SOUTHSURE ASSURANCE LIMITED

Annual Report 2022

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Board of Directors

M P (Mark) O'Connor - Chair
A L McLeod - Chair (Resigned 31 Mar 2022)
A J (Joe) O'Connell
T D R (Tim) Loan
T W (Tony) Gaskin
R L (Rowena) Thompson

Chief Executive
Graeme Edwards

Company Secretary
Fiona Bell

Trading Names
SBS Insurance
Southsure Assurance

Bankers
Westpac Banking Corporation
Cnr Kelvin and Spey Streets
Invercargill

SBS Bank
Cnr Kelvin and Don Streets
Invercargill

Auditor
KPMG
The Terrace
Level 5, 79 Cashel Street
Christchurch

Solicitor
Buddle Findlay
245 St Asaph Street
Christchurch

Actuary
Davies Financial & Actuarial Limited
Level 1, 61 Constellation Drive
Mairangi Bay
Auckland

Registered Office
66 Don Street
Invercargill

Directors' Statement

The Board of Directors present their Annual Report including the financial statements of the Company for the twelve-month period ended 31 March 2022.

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

For and on behalf of the Board on 17 June 2022:

Mark O'Connor
Chair

Tim Loan
Director

Statement of Corporate Governance

Board of Directors

Southsure Assurance Limited is governed by a Board of Directors who are elected by the shareholder and are accountable for the performance of the Company and compliance by the Company with laws and standards.

All current directors have been assessed by the Board in accordance with the Company's Fit and Proper Policy and have been certified as meeting the Reserve Bank of New Zealand's Fit and Proper Standard for directors of licenced insurers.

Board Role and Charter

The Board's role is one of governance, rather than management. To facilitate performance of this role the Company has in place a comprehensive governance framework for which the Board Charter is the cornerstone document. The Board Charter describes the Board's governance role, procedures and responsibilities.

The Board is required to fulfil a number of statutory obligations, most notable under the Companies Act 1993 and the Insurance (Prudential Supervision) Act 2010. In addition, the Board's activities are guided by the Company's Constitution.

The governance framework provides the structure by which the Board promotes and protects the Company's interests for the benefit of its respective stakeholders including the shareholder, policyholders and employees.
The Board's ultimate objective is to ensure the Company has a sustainable future and to deliver maximum value to its shareholder.

In performing their role, the Board's broad areas of focus are:

- Regulatory and policy compliance
- Strategy development and direction
- Policy development
- Operational oversight

Specifically the Board:

- ensures long-term and short-term business objectives and appropriate business strategies are in place and provides guidance and direction in the formation of the same
- approves and monitors financial and other reporting, ensuring the financial statements accurately reflect the Company's position and conform with legislative requirements
- monitor senior management's performance and implementation of strategy, ensuring appropriate resources are available
- ensures that business is carried out in accordance with all statutory and legal requirements and the terms of the Constitution
- ensures that appropriate internal controls, policies and processes are in place to manage potential and relevant risks. To this end the Company has established a comprehensive Risk Management Programme

The Board meets formally at least four times per year. At each normal meeting the agenda will include the Company's Register of Directors Interests, a report from management covering operational and financial performance, specific proposals for capital expenditure and acquisitions and major issues and opportunities.
The Board will at least annually review the goals and strategies, approve budgets and financial statements and undertake other activities outlined in the Board Charter.

The Board reviews its own performance annually.

Board Membership

The Company's Constitution sets the size of the Board. The Board currently comprises three independent and two non-independent directors. Their qualifications and experience are set out on page 4 of this report.
The Board Charter sets out policies and procedures covering the appointment and removal, proceedings, powers and duties, remunerations and expenses of directors.

Delegational Framework

The Board has delegated responsibility for the overall management and profit performance of Southsure Assurance Limited including the day-to-day operations and administration to the Chief Executive Officer (CEO). The CEO manages the business in accordance with the Policies, Budget, Annual Plan, and Strategies approved by the Board. The CEO has the power to manage the business, subject to the limits set out in the "CEO Delegated Authority Limits" schedule contained within the Board Charter.

Committees

The Board has formally constituted one Board committee; the Audit and Risk Committee. The Audit and Risk Committee is governed by its own Charter. The primary objectives of the Audit and Risk Committee are:

- to set the principles and standards with respect to internal controls, accounting policies and the nature, scope, objectives and functions of external and internal audit
- ensures the efficient and effective management of all business risk, and the efficient and effective compliance with relevant legal and company policy requirements
- to assist and advise the Board on the appointment, remunerations, development and performance management of Directors and the CEO.

The current composition of the Audit and Risk Committee is Mr Tim Loan (Chairman), Mr Mark O'Connor, Mr Joe O'Connell, Mr Tony Gaskin and Ms Rowena Thompson.

Directors' Profiles

M P (Mark) O'Connor BCom, FCA, FNZIM

Mark was appointed a Southsure director in September 2021 and took the role of Chair from 31 March 2022.

Mark is a qualified accountant who has primarily been involved in senior management roles in the New Zealand port sector for more than 25 years. He is the former CEO of NZX-listed company South Port NZ, a position he held for 18 years.

Mark is also a director of the SBS Board, the chairman of private equity fund Invest South, a director of Calvary Hospital Southland and a member of the Hawthorndale Care Village Project Working Group. He also chairs the Assurance & Risk Committee for NZ Customs.

A J [Joe] O'Connell BCom, FCA, CF IntD

Joe was appointed a Southsure director in September 2018.

Joe serves as a director on several companies and was the Chairman of Invercargill Airport Limited from 2011 to 2016. Joe is a director of SBS Bank and is Chair of this Board.

Joe has worked in many industries including transport, timber, concrete, petroleum distribution and property.

Joe is a Fellow of Chartered Accountants Australia and New Zealand, and a Chartered Fellow of the Institute of Directors.

T D R [Tim] Loan FCA, BCom, DipBusStuds

Tim was appointed a Southsure director in August 2009 and chairs Southsure's Audit and Risk Committee.

Tim is an accountant with over 30 years' experience in the public practice and corporate sectors. He has been SBS Bank's Chief Financial Officer, having previously held various senior finance roles working for private and state-owned companies in Wellington and Invercargill. He attended the Harvard Business School Advanced Management Program in 2011.

Tim is a Fellow of Chartered Accountants Australia and New Zealand, and a Chartered Fellow of the Institute of Directors.

Tim has resigned as a director of Southsure with effect from 30 June 2022.

A L [Anne] McLeod BCom, LLB

(Resigned 31 March 2022)

Anne was appointed a Southsure director in June 2016 and Chair in September 2017.

A corporate commercial lawyer based in Dunedin, Anne was elected to the board of Southsure's parent company, SBS Bank in 2015. She has considerable experience in banking, business and legal industries.

Anne is a Member of the Institute of Directors, RITANZ (Restructuring Insolvency and Turnaround Association New Zealand) and a Member of the Banking and Financial Services Law Association.

T W [Tony] Gaskin CA, BBus (Acc)

Tony was appointed a Southsure director in November 2020.

Tony is a chartered accountant with extensive experience in the insurance industry, having had leadership team responsibility for most business areas within BNZ Life Insurance Limited over the last 15 years of his career, before turning his focus to governance roles.

Tony also serves as a director of Abbott Insurance Brokers and a number of their subsidiary companies. He is also the chair of GMoney Investments Limited - a company he founded in 2001.

From 11 July 2022, Tony will serve as Southsure's Acting CEO pending the appointment of a permanent replacement following the incumbent's departure.

Tony is a member of Chartered Accountants Australia and New Zealand.

R L (Rowena) Thompson MBA

Rowena was appointed a Southsure director in February 2022.

Rowena has 30 years financial services industry experience. She started as the SBS Bank Group Chief Risk Officer in April 2020, with responsibility for risk management and compliance activities across the Group.

Prior to this, Rowena held various leadership roles across New Zealand and Australia from leading customer facing teams through to delivering risk frameworks at a group level.

She has a Master of Business Administration from Southern Cross University and is a Graduate of the Australian Institute of Company Directors.

Financial Statements

Statement of Profit or Loss

for the year ended 31 March 2022

	Note	2022 $	2021 *Restated* $
Gross premium revenue	7	**6,499,489**	8,140,810
Reinsurance premiums		**(1,075,782)**	(1,055,370)
Net premiums		**5,423,707**	**7,085,440**
Commission income		**1,274,824**	1,533,381
Investment income	8	**278,461**	317,760
Realised gains/(losses)	9	**-**	(4,517)
Fair value gains/(losses)	10	**95,125**	752,011
Other operating revenue		**19,018**	2,067
Other revenue		**1,667,428**	**2,600,702**
TOTAL REVENUE		**7,091,135**	**9,686,142**
Claims expense	11	**2,338,551**	**2,986,485**
Reinsurance recoveries		**(723,293)**	**(1,399,057)**
Net change in insurance policy liabilities	13	**(1,126,413)**	**(1,011,704)**
Commission expenses	12	**1,716,987**	**2,589,523**
Direct expenses		**2,205,832**	**3,165,247**
Other operating and administrative expenses	12	**3,301,847**	3,064,722
Other expenses		**3,301,847**	**3,064,722**
TOTAL DIRECT AND OTHER EXPENSES		**5,507,679**	**6,229,969**
Profit from investment in associate	27	**819,320**	1,202,539
Interest Expense		**50,294**	16,615
PROFIT BEFORE TAX		**2,352,482**	**4,642,097**
Taxation expense	14	326,634	876,543
PROFIT FOR THE YEAR	6	**2,025,848**	**3,765,554**

Statement of Comprehensive Income

for the year ended 31 March 2022

	Note	2022 $	2021 *Restated* $
NET SURPLUS FOR THE YEAR		**2,025,848**	3,765,554
Other comprehensive income for the year, net of tax		**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,025,848**	**3,765,554**

The accompanying notes form part of and should be read in conjunction with these financial statements.

