2,487
Total contributed capital	**493,325**	**375,130**	**513,134**	**394,540**

All shares are fully paid, have equal voting rights, share equally in dividends and surplus on winding up, and have no par value.

27. Share-based payments with advisers

The Company had a shadow share scheme for eligible independent financial advisers which provides additional commission payments on a deferred basis. It was designed to encourage advisers to write high quality business to enable the Company to maintain strong persistency over a number of years. The entitlements carry no voting rights as they do not represent an ownership interest in the Company. Entitlements earned are equal to the notional gain in the value of shares in PGHL between the allocation date and the date when the entitlement is paid. The entitlements will be settled in cash.

The number of shadow shares granted was calculated in accordance with scheme rules and includes performance factors such as: production net of lapses, issued annual premium and persistency levels. Payment of shadow share entitlements will occur as soon as practicable following a defined liquidity event for PGHL, subject to a minimum term of three years and a maximum of five years.

PGHL, through a Deed of Agreement with the Company, has undertaken to bear the liability to advisers arising under the scheme. PGHL will utilise the proceeds of new shares issued to discharge the liability. The Company has no obligation to reimburse or repay PGHL. The option fair value of shadow shares at grant date is recognised as a commission expense with a corresponding increase in equity.

At balance date the intrinsic value of vested shadow share schemes is nil (31 March 2021: nil).

No further shadow share tranches will be granted.

Movements in shadow shares during the year

The following table reconciles the shadow shares outstanding at the beginning and end of the year.

For the year ended 31 March (in thousands of shares)	Scheme 2		
	Tranche 1	Tranche 2	Tranche 3
Balance at 1 April 2021	1,519	1,881	2,180
Granted	-	-	-
Paid	-	-	-
Forfeited	-	-	-
Balance at 31 March 2022	1,519	1,881	2,180
Remaining term until options vest	12 months	24 months	24 months
Option value per shadow share	$1.218	$1.612	$1.612
Balance at 1 April 2020	1,519	1,881	2,180
Granted	-	-	-
Paid	-	-	-
Forfeited	-	-	-
Balance at 31 March 2021	1,519	1,881	2,180
Remaining term until options vest	24 months	36 months	48 months
Option value per shadow share	$1.307	$1.325	$1.550

Value of shadow shares granted

The option fair value of shadow shares granted were valued using the binomial option pricing model, which utilises the same underlying theoretical framework as the Black-Scholes option pricing model, but allows for adjustment to the end 'payoff' to reflect conditional outcomes applicable to the scheme at balance date.

At balance date, all tranches were revalued using a share price of $6.07 per share (31 March 2021: $5.50 per share), which reflects the Board's best estimate of fair value for the shadow shares taking into account all factors relevant to the valuation. The revaluation also incorporates an update to the time to maturity input to reflect management's best estimate as to when each of the tranches will be paid out.

Following this revaluation, option values per entitlement for Scheme 2 were $1.218 for tranche 1, $1.612 for tranche 2 and $1.612 for tranche 3.

The inputs used in the option fair value at grant date were as follows:

Inputs used	Scheme 2		
	Tranche 1	Tranche 2	Tranche 3
Grant date	31/03/2018	31/03/2019	31/03/2020
Number of shares (in thousands)	1,519	1,881	2,180
Option fair value at grant date	$1.44	$1.37	$1.37
Grant date share price of PGHL	$5.50	$5.50	$5.50
Exercise price	$5.50	$5.50	$5.50
Expected volatility	35%	35%	35%
Time to maturity	3 years	3 years	3 years
Dividend yield	0.0%	0.0%	0.0%
Risk-free interest rate	2.37%	1.41%	0.60%

27. Share-based payments with advisers (continued)

The exercise price is based on the value of the shares of PGHL, as determined by the Board, at grant date.

The expected volatility is the expected volatility of the PGHL share price. The volatility assumption has been determined by considering comparable share price volatilities of Australasian and international insurance companies as well as the Company's maturity and external regulatory environment.

28. Share-based payments with employees

Partners Life Long Term Incentive Plan ('LTI plan (2017)')

The Partners Life Long Term Incentive Plan 2017 was an equity settled share based employee plan, designed to assist in the reward, retention and motivation of targeted senior executives and align the incentives of the participants with the interests of the PGHL shareholders. Invited participants were issued with rights to ordinary shares in PGHL under the rules of the plan.

The plan rules contain vesting conditions which comprise the achievement of performance hurdles set by the Board and the participant remaining employed for the specified service period. The performance hurdles for this plan were measured as at 31 March 2020 and all share rights that met performance criteria have now also met the service period requirement and have therefore vested, subject to the 'good leaver' requirements under the plan.

The participants have the right to exercise their share rights and be issued shares in accordance with the plan rules subject to a defined liquidity event having occurred.

