
Fidelity Life
THE NEW ZEALAND LIFE COMPANY

FIDELITY LIFE ASSURANCE COMPANY LIMITED

ANNUAL REPORT 2014


By providing insurance and savings solutions for
New Zealanders, Fidelity Life helps keep Kiwi
families strong today and tomorrow.

FIDELITY LIFE
# ANNUAL REPORT 2014

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### STEWARDSHIP

We make wise and prudent use of the resources entrusted to us for safe keeping

### FIDELITY

We retain our original focus to 'keep faith' in times of need

### LISTENING & RESPONDING

We engage in dialogue to create value through our relationships

## FIDELITY LIFE KEY FACTS

**2014 TOTAL COMPREHENSIVE INCOME:** $35 million

**TOTAL ASSETS:** $662 million

**NUMBER OF STAFF:** 300

**POLICYHOLDERS:** Over 125,000

**MARKET SHARE OF IN-FORCE BUSINESS:** 10%

**NET NEW BUSINESS ANNUALISED PREMIUM INCOME:** $18 million

**EQUITY:** $186 million

## SIGNIFICANT EVENTS OF THE YEAR

- Record total comprehensive income
- Fidelity Life completes the acquisition of life insurance policies from TOWER
- 258 Auckland staff now located in the Newmarket office
- Fidelity KiwiSaver Scheme divested
- Flexible Income Protection product launched

# FIDELITY LIFE - OUR GROWTH

*At Fidelity Life we strive for both excellence and integrity, and see all our shareholders, staff, policyholders and advisers as part of our family. Our strength and growth has come as a result of the continuous effort and achievements of this family for more than 40 years.*

| | |
|---|---|
| 1973 | Fidelity Life Assurance Company Ltd incorporated by Gordon and Shirley Watson |
| 1976 | Fidelity House established in Liverpool St Auckland CBD |
| 1980 | First death claim paid |
| 1983 | Computerised administration introduced with MIDAS quote software |
| 1988 | First HP computer system introduced |
| 1996 | A.M. Best rating of A- (Excellent) awarded (remains current to this day)[1] |
| 1999 | Staff numbers exceed 50 |
| 2001 | Milton Jennings appointed as CEO |
| 2004 | Purchased insurance operations of Lumley Insurance |
| 2006 | Staff numbers exceed 100 |
| 2007 | Launched Fidelity KiwiSaver Scheme |
| 2007 | Farmers Mutual Life purchase |
| 2012 | Online application system launched |
| 2013 | Acquisition of life insurance policies of TOWER Health & Life Limited and group risk policies of TOWER Life (N.Z.) Limited |
| 2013 | Fidelity KiwiSaver Scheme is divested to Grosvenor Financial Services Group Limited |
| 2014 | Acquired systems and staff integrated into the Newmarket office |
| 2014 | Staff numbers reach 300 |

[1] A copy of the rating scale is available from Fidelity Life.

# THE BOARDROOM

CHAIRMAN
IAN BRADDOCK

DIRECTOR
COLIN WISE

DIRECTOR
JEFF MELTZER

DIRECTOR
CAROLE DURBIN

DIRECTOR
ANNE BLACKBURN

DIRECTOR
ROGER GARRETT*

CHIEF EXECUTIVE OFFICER
MILTON JENNINGS

APPOINTED ACTUARY
JOHN SMITH

CHIEF FINANCIAL OFFICER
ED EADIE

* Roger Garrett was appointed to the Board on 7 May 2014. He passed away on 23 June 2014.


*Fidelity Life has delivered a record profit and made significant progress on the integration of the recent acquisition.*

On behalf of the Board of Directors I am very pleased to announce total comprehensive income for the year ended 30 June 2014 of $35.3m, more than double the $17.5m in 2013. Excluding non-recurring transaction related gains of $13.6 million during the year, the Company's underlying income increased 24% to a record $21.7 million.

In my 2013 report I talked of the challenges ahead, with particular reference to integrating the newly acquired policies and growing the businesses. It is especially pleasing that this record underlying profit has been achieved in conjunction with record new business production and meeting all our first year integration milestones.