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Financial Statements

Statement of Changes in Equity

for the year ended 31 March 2022

	Share Capital	Retained Earnings	Total Equity
As at 1 April 2021 ***(restated)***	**1,000,000**	**13,384,298**	**14,384,298**
Net surplus for the year	-	2,025,848	2,025,848
Other comprehensive income for the year	-	-	-
Total comprehensive income	-	2,025,848	2,025,848
Dividends		-	-
At 31 March 2022	**1,000,000**	**15,410,146**	**16,410,146**

As at 1 April 2020 ***(as previously reported)***	**1,000,000**	**9,200,535**	**10,200,535**
Impact of prior period correction	-	418,209	418,209
As at 1 April 2020 ***(restated)***	**1,000,000**	**9,618,744**	**10,618,744**
Net surplus for the year *(restated)*	-	3,765,554	3,765,554
Other comprehensive income for the year	-	-	-
Total comprehensive income *(restated)*	-	3,765,554	3,765,554
Dividends		-	-
At 31 March 2021 *(restated)*	**1,000,000**	**13,384,298**	**14,384,298**

The accompanying notes form part of and should be read in conjunction with these financial statements.

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Financial Statements

Statement of Financial Position

for the year ended 31 March 2022

	Note	2022 $	2021 *Restated* $
EQUITY			
Share capital	21	**1,000,000**	1,000,000
Retained earnings	22	**15,410,146**	13,384,298
TOTAL EQUITY		**16,410,146**	**14,384,298**
LIABILITIES			
Payables	18	**935,548**	765,648
Employee Entitlements	18	**206,272**	102,670
Lease Liability	19	**787,320**	805,383
Current tax	14	**384,155**	682,500
Deferred tax	14	**1,172,025**	1,676,134
Policy liabilities	13	**4,634,035**	5,670,081
Policy liabilities - reinsurance	13	**4,042,788**	4,133,155
TOTAL LIABILITIES		**12,162,143**	**13,835,571**
TOTAL EQUITY AND LIABILITIES		**28,572,289**	**28,219,869**
ASSETS			
Cash and cash equivalents	15	**6,440,036**	6,478,472
Receivables	16	**963,998**	1,355,445
Investments	17	**11,614,298**	10,784,825
Investment in associate	27	**8,680,365**	8,646,406
Plant and equipment		**127,816**	148,753
Right of Use Asset		**735,703**	785,821
Intangible assets		**10,073**	20,147
TOTAL ASSETS		**28,572,289**	**28,219,869**

Approved for issue for and on behalf of the Board on 17 June 2022:

Mark O'Connor
Chair

Tim Loan
Director

The accompanying notes form part of and should be read in conjunction with these financial statements.

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Financial Statements

Statement of Cash Flows

for the year ended 31 March 2022

	Note	2022 $	2021 $
CASH FLOWS FROM OPERATING ACTIVITIES	24		
Premiums received		**6,746,371**	8,318,726
Commission received		**1,514,902**	1,491,735
Interest received		**166,926**	257,552
Dividends received		**120,747**	108,452
Other income		**19,017**	2,067
Reinsurance received		**723,293**	1,399,057
Claims paid		**(2,338,551)**	(2,986,485)
Reinsurance paid		**(1,075,783)**	(1,055,369)
Commission paid		**(1,731,072)**	(2,627,359)
Payments to suppliers and employees		**(3,086,039)**	(3,119,413)
Tax paid		**(1,129,088)**	(694,944)
Interest paid		**(23)**	-
Net Cash Flows from Operating Activities		**(69,300)**	**1,094,019**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of intangible assets, property, plant and equipment		**(18,341)**	(44,670)
Purchases of financial assets		**(12,358,369)**	(6,613,620)
Dividends from investment in associate		**785,361**	614,927
Investment in associate		**-**	(691,734)
Proceeds from sale of financial assets		**11,622,213**	7,000,951
Proceeds from sale of property, plant and equipment		**-**	39,549
Net Cash Flows from Investing Activities		**30,864**	**305,403**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**-**	-
Net Cash Flows from Financing Activities		**-**	-
NET INCREASE/(DECREASE) IN CASH HELD		**(38,436)**	1,399,423
Opening cash balance brought forward		**6,478,472**	5,079,049
CASH AND CASH EQUIVALENTS CARRIED FORWARD		**6,440,036**	**6,478,472**
CASH AND CASH EQUIVALENTS COMPRISE			
Bank accounts		5,418,397	5,078,164
Parent current account		1,001,432	1,400,308
Cash held on trust – broking trust account		20,207	-
		6,440,036	**6,478,472**

The accompanying notes form part of and should be read in conjunction with these financial statements.

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Notes to the Financial Statements

for the year ended 31 March 2022

1. CORPORATE INFORMATION

Southsure Assurance Limited (the Company) is a limited liability company incorporated and domiciled in New Zealand. The principal activities of the Company are the provision of life assurance and accident insurance.

The life insurance operations are conducted in accordance with the Life Insurance Act 1908 and the Insurance (Prudential Supervision) Act 2010. On 15 July 2013, the Company obtained its licence to carry on life insurance business in New Zealand under the Insurance (Prudential Supervision) Act 2010 from the Reserve Bank of New Zealand.

The registered office of the Company is 66 Don Street, Invercargill, New Zealand.

The financial statements for the Company for the year ended 31 March 2022 were authorised for issue by the Board of Directors on 17 June 2022.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) BASIS OF PREPARATION

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) as appropriate to profit oriented entities. They comply fully with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and comply with International Financial Reporting Standards (IFRS), as appropriate for profit oriented entities.

Statutory base

The Company is registered under the Companies Act 1993 and is a FMC reporting entity and Tier 1 entity in terms of the Financial Reporting Act 2013. The financial statements have been prepared in accordance with the requirements of the Companies Act 1993, Financial Reporting Act 2013, the Financial Markets Conduct Act 2013 and the Insurance (Prudential Supervision) Act 2010.

Changes in accounting policies and application of new accounting policies

There have been no changes in accounting policies or early adoption of accounting standards in the preparation and presentation of the financial statements.

NZ IFRS Accounting Standards issued but not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the NZ IASB that are effective in future accounting periods that the Company has decided not to early adopt. The most significant of these is NZ IFRS 17 Insurance Contracts.

<u>NZ IFRS 17 Insurance Contracts</u>

NZ IFRS 17 Insurance Contracts establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts that fall within the scope of the standard. This standard, which becomes effective for annual reporting periods commencing on or after 1 January 2023 is expected to be initially applied in the financial year ending 31 March 2024. It will replace the current standard, IFRS 4 Insurance Contracts. The Company is not yet able to reasonably estimate the impact of NZ IFRS 17 on its financial statements.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets and liabilities as stated in specific accounting policies below.

Functional and presentation currency

The financial statements values are presented in New Zealand Dollars (NZD) and all values are rounded to the nearest dollar ($), unless otherwise stated.

Correction of Prior Period Errors

During the period ended 31 March 2022, the Company identified that commission income from general agency agreements were being recognised on a cash basis, rather than when performance obligations were fulfilled, as required under IFRS 15. As a consequence, prior period revenue was understated, and a provision for anticipated lapses and cancellations had not been recognised. This error has been corrected by restating the affected financial statement line items, and solvency position for the prior periods accordingly. The following tables summarises the impact on the Company's Financial Statements.

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	As previously reported	Adjustments	As restated
Statement of Profit or Loss for period ended 31 March 2021			
Commission Income	1,508,532	24,849	1,533,381
Taxation Expense	869,585	6,958	876,543
Profit for the Period	**3,747,663**	**17,891**	**3,765,554**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**3,747,663**	**17,891**	**3,765,554**

	As previously reported	Adjustments	As restated
Statement of Financial Position at 1 April 2020			
Receivables	805,393	646,293	1,451,686
TOTAL ASSETS	**23,828,369**	**646,293**	**24,447,662**
Payables	523,692	65,447	589,139
Deferred Tax	1,686,983	162,637	1,849,620
TOTAL LIABILITIES	**13,627,834**	**228,084**	**13,855,918**
Retained Earnings	9,200,535	418,209	9,618,744
TOTAL EQUITY	**10,200,535**	**418,209**	**10,618,744**
TOTAL EQUITY AND LIABILITIES	**23,828,369**	**646,293**	**24,474,662**

	As previously reported	Adjustments	As restated
Statement of Financial Position at 31 March 2021			
Receivables	686,006	669,439	1,355,445
TOTAL ASSETS	**27,550,430**	**669,439**	**28,219,869**
Payables	701,904	63,744	765,648
Deferred Tax	1,506,539	169,595	1,676,134
TOTAL LIABILITIES	**13,602,232**	**233,339**	**13,835,571**
Retained Earnings	12,948,198	436,100	13,384,298
TOTAL EQUITY	**13,948,198**	**436,100**	**14,384,298**
TOTAL EQUITY AND LIABILITIES	**27,550,430**	**669,439**	**28,219,869**

There is no impact on the Company's cashflow.