Partners Life Long Term Incentive Plan 2021 ('LTI plan (2021)')

The Partners Life Long Term Incentive Plan 2021 is designed to assist in the reward, retention, and motivation of targeted senior executives and align the incentives of the participants with the interests of the PGHL shareholders. Invited participants are issued with rights to ordinary shares in PGHL under the rules of the plan.

Share rights under the plan rules are separated into two categories:

- those subject only to the participant remaining employed for the specified service period, comprising 40% of the potential share right total; and
- those subject to the achievement of performance hurdles set by the Board in addition to remaining employed for the specified service period, comprising the remaining 60%.

To the extent that the performance hurdles include a target share price, the estimated likelihood of achieving this target has been included as an adjustment to the base option value for the category affected.

Share rights relating to the specified service period are separated evenly across four years from 1 April 2020. Accordingly, requirements have been met for the periods ended 31 March 2021 and 31 March 2022 and therefore 50% of those share rights have vested with participants, subject to the 'good leaver' requirements under the plan.

Participants will have the right to exercise their share rights, and be issued shares in accordance with the plan, subject to a defined liquidity event having occurred.

Partners Life Short Term Incentive Plan ('STI plan')

For the year ended 31 March 2021, the Company's Board resolved to remunerate the Company's executive team through grants of share rights in place of a cash STI payment. This comprises a grant relating to performance during the year to 31 March 2021, and accordingly has no additional vesting criteria.

Share rights for participants have been recognised in the financial statements at 31 March 2021, and are fully vested. Participants will have the right to exercise their share rights and be issued shares in accordance with the plan rules, subject to a defined liquidity event having occurred.

Movements in share right plan during the year

The following table reconciles the share rights outstanding at the beginning and end of the year.

For the year ended 31 March (in thousands of shares)	LTI plan (2017)	LTI plan (2021)	STI plan
Balance at 1 April 2021	1,781	-	182
Granted	-	1,851	-
Exercised	-	-	-
Adjustments to share rights granted	-	-	(6)
Balance at 31 March 2022	1,781	1,851	176
Remaining term until share rights vest	0 months	24 months	0 months
Balance at 1 April 2020	1,781	-	182
Granted	-	-	-
Exercised	-	-	-
Adjustments to share rights granted	-	-	-
Balance at 31 March 2021	1,781	-	182
Remaining term until share rights vest	12 months	-	0 months

Value of share rights granted

The share right fair value determined at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in equity.

The fair value of share rights granted was determined using the binomial option pricing model, which utilises the same underlying theoretical framework as the Black-Scholes option pricing model, but allows for adjustment to the end 'payoff' to reflect conditional outcomes applicable to each plan's rules at balance date.

28. Share-based payments with employees (continued)

The inputs used in the measurement of the share right values of entitlements granted were as follows:

	LTI Plan		STI plan
	(2017)	(2021)	
Grant date	27/11/2017	23/12/2021	31/03/2021
Number of share rights originally granted (in thousands)	3,042	1,851	182
Weighted average share right fair value at grant date	$1.79	$1.61	$1.76
Grant date share price of PGHL	$5.25	$5.80	$5.50
Exercise price	$0.00	$0.00	$0.00
Illiquidity discount applied	25%	25%	25%
Expected volatility	35%	35%	35%
Time to maturity	4.33 years	3.25 years	3 years
Dividend yield	0.0%	0.0%	0.0%
Risk-free interest rate	2.41%	2.03%	0.65%

The expected volatility is the expected volatility of the PGHL share price. The volatility assumption has been determined by considering comparable share price volatilities of Australasian and international insurance companies as well as the Company's maturity and external regulatory environment.

29. Events after reporting date

There are no events subsequent to 31 March 2022 that have a material impact on the financial statements at 31 March 2022.

Corporate Governance Statement

The Board recognises the importance of good corporate governance, particularly its role in protecting the interests of all stakeholders and delivering improved performance. Directors are appointed by PGHL. In turn, directors of PGHL are appointed or ratified by the shareholders of PGHL.

Responsibilities of the Board

The Board is responsible for establishing, monitoring, and updating the Company's corporate governance framework, and is committed to carrying out this role in accordance with best practice and all applicable laws and regulations.

The Board has the dual responsibilities of protecting the Company's policyholders, and controlling and monitoring the operations of the Company on behalf of the shareholders of PGHL. The Board's performance is reviewed annually.

A Board Charter sets out the Board's role and responsibilities and regulates Board procedures.