## Significant transactions

On 1 August 2013, one month into the financial year, we completed the purchase of the life insurance policies of TOWER Health & Life Limited and the group risk business of TOWER Life New Zealand Limited ('acquired policies'). Through the purchase, the Company took on management of life insurance policies with an aggregate annual in-force premium in excess of $80.0 million; the purchase price being derived with reference to the value of in-force business. At completion we paid $73.7 million cash consideration for the acquired polices and the associated working capital balances. Integration of this business has been a central focus for the Company during the year and Milton Jennings' report will provide further details on this.

In July 2013 we announced the sale of the management rights in the Fidelity KiwiSaver Scheme to Grosvenor Financial Services Group Limited ('Grosvenor') for $16.5 million, which comprised cash and a shareholding in Grosvenor. The divestment completed in August 2013 and has resulted in one-off net income, after transaction costs, of $16.2 million. This is reported as part of the results of discontinued operations.

During the year we acquired the remaining shares in TriMax Assurance Services Limited ("TriMax"), a joint venture we originally set up with Grosvenor in 2005; together with the rights and obligations in relation to a management agreement held. This gave a rise to a net of tax expense of $1.6 million in the year. This deal will see us benefit from estimated annual cost savings of around $0.5 million.

These transactions clearly show our willingness to pursue opportunities for sustainable growth and to focus on our core strengths. In addition the Company continues to look at ways of improving efficiency and managing its cost base.

## Financial Results

A key driver behind these transactions was increasing our share of business written by financial advisers. In the year we saw this goal realised with net new business production increasing from a then record of $14.8 million in 2013 to $18.1 million in 2014. Overall, premium income has increased to $185.0 million, with the pre-acquisition business increasing 10%. The acquired policies contributed $70.1 million, which was higher than budgeted as a result of fewer cancellations than expected on transferring policies. Net premium revenue, after cessions to reinsurers, increased 23% to $85.0 million.

During the year we entered into reinsurance arrangements for the acquired policies. These have resulted in a significant increase in premium ceded to reinsurers and claim recoveries from reinsurers. In addition, we have received $14.2 million as fee income for integration and policy administration, which explains the significant increase in other income during the year. This income is offset by the increase in management expenses associated with the acquired policies.

Investment income was broadly in-line with 2013. The Company benefitted from favourable market conditions, despite low returns from cash and fixed interest. In addition, funds under management increased significantly, as a result of the receipt of over $100.0 million from UK pension transfers. This provided a higher base of funds under management on which to generate returns. The majority of our investment income is for the benefit of policyholders and is mirrored by the increase in policyholder funds. However, our shareholder investments contributed $3.9 million towards reported profit.

Gross claims for the year were $90.2 million. The claims ratio of 49% (2013: 53%) remains higher than the industry average. Net claims from pre-acquisition policies were marginally higher than 2013 at $16.2 million.

Commission and management expenses increased substantially during the year to $97.9 million in line with expectations. The higher in-force premium base, record new business production and record levels of investment deposits have led to a 30% increase in commissions paid to advisers. Management expenses, excluding corporate finance activities, have increased 75%. This includes the 65 staff who joined Fidelity Life to administer the acquired policies and the significant costs associated with the integration of people, processes and systems.

As previously reported to shareholders, new life assurance tax rules came into effect in 2010, reducing the level of tax relief that New Zealand life assurance companies previously obtained. 2014 was the fourth year of a five year transition period. The tax expense attributable to shareholders has increased by $3.6 million this year. The transition to full taxation places significant pressure on us to produce satisfactory after tax returns. In this respect it was particularly pleasing that the Company's net insurance income before tax, which excludes the gains on the KiwiSaver divestment, increased by 54% in the year.

## Financial strength

Total assets have grown by 12% to $661.5 million as investment valuations improved and contributions increased. Also during the period, shareholders' funds have grown 20% to $186.0 million, due to the reported profit less the dividend paid in October 2013.

Against a backdrop of the substantial transactions and a highly competitive operating environment, the Company has managed to record a strong underlying profit for the period. The Board has therefore authorised an ordinary base dividend of $3.15 per share. This compares to the total 2013 dividend of $3.00 per share which included a special dividend of $0.58 per share. Consistent with 2013, we are unable to impute dividends now or in the near term.

Our ability to meet future dividend growth targets is subject to profit levels and maintaining prudent solvency margins. The Board have adopted a target range for the solvency ratio of between 125% and 135%. Our solvency margin of 124% (2013: 131%) is slightly below the bottom of this range, but during the year our actual solvency capital has improved by 17%. The Board and management will continue to closely monitor the solvency position to ensure that we move back into the target range in the coming months.