B) PRINCIPLES UNDERLYING CONDUCT OF LIFE INSURANCE BUSINESS

The life insurance operations consist of insurance contract business. The Company has no investment contract business.

Insurance contract business are those contracts that the Company has accepted significant insurance risk from the policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. The compensation, referred to as insured benefits, are payable on death, or on the occurrence of a contingency dependent on the termination or continuation of human life, or on the occurrence of injury or disability caused by accident or illness, and the financial risk of the occurrence of the event which crystallises the payment of the insured benefit is borne by the Company.

C) ASSET MEASUREMENT

Cash and Cash Equivalents

Cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks, term deposits and other short-term highly liquid investments with an original term to maturity of less than three months.

Receivables

Receivables include insurance premiums billed but not yet collected and other business-related receivables. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less any allowances for impairment.

Premium Funding Receivables

Premium funding receivables represent the amounts due from customers related to the entity's premium funding businesses and is recognised at amortised cost, net of the associated expected credit loss (ECL) provision. Funds are collected on fortnightly, monthly, quarterly and six-monthly instalment basis and generally within twelve months of the invoice date.

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Investments and Other Financial Assets

a) Initial recognition and measurement

Financial assets in the scope of NZ IFRS 9 Financial Instruments are initially measured at fair value plus or minus, in the case of a financial asset not at fair value through profit or loss, transactions costs.
Subject to initial recognition, all financial assets within the scope of NZ IFRS 9 are measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The FVOCI classification is mandatory for certain debt instruments unless the options to FVTPL ("the fair value option") is taken.

The Company has no financial assets classified as fair value through other comprehensive income (FVOCI).

(i) Financial assets at amortised cost

The Company measures financial assets at amortised cost if both the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

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

Financial assets in this category are those that are managed in a fair value business model, or that have been designated by management upon initial recognition or are mandatorily required to be measured at fair value under NZ IFRS 9. This category includes debt instruments whose cash flow characteristics fail the SPPI criterion or are not held with a business model whose objective is either to collect contractual cash flows, or both to collect contractual cash flows and sell.

Financial assets at fair value through profit or loss are recorded in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss. This category includes debt instruments and listed equity investments which the Company had not irrevocably elected to classify at fair value through other comprehensive income. Dividend income from equity investments are also recognised as investment income in the statement of profit or loss when the right of payment has been established.

Investment in Associate

An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The Company's investment in associate is accounted for using the equity method and is measured in the Statement of Financial Position at cost plus post-acquisition changes in the Company's share of net assets. Goodwill relating to associates is included in the carrying amount of the investment. Dividends reduce the carrying value of the investment.

The financial statements of the associate are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Company.

Plant and Equipment

Plant and equipment are initially measured at cost less accumulated depreciation and any accumulated impairment losses.

The Company's plant and equipment comprise Computer Equipment, Office Equipment and Motor Vehicles.

Right of Use Asset

The right of use asset represents the benefit arising from the lease of the premise at 66 Don Street and was initially measured at cost, which is the sum of:

- The amount of the initial measurement of the lease liability
- The initial lease payment made by the Company to the lessor

Following initial recognition, the right of use asset is carried at cost less accumulated depreciation and accumulated impairment losses.

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Intangible Assets

Intangible assets represent Computer Software and are initially measured at cost. Following initial recognition, computer software is carried at cost less accumulated amortisation and any accumulated impairment losses.

Depreciation

Depreciation on plant and equipment and intangible assets is provided in the financial statements on a basis which will write down the value of the assets over their useful lives to their estimated realisable value.

The primary annual rates used for assets are:

Office Equipment	- 13% on diminishing value
Motor Vehicles	- 30% on diminishing value
Computer Equipment	- 50% on diminishing value
Computer Software	- 50% on diminishing value
Right of Use Asset	- 6.25% straight line

D) LIABILITY MEASUREMENT

Payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Payables are stated at cost.

Payables on broking/underwriting agency operations

These amounts represent insurance premiums payable to insurance companies for broking/underwriting agency operations on amounts received from customers (policyholders) prior to the end of the financial period.

Lease Liability

The lease liability represents the obligation of the Company to make payments on their lease of premise and is initially measured at the present value of the lease payments that are not yet paid.

Following initial recognition, the carrying amount is increased to reflect interest on the lease liability and reduced by any lease payments made.

Determination of Policy Liabilities

Life insurance liabilities (policyholder liabilities) in the Statement of Financial Position and the increase or decrease in policyholder liabilities in the statement of profit or loss have been calculated in accordance with the Actuarial Professional Standard No 3 – Determination of Life Insurance Policy Liabilities (PS3) which prescribes the Margin on Services ('MoS') basis.

Overview of MoS Methodology

MoS is designed to recognise profits on life insurance policies as services are provided to policyholders and income is received. Profits are deferred and amortised over the life of the policy, whereas losses are recognised immediately as they arise. Services used to determine profit recognition as applied to the Company include the cost of expected claims.

The Company's policy liabilities are generally determined as the present value of all future expected payments, expenses, taxes and profit margins reduced by the present value of all future expected premiums.

MoS Profit

MoS profit comprises the following components:

<u>Planned margins of revenues over expenses</u>
At the time of writing a policy and at each balance date, best estimate assumptions are used to determine all expected future payments and premiums.

<u>The difference between actual and assumed experience</u>
Where actual experience replicates best estimate assumptions, the expected profit margin will be released to profit over the life of the policy. Experience profits or losses are realised where actual experience differs from best estimate assumptions. Instances giving rise to experience profits or losses include variations in claims, expenses, mortality, discontinuance and investment returns. For example, an experience profit will emerge when the expenses of maintaining all in-force business in a year are lower than the best estimate assumption in respect of those expenses.

<u>Changes to underlying assumptions</u>
Assumptions used for measuring policy liabilities are reviewed each year. Where the review leads to a change in assumptions, the change is deemed to have occurred from the reporting date. The financial effects of changes to the assumptions underlying the measurement of policy liabilities made at the reporting date are recognised in the statement of profit or loss over the future reporting periods during which services are provided to policyholders, however if, based on best estimate assumptions, written business is expected to be unprofitable, the total expected loss is recognised in the statement of profit or loss immediately. When loss making business becomes profitable previously recognised losses are reversed.

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Investment earnings on assets in excess of policy liabilities
Profits are generated from investment assets which are in excess of those required to meet policy liabilities. Investment earnings are directly influenced by market conditions and as such this component of MoS profit will vary from year to year.

E) INCOME RECOGNITION

Premium Income

Insurance premium revenue is recognised from the inception date as soon as there is a basis on which it can reliably be estimated. Insurance premium revenue is recognised as income when it is earned in accordance with the pattern of incidence of risk expected under the insurance contract.

Investment Income

Interest income
Interest income is recognised in the Statement of Profit or Loss as it accrues and is calculated by using the effective interest rate method.

Dividend and distributions
Revenue is recognised when the right to receive payment is established. Dividends from equity securities are recorded as revenue on the ex-dividend date.

Fair value gains and losses
Fair value gains and losses on financial assets at fair value are recognised through the Statement of Profit or Loss.

Other Income

Commission income
The entity retains a portion of fire and general insurance policy premiums as fee and commission income. Premiums are typically collected on an instalment basis. Commission, brokerage and fees are recognised when the related service has been provided and it is probable that the entity will be compensated for services rendered, and the amount of consideration for such services can be reliably measured. This is deemed to be the invoice date. An allowance is made for anticipated lapses and cancellations.

F) EXPENSE RECOGNITION

Claims Expense

All claims are recognised as expenses in the Statement of Profit or Loss. Separation of claims into risk and savings components is not required for any of the Company's business.

Death and all other claims are recognised when the liability to the policyholder under the policy contract has been established.

Other Expenses

Other expenses incorporate all other expenditure involved in running the Company's business including costs of new business and depreciation. These are recognised in the Statement of Profit or Loss as follows:

Life assurance

For the purpose of determining Policy Liabilities, Other Expenses are categorised into acquisition, or maintenance costs on the basis of a detailed functional analysis of activities carried out by the Company.

Acquisition costs are the fixed and variable costs of acquiring new business for the current reporting period. For Southsure, acquisition costs include the fixed and variable costs incurred in relation to developing new business, marketing, product design and development, and fixed and variable operating and management costs that do not relate to maintaining Southsure's operations at the level required to service in force policies.