Specific responsibilities of the Board include:

- Ensuring the Company continuously meets the requirements for licensed insurers set by the RBNZ.
- Setting strategic goals and establishing business plans, as well as monitoring performance against those goals and plans.
- Monitoring the performance of the Managing Director and the senior management team.
- Setting delegated levels of authority for the Managing Director and senior management team.
- Overseeing the financial position of the Company, including capital management, and approving and monitoring capital expenditure.
- Ensuring all appropriate policies, controls, systems, and procedures are in place to manage business risks and to ensure compliance with all regulatory, prudential, and ethical standards.
- Approving annual and half yearly accounts and other regulatory reporting (such as solvency returns).
- Identifying risks and initiating action to mitigate and manage risks in line with the Company's Risk Management Programme and reporting any material changes in that programme to the RBNZ as required.
- Maintaining the highest business standards and ethical behaviour.
- Reviewing and approving remuneration policy and incentive programmes for employees.
- Completing fit and proper assessments for all directors and relevant officers (Managing Director, Chief Financial Officer and Appointed Actuary) in accordance with the Company Fit and Proper Person Policy and the RBNZ fit and proper requirements.

Structure of the Board

The Board comprises one executive director and eight non-executive directors. The Board's collective experience includes a balance of insurance, management, financial, investment, administrative, and market expertise appropriate for the requirements of the Company.

All directors are certified under the RBNZ fit and proper requirements, in line with the Company's Fit and Proper Person Policy.

Five of the directors are independent (as defined in the RBNZ Governance Guidelines for Licensed Insurers), as noted in the table below which sets out the qualifications and experience of each director.

Biographies

Jim Minto

Appointed 1 February 2017

Chairman and Non-Executive Director (Independent)

Chair of:
- Nominations Committee
- Human Resources and Remuneration Committee
- Conduct and Culture Committee

Member of:
- Audit Committee
- Risk Committee

Jim Minto is an experienced director with a demonstrated history of working at Chief Executive Officer and Managing Director level in the New Zealand, Australian and Asian financial services industries for over 26 years. Jim retired in 2015 as the Group Chief Executive Officer and Managing Director of TAL (formerly TOWER Australia). TAL is 100% owned by Dai-ichi Life, a major global Japanese-based life insurer. Jim has an intimate understanding and passion for life insurance.

Jim is a director of Singapore-based Dai-ichi Life Asia Pacific, director of National Disability Insurance Agency (Australia), Chairman of Swiss Re Life & Health Australia Ltd, Chairman of Advisory Board of Swiss Reinsurance Company Ltd, Australia, non-executive director of Mercer Superannuation Australia.

Jim is a fellow of the Australian and New Zealand Institute of Accountants and graduate member of the Australian Institute of Company Directors.

Naomi Ballantyne

Appointed 14 December 2010

Managing Director

Naomi Ballantyne has been instrumental in founding three of the largest Life and Health Insurers in New Zealand over the past 37 years being Sovereign (now AIA), Club Life (now Cigna) and Partners Life. She has also founded an Independent Financial Advice firm, US Advice, during that time. From these experiences, she has developed a unique combination of deep technical insurance knowledge coupled with broad business experience, which has contributed to Partners Life's significant, proven innovation capability and capacity.

Naomi was awarded the New Zealand Order of Merit (ONZM) for services to the insurance industry in 2017.

Joanna Perry

Appointed20 May 2011

Non-Executive Director (Independent)

Chair of:
– Audit Committee

Member of:
– Risk Committee
– Human Resources and Remuneration Committee
– Conduct and Culture Committee
– Nominations Committee

Joanna Perry is Chair of Oyster Property Group, and a non-executive director of Lodestone Energy Limited, Helius Therapeutics Limited, and Nyriad Limited. She is also a trustee of the IFRS Foundation. Her previous directorships include Trade Me, Kiwi Property Group, Genesis Energy, Regional Facilities Auckland, Sport New Zealand, and Rowing New Zealand.

Before embarking on her governance career Joanna was a partner at KPMG. She has also been a member of the Securities Commission and Chair of the Financial Reporting Standards Board.

Joanna is a Chartered Fellow of the Institute of Directors. She holds a Master of Arts, Economics, from Cambridge University, qualified as a member of the Institute of Chartered Accountants in England and Wales and is a fellow of the New Zealand Institute of Chartered Accountants.

Joanna has been awarded Membership of the New Zealand Order of Merit (MNZM) for services to accounting.

Tim Bennett

Appointed 18 December 2017

Non-Executive Director (Independent)

Member of:
– Risk Committee

Tim Bennett is an executive and strategic adviser with extensive experience in capital markets and retail financial services. He is currently the Chair (having previously been CEO) of AIX, a new exchange developed as part of the Astana International Financial Centre.

He is Chair of Avalia Immunotherapies Limited, a trustee of the Malaghan Institute of Medical Research, and an independent director of Bank of China (New Zealand).

Tim was previously Chief Executive of NZX and a partner at both Oliver Wyman and the Boston Consulting Group variously in New Zealand, the USA, and South East Asia.

Tim holds an MBA (Strategy and Finance) from Wharton School, University of Pennsylvania and a BCA (Computer Science, Business Administration) from Victoria University of Wellington.