You may have noticed a change in our disclosures around solvency. We are now required by legislation to maintain a statutory fund through which we must separately identify amounts received and paid out in respect of life insurance policies. The statutory fund, which is subject to minimum solvency requirements, provides our policyholders with certain protections designed to ensure policyholder assets are appropriately protected. The solvency ratio of 113% for the statutory fund is above the Board's target of 110%.

As reported last year, following the announcement of the acquisition, A.M. Best maintained our A- (Excellent) rating, but placed us on review with negative implications. On 13 February 2014, for the 18th consecutive year A.M. Best affirmed our A- (Excellent) rating, replacing the review with negative implications with a stable outlook.

## Outlook

The Board and senior management have been working closely together to build a strategy for the future success of the Company. This includes enhancing our distribution and product offerings as well as improving our operational performance. Our focus remains to prudently and successfully grow the business, offer long-term stability for our policyholders and deliver acceptable returns to our shareholders.

We will continue to assess opportunities as they arise to see if they can benefit the Company. As we enter 2015 we will be focussed on continuing the success of the integration and delivering on our strategic objectives, to ensure a very positive outcome for all stakeholders.

We operate in a competitive environment, with ever-changing legal, regulatory and tax requirements. One such example is the Financial Markets Conducts Act, which will have far reaching legislative change for our superannuation products from 2016. The Company will continue to adapt to the environment it in which it operates and ensure that it is well placed to meet these challenges. At the same time we will remain true to our philosophy of protecting the New Zealand way of life.

## Acknowledgements

Just as our year started with excitement, it has ended with great sadness. In May 2014, I had pleasure in announcing the appointment of Roger Garrett to our Board, who brought with him a wealth of experience, in particular in the life insurance industry. Tragically though, Roger passed away suddenly in June. In July, we also learnt the sad news of the death of Klaas Kuipers, who was our chief executive officer between 1990 and 1997. Our condolences go to both Roger's and Klaas' families.

I would like to take this opportunity to thank those who have shown loyalty and commitment to Fidelity Life during the year; in particular our policyholders and the large network of financial advisers. One of Fidelity Life's major strengths is it broad based range of strategic partnerships and long-term relationships. I would like to express my continued appreciation to all of these stakeholders including the reinsurers, fund managers and professional consultants who continue to support us.

In particular I would like to thank Milton Jennings, his management team and all the staff, for their hard work and dedication to the Company throughout the year. The success of the integration thus far is testament to the attitude and commitment of every one of our staff.

Finally, I thank my fellow directors for their collective contribution and on-going commitment to Fidelity Life.

Ian Braddock

IAN BRADDOCK
CHAIRMAN

# FINANCIAL SUMMARY

for the years ended 30 June

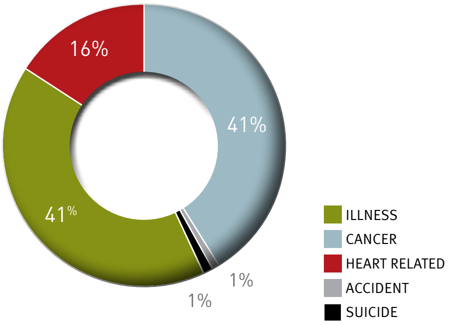
| Dollars in thousands | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Ordinary risk premium | 185,037 | 104,134 | 95,048 | 86,746 | 80,716 |
| Investment income | 40,120 | 39,407 | 3,391 | 45,128 | 54,398 |
| Claims expense | 90,247 | 54,671 | 44,649 | 39,549 | 38,534 |
| Net profit after taxation | 35,136 | 17,075 | 13,644 | 18,314 | 16,916 |
| Ordinary dividend per share | $3.15 | $2.42 | $2.20 | $1.70 | $1.32 |
| Special dividend per share | – | $0.58 | – | $0.30 | $0.15 |
| Earnings per share (year-end) | $24.41 | $11.86 | $9.48 | $12.73 | $11.76 |
| Shareholders' equity | 185,961 | 154,712 | 140,401 | 129,089 | 112,661 |
| Policyholder liabilities | 380,005 | 307,619 | 281,895 | 289,851 | 290,377 |
| Total assets | 661,523 | 588,499 | 540,293 | 531,130 | 529,948 |
| Shares on issue | 1,439 | 1,439 | 1,439 | 1,439 | 1,439 |

# 2014 CLAIM STATISTICS

for the year ended 30 June 2014

## Causes of Death and Terminal Illness 2014

In the past three years (2012-2014) Fidelity Life has paid a total of $96,521,000 million in death and terminal illness claims. The details below are for one year to 30 June 2014.