Under MoS, where overall product profitability of new business written during the year is expected to support the recovery of acquisition costs incurred in that year, these costs are effectively deferred as an element of policy liabilities and amortised over the life of the policies written. Unamortised acquisition costs are a component of the MoS policy liabilities.

Acquisition costs are recognised in the Statement of Profit or Loss as a component of "increase in policy liabilities" at the same time as policy margins are released.

Acquisition costs are allowed for when determining expected profit margins by setting cost allowances for the year in question. Actual acquisition costs may vary from year to year for a number of reasons including new business volume, product mix, distribution mix, cost efficiency and new strategic initiatives.

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The profit margin component of the policy liability is determined so that neither a profit nor a loss arises on acquisition, subject only to the overriding constraint that the present value of future profit margins on total new business written in the year is not negative.

Investment management costs are borne by the Company.

Maintenance costs are recognised in the Statement of Profit or Loss in the period they become due and payable. Consistent expense categorisation is used in deriving the assumptions used for reserving and solvency measurement.

G) REINSURANCE

As the reinsurance agreements provide for indemnification of the Company against loss or liability, reinsurance income and expense are recognised separately in the Statement of Profit or Loss when they become due and payable in accordance with the reinsurance agreements.

Reinsurance recoveries on claims are recognised in the Statement of Profit or Loss as "Reinsurance Recoveries". Reinsurance premiums are recognised separately as "Reinsurance Premiums".

H) TAXATION

Income Tax

The income tax expense comprises both current and deferred tax. Income tax expense is recognised in the Statement of Profit or Loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to the tax payable in respect of previous years. Deferred tax is recognised using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities in a transaction that is not a business combination and that affects neither accounting or taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

Deferred tax assets are set-off against deferred tax liabilities to the extent they relate to income taxes which are legally able to be set-off against each other.

<u>Life insurance tax</u>
From 1 July 2010 taxation is payable on investment income allocated to policyholders and on shareholder cash flows (investment income, premiums less claims, less expenses). Concessions which allowed certain policies to continue being taxed similar to that incurred under the old regime came to an end at 30 June 2015 and are explained below. Level term policies may have concessions for the duration of the policy.

Prior to 1 July 2010 Life Insurers were subject to a special tax regime. Two tax bases were maintained; the life insurer base where tax is calculated on investment income less expenses plus underwriting income; and the policyholder base which seeks to tax benefits as they accrue to policyholders under the policies in the form of claim, surrender and maturity payments and increments in the value of policies. The life insurer paid tax on the higher of the two bases at the company tax rate of 30%. As the life insurer was taxed as proxy for the policyholder, returns to policyholders were tax exempt.

Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST) except where the amount of GST incurred is not recoverable from the Inland Revenue Department (IRD). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.
Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the IRD is included as 'other assets' or 'other liabilities' in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a net basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the IRD are classified as operating cash flows.

I) STATEMENT OF CASH FLOWS

The following are the definitions of the terms used in the Statement of Cash Flows:

(i) Operating activities include all transactions and other events that are not investing or financing activities.
(ii) Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of investments.
(iii) Financing activities are those activities relating to changes in the equity and debt structure of the Company.

J) PROVISIONS

A provision is recognised in the Statement of Financial Position when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow or resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

K) CONTINGENT LIABILITY

The Company discloses a contingent liability when it has a possible obligation arising from past events, that will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Company's control. A contingent liability is disclosed when a present obligation is not recognised because it is not probable that an outflow of resources will be required to settle an obligation, or the amount of the obligation cannot be measured with sufficient reliability.

L) EMPLOYEE BENEFITS

The amounts expected to be paid in respect of employee's entitlements to annual leave are accrued at expected salary rates.

M) SHARE CAPITAL

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

N) CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted by the Company are consistent with those adopted in previous periods, except for the adoption of all mandatory new standards, amendments to standards and interpretations which were applicable to annual reporting periods commencing on or before 1 April 2020. None had a material impact on these financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities and profit within the next financial year are discussed below.

INSURANCE LIABILITIES – EFFECT OF CHANGES AND ASSUMPTIONS

Policy liabilities arising from life insurance contracts are calculated at each reporting date using mathematical and statistical models. The valuations are prepared by appropriately qualified and experienced members of the New Zealand Society of Actuaries on the basis of internationally recognised actuarial methods set out in Professional Standards issued by the New Zealand Society of Actuaries, a full member of the International Actuarial Association. The methodology takes into account the risks and uncertainties of the particular classes of business written.

The key factors that affect the estimation of these liabilities are:

- The cost of providing benefits and administering these contracts;
- Mortality and morbidity experience on life insurance products;
- Persistency experience, which affects the entity's ability to recover the cost of acquiring new business over the lives of the contracts;
- Other factors such as regulations, competitors, interest rates, the performance of capital markets and general economic conditions affect the level of these liabilities;

The uncertainties surrounding these assumptions means that it is likely that the actual observed claims incidence and planned profit margins will vary from the liability estimated and future profit margins at the reporting date.

Refer to note 4 for more detail on the valuation of the policy liabilities and the assumptions applied.

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Notes to the Financial Statements

for the year ended 31 March 2022

4. ACTUARIAL METHODS AND POLICIES

The effective date of the actuarial reports on Policy Liabilities is 31 March 2022. The actuarial reports were prepared by Peter Davies, Fellow of the New Zealand Society of Actuaries and signed on 10 June 2022. (2021: Prepared by Peter Davies, Fellow of the New Zealand Society of Actuaries signed 10 June 2021)

The Actuary certified that the amount of Policy Liabilities has been determined in accordance with methods and assumptions disclosed in this financial report and with the standards of the New Zealand Society of Actuaries.

The Actuary certified that he was satisfied as to the accuracy of the data upon which the amount of the Policy Liabilities has been determined.

DISCLOSURE OF ASSUMPTIONS

Policy Liabilities are measured as net present values of estimated future cash flows. The key assumptions used in determining the Policy Liabilities were:

A) Discount Rates and Inflation Rates

The discount rates assumed are based on risk-free rates of return on fixed interest securities of an equivalent average term to the future policy cash-flows.

The discount rate assumed for short-term single premium business (Payment Protection Insurance, and two related contracts) is 2.36% net of tax based on swap rates (2021: 0.34%).

The discount rate assumed for other business (predominantly term life and regular premium disability business) is 2.42% net of tax based on swap rates (2021: 2.12%).

The assumed inflation rate was 2.0% p.a. (2021: 2.0%).

B) Profit Carriers

Group Life and Total Permanent Disability (TPD) cover, and Bond insurance, were valued using an accumulation method, therefore no profit carrier was used.

The profit carrier for all other product groups, which were valued using a projection method, was claims plus renewal commission plus administration costs (2021: no change).

C) Future Expenses and Indexation

Maintenance expenses per policy in the year ended 31 March 2022 were assumed to be:

Payment protection insurances	- $24 per policy per annum (2021: $29 p.a.)
Regular premium term insurances	- $59 per policy per annum (2021 $73 p.a.)
Single premium term insurances	- $18 per policy per annum (2021: $22 p.a.)
Reviewable disability insurances	- $59 per policy per annum (2021: $73 p.a.)

During the year, there the increased allocation to general expenses from maintenance expenses, which reflects the Company's future focus on increasing its agency business.

Expenses are assumed to escalate at 2.0% per annum (2021: 2.0% p.a.)

D) Rates of Taxation

The future rate of taxation was assumed to be 28% (2021: 28%).

E) Mortality and Morbidity

Future mortality for term insurances was assumed in aggregate to be 75% of NZ04 mortality table of the New Zealand Society of Actuaries (2021: 75% of NZ04), based on the Company's own experience. The assumption was adjusted for the smoking status of lives insured, based on the relative experience of other companies.

Future mortality, disability, redundancy, and chattel claim frequencies for Payment Protection Insurances were based on aggregate rates derived from the Company's experience (unchanged from 2021). Future disability and redundancy claim continuance rates were based on the Company's experience (unchanged from 2021).

Claim frequencies and claim continuance rates for reviewable disability policies were based on the Company's experience (frequencies and termination rates are unchanged from the 2021 assumptions).

Group Life and TPD covers, Tenant Protection, Bond Protection and Fastprotect cover were valued on an accumulation basis.

F) Discontinuances

Future rates of discontinuance are assumed to be between 0% and 47% p.a. (2021: 0% and 48% p.a.), according to product and duration in force, based on the Company's recent and expected future experience.

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G) Surrender Values

Surrender values are assumed to be paid according to current formulae.

H) Unit Prices

The Company has no unit-linked business.

I) Participating Benefits - rate of future supportable additions

The Company has no participating business.

J) Participating Benefits - future crediting policy

The Company has no participating business.

5. RISK

The Board of Directors (the "Board") has established a risk management programme that is designed to ensure the effective identification, management, monitoring and reporting of risk in a timely manner across all areas of the business and to meet compliance obligations under the Insurance (Prudential Supervision) Act 2010.