Menes Chee

Appointed 25 February 2021

Non-Executive Director

Menes Chee is a Blackstone nominee. Menes is a founding member / Senior Managing Director of Blackstone's Tactical Opportunities Group, with experience in leading the group's financial services and insurance investments. Menes is a member of the investment committee and a director of Acrisure, Finance of America, Everlake Holdings Ltd, and Sunz Insurance. Menes was the founding member/ Managing Director of GSO Capital Solutions Partners (Blackstone's rescue lending fund).

Prior to joining Blackstone in 2009, Menes was the Principal and founding member of a $10+billion global multi-strategy hedge fund where he actively managed investment strategies in the portfolio and was primarily focused on insurance, non-bank financial, structured private and PIPE opportunities, and credit related investments.

Menes received a BA major in Economics from the University of Pennsylvania and a BSc in Economics with concentrations in Finance and Multinational Management from the Wharton School, University of Pennsylvania in 1998.

Paul Chrystall

Appointed 5 November 2012

Non-Executive Director

Paul Chrystall is the Managing Director of the private equity firm Maui Capital Limited. As part of this role he sits on the boards of various Maui Capital investments.

Before co-founding Maui Capital in 2008, Paul was Head of Private Equity at Goldman Sachs JB Were (New Zealand) where he founded and managed the Hauraki Private Equity Funds. Prior to his career in private equity, Paul held a number of senior positions across diversified industries in New Zealand and the United Kingdom. In these positions he focused on finance management, restructure and turn around, mergers and acquisitions, valuation and investment, performance management and investment strategy.

Paul holds a Bachelor of Commerce from the University of Auckland.

Julie Fahey

Appointed 1 November 2017

Non-Executive Director (Independent)

Member of:
– Human Resources and Remuneration Committee
– Conduct and Culture Committee
– Nominations Committee
– Risk Committee

Julie Fahey is a non-executive Director of Datacom Group Limited in New Zealand and of IRESS, CenITex, Latrobe University Council, Seek, Australian Foundation Investment Company and the Australian Red Cross Life Blood. Julie is also a council member of the Latrobe University Council.

Julie has over 30 years of experience in technology, including in major organisations such as Western Mining, Exxon, Roy Morgan, General Motors, and SAP, covering consulting, software vendor, and Chief Information Officer roles.

In addition to her industry experience, Julie spent 10 years at KPMG as a partner with the firm, during which time she held roles as National Lead Partner Telecommunications, Media and Technology, and National Managing Partner – Markets.

Julie was also a member of the KPMG National Executive Committee.

Daniel Kearns

Appointed 10 September 2020

Non-Executive Director

Member of:
– Human Resources and Remuneration Committee
– Conduct and Culture Committee
– Nominations Committee
– Risk Committee
– Audit Committee

Daniel Kearns is a Blackstone nominee with experience in private equity and corporate finance. Daniel is a Principal in Blackstone's Tactical Opportunities fund within Asia and undertakes coverage of Australian and New Zealand investment activities. Prior to joining Blackstone, Daniel was a Vice President at TPG Capital Asia, focused on pursuing private equity investment opportunities.

Daniel received a Bachelor of Commerce and a Bachelor of Science from the University of Melbourne and a Master of Business Administration from Harvard Business School.

Daniel was a previous director of Arena Living Holdings Limited.

Shelley Ruha

Appointed 14 May 2020

Non-Executive Director (Independent)