### Some Interesting Facts:

344 Death and Terminal Illness Claims totalling $48,796,000
Youngest claimant: 28 – Oldest claimant: 89
Average age of claimants: 60

**FEMALE**

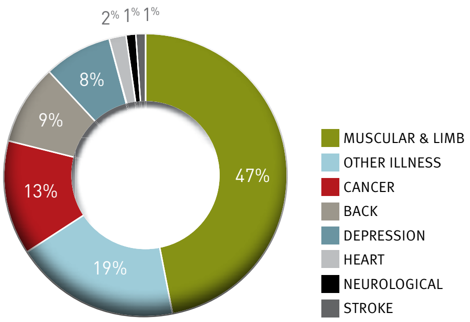
- 32% of death claims
- 38% of death claims were from cancer
- 36% of terminal illness claims were female
- 85% of terminal illness claims were for cancer

**MALE**

- 68% of death claims
- 22% of death claims were for heart issues
- 64% of terminal illness claims were male
- 83% of terminal illness claims were for cancer

## Types of Income Protection Claims 2014

In the past three years (2012-2014) Fidelity Life has paid a total of $38,675,000 million in income protection claims. The details below are for one year to 30 June 2014.

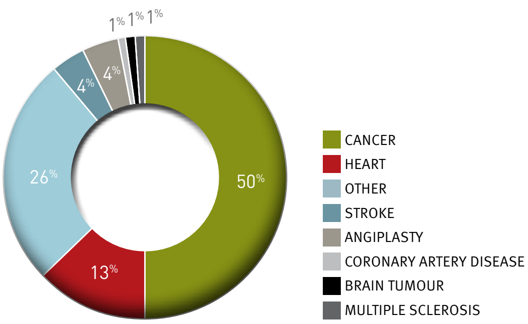



### Some Interesting Facts:

Gross income protection claims $19,561,000
Claims due to illness 53%
Claims due to accident 47%
Average insured monthly benefit paid $3,521

## Types of Critical Care Claims 2014

In the past three years (2012-2014) Fidelity Life has paid a total of $51,966,000 million in critical care claims. The details below are for one year to 30 June 2014.




### Some Interesting Facts:

Gross critical care claims $21,897,000
Youngest claimant: 8 – Oldest claimant: 83
Average age of claimants: 55

**FEMALE**

- 40% of claims
- 65% of claims were for cancer
- 37% were for breast cancer

**MALE**

- 60% of claims
- 37% of claims were for cancer

CASE STUDY

# THE RUMBLE WITHIN

*A mental health story*

*For most people the enduring impact of the Christchurch earthquake of 22 February 2011 was the shocking loss of 185 lives. Much less obvious has been the impact on the mental health of Cantabrians post quake. This is one such story.*

Working life in the Garden City in January 2011 was as good as it gets. Great job running a national organisation from a Christchurch CBD head office base, supportive Board of Directors, committed staff and low staff turnover.

And then the quake hit and the world changed. From order to chaos within a few seconds. Staff were asked to work from home and for some that meant working from a relative's home because their own was damaged.

After 15 years, the wheels slowly started falling off. Office expenses skyrocketed because staff were working from home and our insurers wouldn't pay out on contents because they couldn't get in to see them. The financial pressures started.

Initially I coped reasonably well in those first few weeks following the quake but I gradually tired from the pressure. We were operating in a war zone and people from outside of Christchurch expected business as usual.

To add to the pressure, our funders then made it clear that they wanted to reduce the number of organisations such as ours. A merger was imminent.

Around this time I became acutely aware that there was something wrong with me and sought help from conventional sources. The GP prescribed anti-depressant treatment but when it had no effect he referred me to a psychotherapist and eventually to a psychiatrist. I was suffering from a post-traumatic stress disorder.

Even though I had sought professional help, my problems continued. At work a disciplinary action was taken against me. However because the incidents were largely post-quake, the action failed and a settlement was reached. I left the organisation.