The Risk Management Programme embodies a number of existing formal, and documented processes and systems to manage specific types of risk.

The Risk Management Programme details the specific roles and responsibilities, risk assessment and management processes, delegated risk authorities and management actions required to ensure its significant risks are managed appropriately.

The risk identification process is carried out annually as part of the annual planning process, and as required on a formal structured basis and continually on an ad hoc basis.

The Company is exposed to the following key risks:

- Conduct
- Insurance
- Strategic
- Liquidity
- Market
- Capital
- Operational
- Credit

The Company's approach to achieving effective risk management is to embed a risk-aware culture where everyone across the organisation (including contractors and third parties) is responsible for managing risk.

A) CONDUCT RISK

Conduct risk is the risk that conduct may contribute to poor outcomes for customers.

The Company manages its conduct risk by:

- undertaking ongoing product reviews to ensure products are suitable, fit for purpose and delivering good outcomes
- reviewing customer feedback to identify potential conduct trends or issues
- ensuring all staff are appropriately trained and receive regular refresher training on conduct matters, including how to manage customers requiring extra care
- Board oversight of the Company's Risk Management Programme including regular reporting to the Board and Executive Committee.

B) INSURANCE RISK

Insurance risk is the risk that either inadequate or inappropriate product design, pricing, underwriting, reserving, claims management or reinsurance management will expose the Company to financial loss and, in the worst case, a consequent inability to meet its liabilities when they fall due.

There are a number of key strategies in place which mitigate insurance risk, including:

- the use of approved and documented underwriting policies and procedures to determine the acceptance and appropriate pricing of risk
- the use of actuarial models to calculate premiums and to monitor claim patterns
- reinsurance arrangements that limit the Company's exposure to individual and catastrophic risks
- the diversification of insurance business over different risk types and distribution channels

<u>Sensitivity analysis</u>

The analysis assumes that the value of liabilities will not be affected by changes in demographic assumptions.
The following table shows the changes in the value of future planned margins (assuming no compensation changes in future premiums) and policy liability (including future profit margins) at 31 March if actuarial assumptions change as follows:

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B) INSURANCE RISK (continued)

		2022		2021	
		Future Margins	**Policy Liability**	**Future Margins**	**Policy Liability**
Discount rate	Increase by 1%	(349,000)	(401,000)	(461,000)	(436,000)
	Decrease by 1%	360,000	413,000	475,000	450,000
Mortality/Morbidity	Increase by 10%	(970,000)		(1,088,000)	
	Decrease by 10%	980,000		1,099,000	
Surrenders/Lapses	Increase by 10%	(192,000)		(268,000)	
	Decrease by 10%	200,000		279,000	
Expenses	Increase by 10%	(451,000)		(664,000)	
	Decrease by 10%	451,000		664,000	

C) STRATEGIC RISK

Strategic risk is the risk of a strategic event that could materially disrupt the Company's business operations or result in significant financial loss that could result in the Company's inability to continue as an independent going concern under current ownership arrangements or could result in the Company being placed in Statutory Management.

The Company manages its strategic risk by:

- diversification of income streams across different classes of business and to include non-underwriting sources of profit
- diversification of income streams through the use of multiple distribution channels and including retail and wholesale insurance offerings
- established Business Continuity, Pandemic and IT Disaster Recovery Plans
- identified contingency strategies for all significant risks
- ongoing monitoring of competitor and legislative developments

D) LIQUIDITY RISK

Liquidity risk is the risk that an organisation will not be able to meet its financial obligations as and when they fall due and at a reasonable cost.

The Company manages its liquidity risk on an on-ongoing basis by:

- maintaining a significant portion of its investment portfolio in short-term interest-bearing securities which can be liquidated at short notice
- holding longer dated investments to support insurance liabilities held in highly liquid issues of tradable securities
- maintaining sufficient liquid assets to meet both its expected and unexpected cash flows

Maturity analysis
The table below shows the maturity of the Company's financial assets and liabilities. Where the counterparty has discretion in requesting payment, liabilities have been classified according to the earliest time period in which the Company may be required to pay.

	On Demand	**1-6 Months**	**6-12 Months**	**12-24 Months**	**> 24 Months**
2022					
Financial assets:					
Cash and cash equivalents	6,440,036	-	-	-	-
Receivables	961,773	-	-	-	-
Investments	2,995,634	3,920,124	2,517,205	1,507,187	674,148
	10,397,443	**3,920,124**	**2,517,205**	**1,507,187**	**674,148**
Financial liabilities:					
Payables and other financial liabilities	1,141,821	-	-	-	-
	1,141,821	**-**	**-**	**-**	**-**

D) LIQUIDITY RISK (continued)

2021					
Financial assets:					
Cash and cash equivalents	6,478,472	-	-	-	-
Receivables	686,006	-	-	-	-
Investments	2,711,313	3,528,243	3,126,426	693,978	724,865
	9,875,791	**3,528,243**	**3,126,426**	**693,978**	**724,865**
Financial liabilities:					
Payables and other financial liabilities	804,574	-	-	-	-
	804,574	**-**	**-**	**-**	**-**

E) MARKET RISK

Market risk is the risk of changes in the fair value of financial instruments from adverse movements in market prices or rates (including interest rates, exchange rates, equity and property prices), whether such a change in price/rate is caused by factors specific to an individual financial instrument or to its issuer, or to factors affecting all financial instruments traded in a market.

The Company manages its market risk by:

- where possible, matching asset durations against its liabilities
- investing defensively where assets are not required to meet liabilities
- maintaining no off-balance sheet exposures

Interest Rate Risk

For the year ended 31 March 2022 if interest rates on cash deposits and interest-bearing investments had been 1% higher or lower with all other variables held constant the impact on post tax profits and net assets would have been as follows:

	2022		2021	
	+ 1%	**- 1%**	**+ 1%**	**- 1%**
Cash and cash equivalents	119,884	(119,884)	122,912	(122,912)
Financial assets at fair value through profit or loss	7,411	(7,411)	12,653	(12,653)

F) CAPITAL MANAGEMENT

The Company's capital management objectives are to ensure an adequate and prudent level of capital is maintained to support the risks borne by the business and in turn protect policyholders and shareholder's interests, and to meet its obligations under the Insurance (Prudential Supervision) Act 2010.

The Act requires the Company to maintain a minimum level of capital at all times that meets the Solvency Standard for Life Insurance Business ("Solvency Standard").

The Directors have adopted a policy of holding a "buffer" amount of free capital over and above the minimum level of capital required by the Solvency Standard.

Solvency

The Solvency Standard requires the Company to hold a minimum level of capital at all times. This must be in excess of either $5,000,000 or the (risk-based) calculated minimum solvency capital requirement - whichever is higher.

Statutory Funds

A life insurer is required to have at least one statutory fund in respect of its life insurance business. The Company established "Southsure Statutory Fund No 1" (the Fund) on 1 April 2013.

The Fund gives priority to policy holders to the assets held in the Fund ahead of the claims of any other creditor. All operating profits and losses generated by the Fund are retained within the Fund and distributions of these can only be made provided they comply with the requirements of the Insurance (Prudential Supervision) Act 2010 and the Insurance (Prudential Supervision) Regulations 2010. These requirements include receiving and having regard to the Company's Appointed Actuary's written advice as to the likely consequences of any proposed distribution. A distribution of the Fund's retained profits must not be made if the distribution would have the result that the Company would fail to maintain the minimum solvency margin in relation to the Fund.

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F) CAPITAL MANAGEMENT (continued)

The Act requires disclosure of the solvency margins for the Fund, the business and assets outside the fund and for the Company as a whole. The following tables show the solvency margin, assets, liabilities, equity and profit by Fund.

	Statutory Fund	Non-life Shareholder Fund	Company
2022			
Total assets	13,398,459	15,173,830	28,572,289
Total liabilities	10,487,059	1,675,084	12,162,143
Total equity	**2,911,400**	**13,498,746**	**16,410,146**
Profit/(loss) after income tax	146,410	1,879,438	2,025,848
Net dividends paid	-	-	-
Actual solvency capital	1,902,039	12,528,034	14,430,073
Minimum calculated solvency requirement (risk based)	585,990	8,448,636	9,034,626
Solvency margin	**1,316,049**	**4,079,398**	**5,395,447**
Solvency ratio	**324.6%**	**148.3%**	**159.7%**
2021			
Total assets	14,461,031	13,695,095	28,156,126
Total liabilities	11,696,041	2,075,787	13,771,828
Total equity	**2,764,991**	**11,619,307**	**14,384,298**
Profit/(loss) after income tax	969,370	2,796,184	3,765,554
Net dividends paid	-	-	-
Actual solvency capital	2,745,555	11,618,596	14,364,151
Minimum calculated solvency requirement (risk based)	1,009,679	8,715,953	9,725,632
Solvency margin	**1,735,876**	**2,902,643**	**4,638,519**
Solvency ratio	**271.9%**	**133.3%**	**147.7%**

G) OPERATIONAL RISK

Operational risk is the risk arising from day-to-day operational activities. These activities may result in direct or indirect losses resulting from failure to comply with policies, procedures, laws and regulations, from fraud or forgery, other malicious acts, a breakdown in the availability or integrity of services, systems and information, or damage to Southsure's reputation. The Company aims to minimise the impact of operational risks by ensuring the appropriate risk management policies, controls, systems, staff and processes are in place.