Chair of:
– Risk Committee

Member of:
– Audit Committee

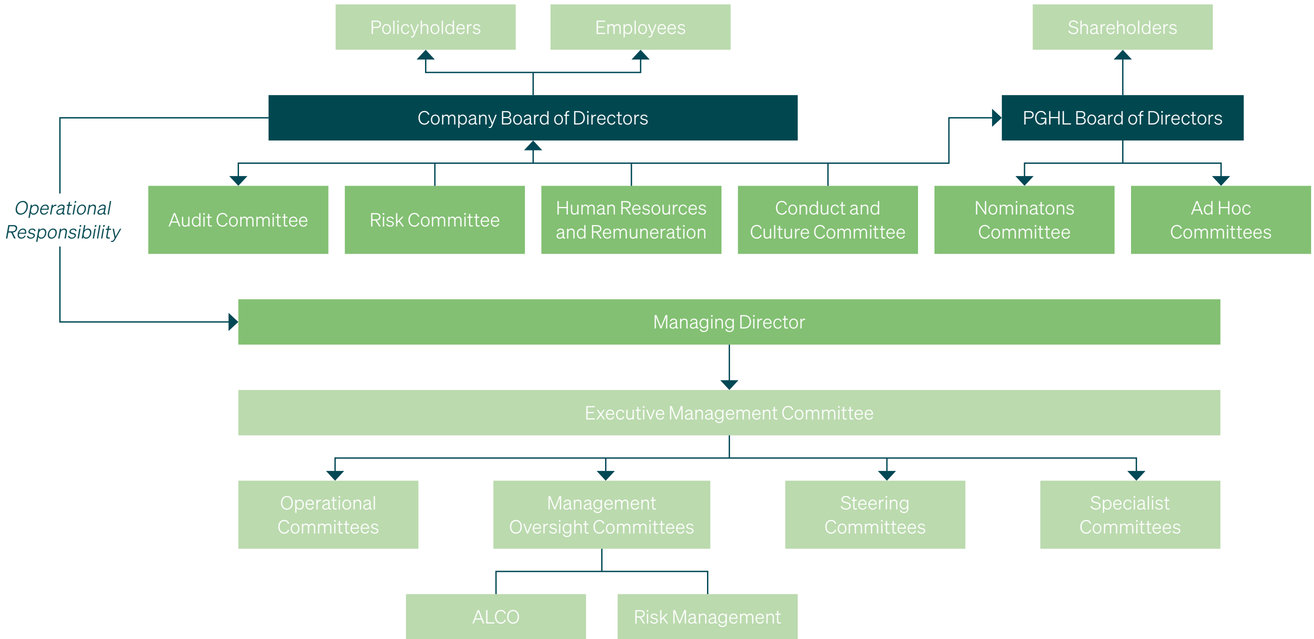
Shelley Ruha is a non-executive Director of ASX listed 9 Spokes International Limited, Heartland Bank Limited, and chair of New Zealand Rural Land Management Limited. Her previous directorships include The Icehouse Limited, Paymark Limited, and JB Were Pty Limited.

Prior to her governance career, Shelley was a bank executive with experience across business and institutional banking, technology, operations, and product.

Shelley attended the AMP Programme at Harvard Business School and holds a Bachelor of Commerce from the University of Auckland. She is a Chartered Member of the New Zealand Institute of Directors.

Corporate governance structure

The corporate governance structure of PGHL and the Company is set out as follows:



The Board has approved the delegation of certain responsibilities to the Managing Director and the senior management team via a formal Delegation of Authority policy.

The senior management team are responsible for the implementation of strategies approved by the Board, providing recommendations to the Board on business strategies, the management of business risk, and the overall day-to-day management of the Company.

The Board undertakes an annual strategic planning process and approves the annual budget prepared by management based on the strategic direction set by the Board.

The Board monitors the actual performance of the company against budget on a regular basis.

Evaluations of the Managing Director and the senior management team are based on set criteria, including the overall performance of the business, the achievement of key performance measurements, the accomplishment of strategic goals, and other non-quantitative objectives agreed at the beginning of each financial year, such as the delivery of specific projects.

The Company has Directors' and Officers' Liability insurance to cover risks arising out of acts or omissions of directors and employees while acting in such a capacity. This cover does not extend to dishonest, fraudulent, malicious, or wilful acts or omissions.

Deeds of Indemnity have been given to directors and certain senior managers in relation to potential liabilities and costs they may incur for acts or omissions in their capacity as directors and senior managers.

The Board has established a number of sub-committees to assist it in discharging its responsibilities. Each committee has its own charter. Committees can advise and make recommendations but final decision making rests with the Board. The Board creates ad hoc committees as may be required.

Ethical conduct

The Board maintains a high standard of ethical conduct and the Managing Director is charged with the responsibility of ensuring these high standards are maintained by all staff throughout the organisation.

Audit Committee

The purpose of the Audit Committee is to assist the Board in relation to the proper and efficient discharge of its responsibilities on matters relating to the effectiveness and accuracy of the Company's financial reporting, regulatory reporting, internal control systems and internal auditing.

The Audit Committee is chaired by an independent, non-executive director and has a different Chairman to the Board.

The members of the Audit Committee are Joanna Perry (Chair), Jim Minto, Shelley Ruha, and Daniel Kearns. All Board members receive Audit Committee papers and are welcome to attend any meeting.

The primary responsibilities of the Audit Committee are:

- Review external financial reporting and other regulatory reporting (such as solvency returns) that require Board approval and make recommendations to the Board relating to approval of these documents and associated attestations.
- Review changes to accounting policies, actuarial assumptions, and other judgmental assumptions and make recommendations to the Board.
- Review annually the performance and independence of the External Auditor and make recommendations to the Board for the appointment of the External Auditor and the quantum of the fees.
- Review and agree both the audit plan with the External Auditor and the review plan with the Appointed Actuary, reviewing changes and overseeing progress.
- Discuss with the External Auditor any issues encountered in the course of their duties and ensure any significant findings and recommendations are acted on appropriately by management.
- Review with management and the internal auditor the adequacy of internal controls including computerised information system controls and security.
- Review at least annually the Company's tax position

Risk Committee

The purpose of the Risk Committee is to assist the Board with the proper and efficient discharge of its responsibilities on matters relating to the governance, proper direction, and control activities of risk management including identifying risks and initiating action to mitigate and manage risks in line with the risk management framework.