For most of my working life I had paid into an income protection policy. I always thought it would help out the family if I got a serious injury or cancer. Never did I think it would be needed because of my state of mental health. So it was with a mixture of relief and sorrow that I found I was covered by my policy. My insurer, Fidelity Life, was absolutely brilliant. Not only were they flexible enough to include Post Traumatic Stress Disorder as a genuine diagnosis within the terms of the policy but they also funded a recovery Pathway to Work programme.

And so here we are in 2014 and if I'm really honest things are still not great. I've lost memory function and I've withdrawn from the world. Having said that, I can see some light at the end of the tunnel and that is due to the Pathway to Work programme and the financial backing of Fidelity Life.

While I am still a work in progress the signs are optimistic of a return to a level of functioning that will allow me to return to employment in some capacity. Left to my own devices without my insurance policy, I would have retired to a shack in the Maniototo.

*This is a true story, Fidelity Life has the permission of the customer to reprint the story.*

*"The only people who truly know your story, are the ones who help you write it."*

– Anonymous


*A year of transformation for Fidelity Life.*

The past year has seen the business achieve a number of important strategic objectives including significant progress with the integration of the business acquired from TOWER and the divestment of the Fidelity KiwiSaver Scheme. The financial implications of both transactions are clear to be seen in these annual accounts. It is evident that the business has undergone a transformation in terms of our overall market position, with the benefits now being reflected in all aspects of the business.

## Financial result

It is especially pleasing to deliver a 101% increase in comprehensive income for the year. Even when adjusted to exclude net income from the transactions outlined by the Chairman, our profit is significantly up on 2013, in what remains a challenging operating environment.

Unprecedented new business production of $18.1 million, complemented by the uplift in in-force premium generated by the acquired policies, has contributed to the significant growth in our top line. For the twelve months to June we had a 10% market share of new business, up from 7% the previous year. We also have a 10% share of the in-force annual premium, ranking us third in the market. Despite on-going competition, we continue to see the opportunity for growth in new business and in 2015 we will be looking to consolidate our market position.

This growth in our premium income was complemented by strong returns on our shareholder investments. Although we adopt a conservative approach to these investments, the returns we achieved are encouraging given cash and fixed interest market returns were subdued. Policyholders also enjoyed positive returns in all portfolios over the 12 month period.

Claims patterns are difficult to predict as death and disability strike at random. Claims expense in the year increased, but overall mortality and morbidity experience, which includes movements in policyholders' liabilities, was better than expected. Claims experience is the key factor underlying the cost of reinsurance, which is putting pressure on premium rates.

The Chairman has reported on commissions and management expenses, which although in line with budget, were significantly higher than 2013. It is important that the business now refocuses on controlling expenditure and reducing the expense ratio. As integration proceeds, productivity gains will emerge; and my management team are all focussed on ensuring that costs are appropriately managed within their departments.

During the year we saw strong flows into our superannuation products as a result of a high volume of UK pension transfers, which boosted our overall funds under management. A recent change in tax legislation placed a spotlight on this area and encouraged many people to arrange the transfer of their UK-based pension amount into our Qualifying Recognised Overseas Pension Scheme (QROPS) scheme; one of the few non-KiwiSaver options available in the local market.

## Integration of acquired policies

Reflecting on the amount of work involved to make the integration a success, I am hugely proud of the Fidelity Life team at every level. Bringing together two businesses presents a number of challenges and I am pleased to report that the process is being managed efficiently and with minimal disruption to our day-to-day business activity.

A key aim of the integration was to get all our Auckland staff together in one building as soon as possible. Our Head Office in Newmarket has been refitted and merged teams relocated, so we are now working together as a single team in a single office. I would also like to note that in October 2014 we will be relocating our Wellington office, still in Lower Hutt, but to a better situated and more appropriately sized location for our expanded team.

The successful integration can in large part be attributed to the experienced team who led the project. I would like to acknowledge Andrew Schmidt, Stephen Ladanyi and Rowan Hill. They, with support from many people throughout the business, have ensured that transferring staff were made to feel part of the Fidelity Life family and also that our policyholders and financial advisers underwent a smooth transition.