The Company manages and aims to minimise the impact of operational risks by:

- ensuring the appropriate risk management policies, controls, systems, staff and processes are in place
- maintaining an appropriate organisational and management structure with clearly defined responsibilities and accountabilities including the division of duties where appropriate
- appropriate training and development of staff together with maintenance of key person backup capability
- an established and proven Business Continuity and Disaster Recovery Plan.

H) CREDIT RISK

Credit risk is the possibility of a financial loss occurring due to the unwillingness or inability of a counterparty to fully meet their contractual debts and obligations or due to a change in the credit rating of a counterparty.

The Company manages credit risk by:

- diversifying investment exposures across a range of counterparties
- limiting exposure to high credit quality and individual counterparties
- the annual monitoring of the reinsurer credit risk rating
- limiting of business partnerships to high reputation, high credit quality counterparties where possible

(i) Investment counterparty credit risk

The Company's Investment Policy ensures that credit concentration is managed appropriately. This is achieved by:

- setting maximum asset allocation limits
- limiting the asset class allocations to a maximum of 25% of total assets to be held with one bank

The table below provides information on the credit risk exposure on the Company's financial assets with external credit ratings of financial assets that are classified within the range of AAA to BBB, with AAA being the highest possible rating. The "Not Rated' column discloses those assets not rated by external rating agencies.

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H) CREDIT RISK (continued)

	AAA+ to A-	BBB+ to BBB-	Not rated	Carrying value $
31 March 2022				
Call and Current Accounts	30%	6%	-	6,440,036
Bank Paper	36%	9%	0%	8,147,109
Equities	-	-	14%	2,592,193
Listed Debt Products	1%	1%	3%	874,996
31 March 2021				
Call and Current Accounts	31%	6%	-	6,478,472
Bank Paper	40%	1%	0%	7,112,761
Equities	-	-	15%	2,508,772
Listed Debt Products	3%	1%	3%	1,163,292

6. ANALYSIS OF PROFIT

	2022	2021 *restated*
Profit after taxation arose from:		
Planned margins of revenues over expenses	969,239	1,072,499
Other revenue	1,007,136	1,079,770
Difference between actual and assumed experience	(951,821)	204,457
Effects of changes in underlying assumptions	439,466	449,949
Investment earnings on assets in excess of life insurance liabilities	561,828	958,879
Profit after taxation	**2,025,848**	**3,765,554**

7. GROSS PREMIUM REVENUE

	2022	2021
Single premium	3,039,474	4,607,985
Regular premium	3,460,015	3,532,825
Gross premium revenue	**6,499,489**	**8,140,810**

8. INVESTMENT INCOME

	2022	2021
Cash and cash equivalents interest income	5,023	8,503
Financial assets at amortised cost		
Interest income	119,638	170,584
Financial assets at fair value through profit or loss		
Interest income	40,456	58,192
Dividend income	113,344	80,481
	278,461	**317,760**
Summary of net investment income		
Interest and similar income	165,117	237,279
Dividend income	113,344	80,481
Net investment income	**278,461**	**317,760**

9. REALISED GAINS

	2022	2021
Property and equipment	-	(832)
Equity securities	-	(3,685)
Total realised gains/(losses)	**-**	**(4,517)**

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Notes to the Financial Statements

for the year ended 31 March 2022

10. FAIR VALUE GAINS

	2022	2021
Equity securities - designated at fair value through profit or loss	83,421	783,150
Debt securities - designated at fair value through profit or loss		
Corporate – New Zealand	(11,599)	(14,377)
Bonds	16,925	(1,768)
Capital Notes	6,378	(14,994)
Total fair value gains/(losses)	**95,125**	**752,011**

11 CLAIMS EXPENSE

	2022	2021
Accident claims	1,070,388	988,668
Death claims	1,265,818	1,997,817
Other	2,345	-
Total claims	**2,338,551**	**2,986,485**

12 COMMISSION AND OTHER EXPENSES

	2022	2021
Commission expenses		
Acquisition	1,587,697	2,464,736
Maintenance	129,290	124,787
Total commission expenses	**1,716,987**	**2,589,523**
Other expenses		
Acquisition	768,366	613,260
Maintenance	1,225,634	1,784,093
Other	1,307,847	667,369
Total other expenses	**3,301,847**	**3,064,722**
Other operating and admin expenses include:		
Personnel	1,765,574	1,626,451
Audit services paid or payable to the external auditors KPMG		
Audit of annual financial statements	46,158	35,807
Review of interim financial statements	8,050	8,050
Audit on annual solvency return	9,000	9,000
Directors' fees	206,666	163,167
Depreciation	89,396	66,635
Amortisation	10,074	10,874
Other expenses	1,166,929	1,144,738
Total other expenses	**3,301,847**	**3,064,722**

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Notes to the Financial Statements

for the year ended 31 March 2022

13 POLICY LIABILITIES

		2022	2021
a)	**Movement in insurance policy liabilities - gross**		
	Opening balance at 1 April	5,670,081	(386,227)
	Increase recognised in Statement of Profit or Loss	(1,036,046)	6,056,308
	Closing balance at 31 March	**4,634,035**	**5,670,081**
b)	**Movement in policy liabilities/(assets) - reinsurance**		
	Opening balance at 1 April	4,133,155	11,201,167
	Increase recognised in Statement of Profit or Loss	(90,367)	(7,068,012)
	Closing balance at 31 March	**4,042,788**	**4,133,155**
	Summary of policy liabilities		
	Gross policy liabilities	4,634,035	5,670,081
	Insurance contract liabilities - Reinsurance	4,042,788	4,133,155
	Closing balance at 31 March	**8,676,823**	**9,803,236**
Policy liabilities contain the following components:			
	Future policy benefits	28,019,757	31,350,331
	Future expenses	10,101,685	13,315,022
	Business valued on accumulation basis	-	-
	Future profit margins	5,887,176	5,704,399
	Balance of future premiums	(39,374,583)	(44,699,671)
	Reinsurance	4,042,788	4,133,155
	Closing net policy liabilities	**8,676,823**	**9,803,236**

14 TAXATION

		2022	2021 *restated*
a)	**Current income tax expense**		
	Current income tax	808,447	1,057,806
	Movement in deferred tax	(504,109)	(173,486)
	Adjustments for current tax of prior periods	22,296	(7,777)
	Expense reported in the Statement of Profit or Loss	**326,634**	**876,543**

		2022	2021 *restated*
b)	**Numeric reconciliation between tax expense and profit before tax**		
	Surplus before taxation per Statement of Profit or Loss	2,352,482	4,642,097
	Prima Facie Taxation @ 28%	658,695	1,299,787
	Adjusted for tax effect of:		
	Effect of Pre-2010 Life Tax Regime	(44,062)	(26,423)
	Non-deductible Policyholder Income and Expenses	(59,993)	(42,947)
	Income tax included within share of Income from Associate	(229,410)	(336,711)
	Income tax on dividends received from Associate	219,901	146,212
	Non-Deductible Income	(2,259)	29,268
	Non-Deductible Expenses	1,880	2,236
	Dividend Income Grossed up for Imputation Credits	93,494	72,762
	Benefit of Imputation Credits Received	(333,908)	(259,864)
	Income tax under / (over) provided in prior years	22,296	(7,777)
	Taxation as per Statement of Profit or Loss	**326,634**	**876,543**

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14 TAXATION (continued)

		2022	2021 *restated*
c)	**Net deferred tax benefits/(liabilities)**		
	Balance at beginning of the year	(1,676,134)	(1,849,620)
	Deferred tax benefit/(charge) charged to income	504,109	173,486
	Balance at end of the year	**(1,172,025)**	**(1,676,134)**
	The balance of deferred tax benefits/(liabilities) comprises:		
	i. Deferred tax liabilities	-	-
	Policy Liabilities	(1,105,059)	(1,451,087)
	Funds with financial institutions	(96,331)	(72,973)
	Lumley commission revenue not yet derived	(8,401)	(169,595)
		(1,209,791)	**(1,693,655)**
	ii. Deferred tax assets		
	Staff Provisions	23,313	17,521
	Right of Use Assets	14,453	-
		37,766	**17,521**
	Net deferred tax liability	**(1,172,025)**	**(1,676,134)**

Life insurance contract liabilities represent the net present value of estimated future cash flows and planned profit margins. Using the margin on services methodology, planned after tax profit margins are recognised in the Statement of Profit or Loss over the period services are provided to policyholders resulting in deferral for accounting purposes compared to up-front deductibility for tax purposes. A net deferred tax liability of $1,105,059 has been separately disclosed and included in the deferred tax liabilities balance representing taxable temporary differences which are implicitly embedded within insurance contract liabilities (2021: $1,451,087).