It is chaired by an independent, non-executive director.

The members of the Risk Committee are Shelley Ruha (Chair), Jim Minto, Tim Bennett, Joanna Perry, Julie Fahey, and Daniel Kearns.

The primary responsibilities of the Risk Committee are:

- Provide objective oversight as to the adequacy, implementation, and effectiveness of the Company's risk management framework (including key controls).
- Oversee and monitor the resolution of whistleblowing incidents in accordance with the Partners Life Limited Whistle-blower Policy.
- Monitor and assess compliance with significant laws and regulations in areas in which it has oversight responsibility.
- Annually review and report on the director and officer insurance cover.
- Oversee and monitor health and safety.

Human Resources and Remuneration Committee

The purpose of the Human Resources and Remuneration Committee is to oversee the Company's human resource policies and the remuneration of directors and senior executives.

It is chaired by an independent, non-executive director.

The members of the Human Resources and Remuneration Committee are Jim Minto (Chair), Julie Fahey, Joanna Perry, and Daniel Kearns.

The primary responsibilities of the Human Resources and Remuneration Committee are:

- Recommend to the Board the remuneration of the Managing Director and their direct reports.
- Recommend to the Board performance objectives for the Managing Director and their direct reports, and review the level of achievement against these objectives.
- Review the Company's remuneration framework including components of remuneration, the rules and principles for short and long term incentive plans, and performance review and annual remuneration review principles.
- Provide governance over Health and Safety Policy and organisational practice.
- Implement a formal and transparent process for the regular review of director remuneration and make recommendations with respect to director remuneration to the Board (subject to shareholder approval where appropriate).
- Consider such other matters relating to remuneration and human resources as may be referred to the Committee by the Board.

Nominations Committee

The Nominations Committee has the role of identifying suitable prospective directors for shareholder selection and preparing those directors for their role within the Company.

The members of the Nominations Committee are Jim Minto (Chair), Joanna Perry, Julie Fahey, and Daniel Kearns.

The primary responsibilities of the Nominations Committee are:

- Identify the directors who are no longer independent and are required to retire, in accordance with the Director Appointment Policy.
- Provide assurance and make recommendations to the relevant Board as to the relevant Group Board's size, composition, diversity, and desirable expertise appropriate for the discharge of its responsibilities and duties in accordance with the law and with the strategic direction of the relevant Group company.
- Review the criteria for the selection of Directors and recommend to the relevant Group Board any necessary alterations to that criteria to ensure the company has a formal and transparent process for the selection and appointment of new Directors.
- Develop and implement a plan for identifying and assessing Director competencies.
- Where there is a vacancy or pending vacancy, recommend appropriate candidates to the relevant Group Board based on the approved criteria and process for consideration.
- Review nominations from shareholders and provide recommendations in respect of such nominations to the Company Board, for the next annual meeting of shareholders.
- Ensure that potential Director candidates understand the role of the relevant Group Board, the corporate expectations of the Company, and the time commitment involved when acting as a Director of the relevant Group Board.
- Ensure letters of appointment are in place for all new Directors and that these letters of appointment clearly set out the corporate expectations of new Directors.
- Provide a programme for the effective induction of new Directors, including information on the Group's financial, strategic, and operational positions, the values of the relevant Group company, and the corporate governance structure of the Group.
- Ensure the relevant Group Company provides on-going training and development for new and existing Directors.
- Implement adequate succession plans for key roles such as Chairperson and the Chairs of the various Board committees, in order that the effective composition, size, and expertise of the relevant Group Board and/or Committee is maintained.
- Monitor and report to the relevant Group Board on Director independence.
- Where required and subject to the constitution of the relevant Group company, recommend the removal of a particular Director from the Group Board.
- Recommend and disclose the annual evaluation process of the Board and its committees and individual Directors.
- Undertake a review of the Committee's effectiveness and report on the actions of that review to the Board.

Conduct and Culture Committee

The Committee assists the Board with the proper and efficient discharge of its responsibilities in respect of oversight of conduct and culture at the Company.

The members of the Conduct and Culture Committee are Jim Minto (Chair), Joanna Perry Julie Fahey, and Daniel Kearns.

The primary responsibility of the Conduct and Culture Committee are:

- Assist management with responding to any further requests from the FMA or RBNZ.
- Regularly meet with employees of the Company to discuss any conduct or culture related issues.
- Oversee culture within the Company to ensure that management are setting the tone for how employees should behave.

Board Attendance

Attendance at the scheduled and ad hoc meetings of the Board and its Committees for the year ended 31 March 2022 is shown in the table below.

Director	Board	Audit Committee	Risk Committee	Conduct & Culture Committee	Human Resources & Remuneration Committee	Nominations Committee
Meetings during the year to 31 March 2022	**16**	**7**	**9**	**5**	**5**	**2**
Jim Minto (Chairman)	16	7	8	5	5	2
Naomi Ballantyne	15	n/a	n/a	n/a	n/a	n/a
Joanna Perry	16	7	9	5	5	2
Tim Bennett	15	n/a	8	n/a	n/a	n/a
Menes Chee	15	n/a	n/a	n/a	3	n/a
Paul Chrystall	14	n/a	n/a	n/a	n/a	n/a
Julie Fahey	14	n/a	8	4	5	2
Daniel Kearns	14	7	7	3	2	2
Shelley Ruha	16	7	9	n/a	n/a	n/a

Policies

The following policies have been approved by the Board:

- Delegation of Authority Policy
- Risk Management Programme
- Pricing Policy
- Product Development Policy
- Whistle-blower Policy
- Reinsurance Policy
- Covid-19 Vaccination Policy
- Audit Independence Policy
- Customer Policy
- Dividend Policy
- Code of Conduct
- Director Appointment Policy
- Director Conflict of Interest Policy
- Group Tax Governance Policy
- Policy Governance Framework
- Statement of Investment Policy and Objectives
- Anti-Corruption and Compliance Policy
- Crisis Management Policy
- Capital Management Policy
- Complaints Policy
- Actuarial Advice Policy
- Conflict of Interest Policy
- Financial Strength Rating Disclosure Policy
- Fit & Proper Policy
- Records Management Policy
- Remuneration Policy
- Financial Model Risk Policy
- Privacy Policy

Appointed Actuary Report
Under s78 of the Insurance (Prudential Supervision) Act 2010

Review of actuarial information for Partners Life Limited as at 31 March 2022

To the Board of Directors of Partners Life Limited:

Background

This report has been prepared by Kate Dron FIA FNZSA for the purpose of Section 78 of the Insurance (Prudential Supervision) Act 2010 ('IPSA').

The purpose of this report is to provide information to the Board and management of Partners Life Limited ('PLL') regarding a review I have undertaken in relation to the actuarial information (as described in section 77 of IPSA) in, or used in the preparation of, PLL's financial statements for the year ended 31 March 2022.

This report has not been prepared with any other additional purposes in mind, and results and opinions contained within may not be applicable or appropriate for other purposes.

Director's responsibility for the financial statements

The Directors are responsible for the preparation of PLL's financial statements that, in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards, give a true and fair view of the matters to which they relate. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of PLL's financial statements free from material misstatement, whether due to fraud or errors.

Appointed Actuary's responsibility

The appointed actuary is responsible for review of the actuarial information in, or used in the preparation of, PLL's financial statements. The financial statements comprise the statements of financial position as at 31 March 2022, the statements of comprehensive income, changes in equity and cash flows for the year ended 31 March 2022, and the summary of significant accounting policies and other explanatory notes.

My review includes:

- Review of the Policy Liability valuation report prepared by the PLL Head of Valuation, Richard McPherson FIAA FNZSA, 'Report on the Valuation of Policy Liabilities as at 31 March 2022' dated 9 June 2022. This report included the following actuarial information:
  - Insurance contract assets (Policy Liabilities before reinsurance);
  - Insurance contract liabilities – reinsurance (Policy Liabilities in respect of reinsurance); and
  - Present value of future tax payable in insurance contract assets and liabilities.
- Review of the calculations determining the solvency position of the company, Statutory Fund and Shareholder Fund.

I am an employee of PLL and my remuneration is dependent on the results of PLL.

Opinion

There were no restrictions or limitations placed on my work or on my report. I obtained all the relevant information I required.

In my opinion and from an actuarial perspective:

- the actuarial information contained in the 31 March 2022 PLL financial statements has been appropriately included in those financial statements;
- the actuarial information used in the preparation of the 31 March 2022 PLL financial statements has been appropriately used in those financial statements; and
- PLL maintained a Solvency Margin as at 31 March 2022 that complies with the Solvency Standard for Life Insurance Business issued by the Reserve Bank of New Zealand for the purposes of section 21(2)(b) of IPSA. This has been maintained at both an overall company level and for the Statutory Fund and Shareholder Fund.

Kate Dron
Appointed Actuary
9 June 2022

KPMG

Independent Auditor's Report

To the shareholder of Partners Life Limited

Report on the audit of the financial statements

Opinion

In our opinion, the accompanying financial statements of Partners Life Limited (the "Company") on pages 7 to 28:

i. present fairly in all material respects the Company's financial position as at 31 March 2022 and its financial performance and cash flows for the year ended on that date in accordance 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 2022;
- 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 including an audit of the insurer solvency return, and advisory services. 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.

Scoping

The scope of our audit is designed to ensure that we perform adequate work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the financial reporting systems, processes and controls, and the industry in which it operates.

KPMG

The context for our audit is set by the Company's activities in the financial year ended 31 March 2022. The Company had a continued focus on new business growth, profitability and retention of policyholders.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at $5.757 million determined with reference to a benchmark of Company net assets. We chose the benchmark because, in our view, this is a key measure of the Company's performance.