		2022	2021
d)	**Current Tax Liability**		
	Balance at beginning of year	682,500	327,414
	Under/(over) provision in prior years	22,296	(7,776)
	Tax payments	(1,129,088)	(694,944)
	Current income tax expense	808,447	1,057,806
	Balance at end of the year	**384,155**	**682,500**

		2022	2021
e)	**Imputation Credit Account**		
	Balance at beginning of year	1,348,795	393,988
	Income tax paid (refund received) during the year	-	(10,362)
	Provisional tax paid during the year	1,129,088	705,306
	Add credits attached to dividends received	334,878	259,864
	Balance at end of year	**2,812,761**	**1,348,796**

15 CASH AND CASH EQUIVALENTS

	2022	2021
Cash at bank and in hand		
Bank balances	5,418,397	5,078,164
Deposits at call	1,001,432	1,400,308
Cash held on trust – broking trust account	20,207	-
Cash and cash equivalents	**6,440,036**	**6,478,472**

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Notes to the Financial Statements

for the year ended 31 March 2022

16 TRADE AND OTHER RECEIVABLES

	2022	2021 *restated*
Outstanding premiums	16,261	29,838
Prepayments	253,383	80,419
Premium funding receivables	258,568	-
Sundry receivables	435,786	1,245,198
Total other receivables	**963,998**	**1,355,445**
Expected maturity		
Within 12 months	963,998	1,355,445
Later than 12 months	-	-
	963,998	**1,355,445**

17 INVESTMENTS

	2022	2021
Financial assets designated at fair value through profit or loss		
Equity securities	2,592,193	2,508,772
Debt securities		
Corporate - New Zealand	-	-
Bonds	781,774	868,737
Capital notes	93,222	294,555
	3,467,190	**3,672,064**
Financial assets at amortised cost		
Debt securities		
Bank paper	8,147,108	7,112,761
	8,147,108	**7,112,761**
Total Investments	**11,614,298**	**10,784,825**
Expected maturity		
Within 12 months	9,432,963	9,365,982
Later than 12 months	2,181,335	1,418,843
	11,614,298	**10,784,825**

18 PAYABLES AND OTHER FINANCIAL LIABILITIES

	2022	2021
Creditors and accruals	583,439	701,904
Payables on broking/underwriting agency operations	208,110	-
Employee entitlements	206,272	102,670
Remediation	86,000	-
Clawback provision	58,000	63,744
	1,141,821	**868,318**
Expected maturity		
Within 12 months	1,141,821	868,318
Later than 12 months	-	-
	1,141,821	**868,318**

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19 LEASE LIABILITIES

		2022	2021
a)	**Maturity Analysis - Contractual Undiscounted Cash Flows**		
	Less than one year	33,751	18,063
	One to five years	158,227	148,584
	More than five years	595,342	638,736
		787,320	**805,383**
	Expected maturity		
	Within 12 months	33,751	18,063
	Later than 12 months	753,569	787,320
		787,320	**805,383**

		2022	2021
b)	**Amounts recognised in the statement of profit or loss**		
	Interest on lease liabilities	50,271	16,615
		50,271	**16,615**
	Amounts recognised in the statement of cash flows		
	Total cash outflow for leases	78,583	13,535
		78,583	**13,535**

20 FAIR VALUE OF FINANCIAL INSTRUMENTS

There are no material differences between the carrying amounts of all financial assets and liabilities presented in the Statement of Financial Position and their fair values.

The Company uses valuation techniques within the following hierarchy for determining the fair value of financial instruments:

Level 1: Fair values are determined using quoted (unadjusted) prices in active markets for identical assets and liabilities;
Level 2: Fair values are determined using other techniques where all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: Fair values are determined using techniques that use inputs which have a significant effect on the recorded fair value and are not based on observable market data.

Financial assets and liabilities that are recognised and measured at fair value on a recurring basis are categorised below:

	2022	2021
Level 1		
Cash and cash equivalents	6,440,036	6,478,472
Equity securities	2,592,193	2,508,772
	9,032,229	**8,987,244**
Level 2		
Debt securities		
Bank paper	8,147,108	7,112,762
Corporate	-	-
Bonds	781,775	868,737
Capital notes	93,222	294,555
	9,022,105	**8,276,053**
	18,054,334	**17,263,297**

There were no transfers between Levels 1 and 2 during the year.

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21 SHARE CAPITAL

		2022		2021	
		No.	$	No.	$
(a)	Authorised share capital				
	Ordinary shares – fully paid. No par value	1,000,000	1,000,000	1,000,000	1,000,000
	Held:				
	Directly	1,000,000		1,000,000	

(b) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

Company in proportion to the number of and amounts paid on the shares held.

22 RETAINED EARNINGS AND RESERVES

		2022	2021 *restated*
(a)	Retained earnings		
	Movements in Retained Earnings were as follows:		
	Balance 1 April	13,384,298	9,618,744
	Net surplus for the year	2,025,848	3,765,554
	Dividends	-	-
Balance 31 March		**15,410,146**	**13,384,298**

23 DIVIDENDS

	2022		2021	
	Per Share	$	Per Share	$
Dividends paid during the year				
Interim dividend	0.000	-	0.000	-
Final dividend	0.000	-	0.000	-
Total dividends paid during the year		-		-

No dividends were paid in 2022 (2021: no dividends were paid).

24 RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	2022	2021 *restated*
Net profit after taxation	2,025,848	3,765,554
Add/(Deduct) Non-Cash Items:		
Depreciation	89,396	66,635
Amortisation	10,074	10,874
Lease Liability Interest	50,271	16,615
Net Change in policy liabilities	(1,126,413)	(1,011,704)
Share of (profit)/loss from associate	(819,320)	(1,202,539)
Realised (gains)/losses	-	4,517
Fair value (gains)/losses on investments	(95,125)	(752,011)
Movement in deferred tax	(504,109)	(173,486)
Changes in Assets and Liabilities:		
Payables	273,502	4,374
Current tax	(298,345)	355,086
Receivables	391,447	96,241
Accrued interest	1,808	20,273
Leases	(68,334)	(13,667)
Non-operating flows in Payables & Receivables	-	(92,743)
Net cash flows from Operating Activities	**(69,300)**	**1,094,019**

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25 FINANCIAL INSTRUMENTS BY CATEGORY

2022

NZ IFRS 9 Measurement category	Fair Value through profit or loss	Fair Value through other comprehensive income	Amortised Cost	Total
Financial assets				
Cash and cash equivalents	-	-	6,440,036	6,440,036
Trade and other receivables	-	-	963,998	963,998
Investments	3,467,190	-	8,147,108	11,614,298
Total financial assets	**3,467,190**	**-**	**15,551,142**	**19,018,332**
Financial liabilities				
Trade and other payables	-	-	1,141,821	1,141,821
Total financial liabilities	**-**	**-**	**1,141,821**	**1,141,821**

2021 *(restated)*

NZ IFRS 9 Measurement category	Fair Value through profit or loss	Fair Value through other comprehensive income	Amortised Cost	Total
Financial assets				
Cash and cash equivalents	-	-	6,478,472	6,478,472
Trade and other receivables	-	-	1,355,445	1,355,445
Investments	3,672,064	-	7,112,761	10,784,825
Total financial assets	**3,672,064**	**-**	**14,946,678**	**18,618,742**
Financial liabilities				
Trade and other payables	-	-	868,318	868,318
Total financial liabilities	**-**	**-**	**868,318**	**868,318**

26 RELATED PARTY TRANSACTIONS

(a) Parent entity
The Company is a wholly owned subsidiary of Southland Building Society (SBS).

(b) Southland Building Society (SBS)
The Company purchases selected support services from SBS. The Company remunerates SBS for these services on an arm's length basis.
The Company has a current account with SBS. Interest is paid between related parties on a monthly basis at the official cash rate applicable at month end.
The Company holds a number of term investments with SBS. Interest is received from SBS for these investments on an arm's length basis.

(c) Finance Now Limited (FNL)
Finance Now Limited is a wholly owned subsidiary of SBS. FNL distributes the Company's products. FNL is remunerated for this service on an arm's length basis. FNL collects and remits premium income owing to the Company. All balances owing between the parties at balance date are included in Payable and Receivable balances.

(d) Abbott NZ Holdings Limited (AHL)
The Company owns a 25.25% (2021: 25.25%) shareholding in Abbott NZ Holdings Limited.
AHL pays a referral commission to the Company on an arm's length basis for commercial insurance policies.
From time to time the Company may purchase commercial insurance products from AHL at current market rates. There were no balances owing between the parties at balance date.

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26 RELATED PARTY TRANSACTIONS (continued)

(e) Transactions with Related Parties

The following transactions occurred with related parties:

		2022	2021
SBS			
	Interest received	(12,263)	(16,356)
	Commission paid	269,856	221,626
	Dividends paid	-	-
	Other sundry items	268,806	179,612
		526,399	**384,882**
FNL			
	Commission paid	1,272,710	1,916,412
		1,272,710	**1,916,412**
AHL			
	Commission received	(28,456)	(30,801)
		(28,456)	**(30,801)**
Directors and Key Management Personnel			
	Commission income from insurance policies placed	523	-
		523	**-**

During the year, the Company placed insurance policies with underwriters on behalf of key management personnel. These policies were entered into on an arm's length basis or on terms applicable to other employees and customers. The Company receives commission income for placing these insurance policies at standard commission rates, which apply to all insurance policies the Company places with the relevant underwriter.

(f) Balances with Related Parties

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

		2022	2021
SBS			
	Investments	2,601,348	1,200,244
	Transaction account	931	2,329
	Current account balance	17,163	23,475
	Receivables	-	(8,319)
	Payables	(83,258)	(67,643)
Net Balance		**2,536,184**	**1,189,104**
FNL			
	Receivables	188,682	297,850
	Payables	(76,476)	(108,827)
Net Balance		**112,206**	**145,760**

(g) Key Management Personnel Compensation

Key management personnel compensation for the year ended 31 March 2022 and the year ended 31 March 2021 is set out below. The key management personnel are all the directors of the Company and the executives with the greatest authority for the strategic direction and management of the Company.

	2022	2021
Short term benefits	602,265	562,056
Total	**602,265**	**562,056**

(h) Key Management Personnel Insurance Policies

Key management personnel compensation for the year ended 31 March 2022 and the year ended 31 March 2021 is set out below. The key management personnel are all the directors of the Company and the executives with the greatest authority for the strategic direction and management of the Company.

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27 INVESTMENT IN ASSOCIATE

The Company has a 25.25% (2021: 25.25%) interest in Abbott NZ Holdings Limited, which is an insurance brokerage firm with its head office located in Christchurch, New Zealand. Abbott NZ Holdings Limited is a private entity that is not listed on any public exchange and there are no published price quotations for the fair value of this investment. The Company's interest in the entity is accounted for using the equity method in the financial statements. The reporting date of the entity is 30 June which is within 3 months of the Company's reporting date. Abbott NZ Holdings Limited and the Company use uniform accounting policies.

The Company's share of profit for the 2022 year was $985,330 (2021: $1,202,539).

The following table illustrates the summarised financial information of the Company's investment in Abbott NZ Holdings Limited:

	2022	2021
Proportion of Company's ownership	25.25%	25.25%
Statement of Financial Position		
Current assets	35,123,093	39,467,262
Non-current assets	20,061,112	19,844,830
Current liabilities	(18,748,179)	(22,823,724)
Non-current liabilities	(6,299,137)	(5,992,397)
Net Assets	**30,136,889**	**30,495,971**
Company's share of net assets (25.25%)	7,609,564	7,700,233
Income Statement		
Revenue	20,162,677	22,479,939
Profit for the year from continuing operations	3,902,297	4,960,137
Company's share of profit for the year (25.25%)	985,330	1,252,435
Prior period earnings adjustment	(166,010)	-
Effect of changes in shareholding	-	(49,896)
Total Company's share of profit for the year	**819,320**	**1,202,539**
Movement in the carrying amount of the Investment in Associate:		
Balance at the beginning of the financial year	8,646,406	7,274,319
Additional investment and increase in shareholdings	-	691,734
Company's share of profits of the Associate	819,320	1,202,539
Company's share of dividends	(785,361)	(522,186)
Carrying amount of the investment	**8,680,365**	**8,646,406**

28 CONTINGENCIES

From time to time in the ordinary course of business, the Company may receive notifications of disputes from customers in regard to policies underwritten by the Company or policies underwritten by other providers but arranged by the Company under agency agreements. The Company has an established and formal dispute resolution process in place to resolve any disputes and is a member of the Banking Ombudsman Scheme which provides a free independent dispute resolution process for customers should any dispute fail to be resolved satisfactorily. Customers may also seek to resolve disputes through a court process. The Company does not consider the mere notification of a dispute as a contingent liability. As at 31 March 2022 no court proceedings had been filed in relation to any notified dispute (2021: Nil).

During the 2019 year the Company became aware that a distribution partner had sold credit related insurance policies to customers that were ineligible or may have been ineligible to claim on all the benefits provided by the policy. Eligibility criteria was held by the distribution partner and thereby the Company had no knowledge that policies had been issued to ineligible customers. The distribution partner made a voluntary disclosure to the appropriate regulatory bodies and sought approval for their remediation plan. In the prior year, the estimated amount of $86,000 for the Company's participation in the remediation plan was disclosed as a contingent liability. This plan has now been approved and the amount of $86,000 has now been recognised as an actual liability rather than a contingency.

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Notes to the Financial Statements

for the year ended 31 March 2022

29 COMMITMENTS

Capital Commitments

There were no material capital commitments at balance date (2021: Nil).

30 SUBSEQUENT EVENTS

Dividend

A dividend of $1,970,000 ($1.97 per share) was proposed and submitted to Board for approval on 17 June 2022. (2021: No dividend issued)

31 INSURER FINANCIAL STRENGTH RATING

Southsure Assurance Limited has an Insurer Financial Strength Rating of BBB+ (outlook stable) by Fitch Ratings (Affirmed on 25 February 2022).

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Appointed Actuary's Report

for the year ended 31 March 2022

Davies Financial and Actuarial Limited

10th June 2022

To: The Directors
Southsure Assurance Limited

From: Peter Davies
Appointed Actuary

Re: Southsure Assurance Limited: Report as at 31st March 2022 under Sections 77 and 78 of the Life Assurance (Prudential Supervision) Act 2010

You have asked me to prepare this report in terms of the above sections of the Act, and I would like to comment further as follows:

1. I have reviewed the actuarial information included in the audited accounts for Southsure Assurance Limited as at 31st March 2022. "Actuarial information" includes the following:

    - policy liabilities;
    - solvency calculations in terms of the RBNZ Solvency Standard;
    - balance sheet and other information allowed for in the calculation of the company's solvency position; and
    - disclosures regarding the methodology and assumptions used for calculating policy liabilities, and other disclosures.

2. No limitations have been placed on my work.

Level 1, Building 1, 61 Constellation Drive, Mairangi Bay, 0632 Telephone (09) 489-3551
P.O. Box 35-258, Browns Bay, Auckland 0753
e-mail: pdavies@actuary.co.nz
home page: www.actuary.co.nz

3. I am independent with respect to Southsure Assurance Limited as defined under professional standard ISA (NZ) 620 of the External Reporting Board.

4. I have been provided with all information that I have requested in order to carry out this review.

5. In my view the actuarial information contained in the financial statements has been appropriately included, and the actuarial information used in the preparation of the financial statements has been appropriately used.

6. Southsure Assurance Limited's actual solvency capital exceeds the minimum requirement of the RBNZ solvency standard as at 31st March 2022. The company is also projected to exceed the minimum requirement at all times over the next four years.

I would be very happy to answer any queries concerning this report.

Yours sincerely

Peter

Peter Davies B.Bus.Sc., FIA, FNZSA
Appointed Actuary

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Independent Auditor's Report

To the shareholder of Southsure Assurance Limited

Report on the audit of the financial statements

Opinion

In our opinion, the financial statements of Southsure Assurance Limited (the 'Company') on pages 6 to 32:

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 profit and loss, comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies.

Basis for opinion

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

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

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

Our firm has also provided other services to the Company in relation to a review of the Company's interim financial statements and reasonable assurance over the Company's year end insurer solvency return. 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.

Emphasis of matter

We draw attention to Note 2A *Correction of Prior Period Errors* to the financial statements which describes the identification of commission revenues recognised on a cash basis as opposed to when performance obligations were fulfilled. It further describes the adjustment that has been made to comparative figures for the commission revenue recognition error.

Our opinion is not modified in respect of this matter.

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 $300,000, determined with reference to a benchmark of the Company's 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.

The key audit matter	How the matter was addressed in our audit
Valuation of policy liabilities ($4.6m) and policy liabilities – reinsurance ($4.0m)	
Refer to Note 13 to the financial statements. The valuation of policy liabilities and policy liabilities – reinsurance 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. However, the on-going COVID-19 pandemic, plus new emerging risks such as the conflict in Ukraine and global supply chain issues, add to this uncertainty, in particular the assumptions around trauma and redundancy claims, the duration and incidence of disability income claims, including mental health, and economic assumptions such as inflation and discount rates. 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.	Our audit procedures included, in conjunction with our actuarial specialists: — Checking the completeness and accuracy of the data used in the valuation process. — 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 – actuarial and accounting standard requirements. — 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.

The key audit matter	How the matter was addressed in our audit
The key factors that affect the valuation of these balances are: — discount and inflation rates; — future maintenance and acquisition expenses; — mortality and morbidity rates; — discontinuance rates; — reinsurance rates; and — investment returns.	

Other information

The Directors, on behalf of the Company, are responsible for the other information included in the entity's Annual Report. Other information includes the Directors' Statement, Statement of Corporate Governance, Directors' Profiles, and Appointed Actuary's Report. 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 Nick Moss.

For and on behalf of

KPMG

KPMG
Auckland

22 June 2022