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 shareholder as a body may better understand the process by which we arrived at our audit opinion. 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

Valuation of insurance contract assets ($919.0m), insurance contract liabilities ($117.3m), present value of future tax payable in insurance contract assets and liabilities ($275.2m) and associated net movement in insurance contract assets and liabilities ($37.0m)

The key audit matter

Refer to Note 14 to the financial statements.

The valuation of insurance contract assets, insurance contract liabilities and present value of future tax payable in insurance contract assets and 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.

All forward looking assumptions are inherently uncertain, with added uncertainty in respect of the impact of COVID-19, in particular, assumptions around expected life, trauma and redundancy claims, the duration and incidence of disability income claims, including mental health. Assumptions around future new business volumes also impact the length of time it will take to utilise incurred tax losses, the extent of any future tax losses and therefore the present value of future tax payable.

How the matter was addressed in our audit

Our audit procedures included, in conjunction with our actuarial specialists:

- Assessing the effectiveness of controls around the authorisation and set up of new policies and authorisation of claim payments.
- 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.
- Assessing any changes to reinsurance arrangements and the accounting treatment applied.
- With our actuarial specialists, challenging 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

The net movement in insurance contract assets and 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 net claims experience as a basis for the release.

Specific audit and actuarial expertise is required to evaluate complex actuarial methodologies and assumptions that take into account the risks and uncertainties of the particular classes of insurance business written.

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 adviser commissions, underwriting and policy issue costs.
- Mortality and morbidity experience on life insurance products.
- Discontinuance experience which affects the ability to recover acquisition costs.
- Reinsurance arrangements and timing of future cash flows under these arrangements, which include reinsurance expense, reinsurance recoveries, reinsurance commission revenue.
- Future premium rates.
- The present value of future tax payable based on the ability to utilise past and future tax losses.
- Treatments of cash inflows and outflows for tax purposes. This is a key input to determining the number of months not paying tax into the future which is a key assumption in determining the present value of future tax payable in insurance contract assets and liabilities.
- Other factors such as regulation, competition, interest rates, and general economic conditions are used in the valuation of insurance contract assets and liabilities.
- Determination of an appropriate basis on which to release profit in future periods.

We also draw attention to Note 5 of the financial statements which describes the impact of COVID-19 on the business.

  - actuarial and accounting standard requirements.

- Consider and assess the appropriateness of the Company’s documentation of the impact of COVID-19 on the adopted assumptions, including the process to determine these.
- Specific to the assumption on the number of months not paying tax, which is a key assumption in determining the present value of future tax payable in insurance contract assets and liabilities, challenging the reasonableness of retention of past tax losses, and challenging the tax treatment of cash inflows and outflows including reinsurance cashflows. Our approach also included challenging the reasonableness of future cash flows, which includes an assessment of the amount of additional tax losses expected to be incurred in the future, and an assessment of future profits against which tax losses can be utilised.
- 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.
- Evaluating the work of the Company’s Appointed Actuary, and assessing their competence and objectivity.
- Checking that information in the actuarial valuation report is consistent with the information disclosed in the financial statements.
- Obtaining and reviewing correspondence with the regulators, including the Reserve Bank of New Zealand (“RBNZ”) during the period, and considering any impact on the valuation and solvency.

Valuation of claims accruals ($120.7m) and associated reinsurance recoveries ($81.0m)	
The key audit matter	**How the matter was addressed in our audit**
Refer to Notes 15 and 19 to the financial statements. The valuation of claims accruals and associated recoveries involves judgement given the inherent uncertainty over the final claims settlement. This is particularly true for claims incurred but not yet reported to the Company. There is generally a lower level of information available in respect of these claims. In the current COVID-19 environment, there is inherently more uncertainty in forward looking assumptions such as the duration of disability income claims. This estimate relies on the quality of underlying data, including historic claims data, and the application of complex and subjective actuarial models and methodologies, judgements and assumptions about the future events.	Our audit procedures included: — For a sample of claims which have been reported to the Company but not yet paid, checking that the claims estimate is based on the latest available information and that the reinsurers' share of the claim is calculated correctly. — Using our actuarial specialist to challenge the actuarial methods and key assumptions used in the valuation of the provision held for claims incurred but not yet reported to the Company. — 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 the credit ratings of reinsurers for any indication that the reinsurers may not have the ability to settle their claims.

Other information

The Directors, on behalf of the Company, are responsible for the other information included in the entity's Annual Report and Financial Statements. Other information includes the Approval of Annual Report, Company Directory and Corporate Governance Statement. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

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

Use of this independent auditor's report

This independent auditor's report is made solely to the shareholder as a body. Our audit work has been undertaken so that we might state to the shareholder 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 shareholder 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.

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

7 July 2022