## Distribution

The ongoing development of strategic relationships has seen us work closely with health insurance provider, nib; the company that purchased TOWER Medical Insurance Limited in late 2012. Together we have created an integrated process whereby advisers are able to quote and apply for both health and risk products using a single application. The nib relationship provides some synergies and is an exciting new initiative for the Company. Meanwhile we continue to work with Grosvenor (who have since attained default KiwiSaver provider status) to grow their KiwiSaver business while promoting risk to their significant investor base.

Through our acquisition the Company has engaged with a wider network of advisers than ever before. During the period we received and assessed almost 500 new adviser agency agreements. Importantly, not all applications are successful as we deliberately aim to attract advisers of the highest standard.

The adviser network is ably supported by our very strong team of Business Development Managers and sales staff throughout the country. We strive to ensure the service our team provides to the advisers is the best in the industry; as we recognise that the strength of our adviser relationships is the backbone of our success to date. On that note, I would like to acknowledge and thank our adviser network for their continued support and loyalty.

## Technology

During the year we have invested in and developed a number of new technology solutions. An important innovation has been our work in creating integrated services with third party providers of industry software for advisers. This is an area where we are a leader in the industry and adding value to the adviser relationship through technology services. We continue to invest in our electronic underwriting application which is gaining significant momentum in the market; and clearly shows the direction in which the life insurance market is moving.

Another area of innovation is our shared services model. This allows collaboration with other industry providers like nib, to provide a seamless customer framework for the sale of risk products. This is demonstrated by the combined online illustration and application process described above.

As well as developing new solutions, our I.T. team has been instrumental in the integration project. Clearly the migration of this amount of critical data required meticulous planning and involved the replication and migration of a number of systems. To achieve this while still maintaining our position as a technology driver for advisers, is testament to the strength of our team.

## Retention

As I have mentioned, during the year we have focussed energy and resources on progressing the integration, supporting our distribution channels and leveraging our key strategic relationships. Of particular importance is our ability to retain the existing business. As a life insurer in a competitive environment we need to ensure that we have high quality products at the right price. We also need to ensure that we offer long-term and stable protection to our policyholders. Our spread commission model helps financial advisers build long-term value in their business and we believe that this supports their ability to better serve their clients.

## People

Our headcount continues to grow as we recognise the need to build capability across key areas of the business. The total number of staff has now reached 300 and we continue to attract and recruit high quality people from around the industry.

Staff remain a top priority. As numbers grow, it is a challenge to maintain the culture that has been the cornerstone of the Company for so long; so we regularly talk to and survey employees to get their feedback. This has helped with the successful transition of transferring staff, but also the existing staff who have been through a year of significant change. Overall our annual employee retention rate is 86% and our average length of service is approaching six years.

Further to the Chairman's Report I would like to acknowledge the achievements of Klaas Kuipers during his 14 years at Fidelity Life as actuary and chief executive officer. He developed most of the products that are the backbone of the Company today as well as the computer systems that ensured we had the base to lead the market in technology and innovation. The Company owes Klaas a great deal of gratitude. On a personal level I would also like to thank Klaas for his encouragement and advice, ultimately resulting in my appointment as Chief Executive Officer.

## Community

As a proud Kiwi company we continue to recognise the importance of community involvement and operating in a socially responsible manner. This is why we provide loyal support to a number of charity partners. In particular we support Leukaemia & Blood Cancer New Zealand and this year staff were again active in participating in a number of their fundraisers, including Shave for a Cure, the Golf Marrowthon 100 Hole Challenge and the Sky Tower Challenge. This year we have also provided office space to the Foundation for Youth Development and were the major sponsor for the Multiple Sclerosis Society Life Buoy Charity Day.

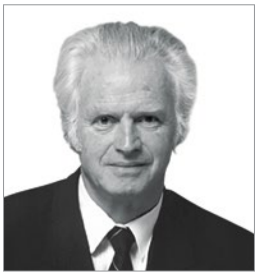
## Future focus

Progressing the integration, the divestment of the Fidelity KiwiSaver Scheme and the development of key strategic alliances provides a strong foundation on which to build. The Board and senior management are working closely together on further refining our role and place in the New Zealand market and identifying new ways for the Company to continue to build on the success of the last forty years.

Our focus is on maintaining a sustainable growth trajectory, adding value to our advisers' businesses, creating long-term value for shareholders and sustainable protection for policyholders. I believe we are now well positioned to deliver that through a number of strategic initiatives that will be progressively rolled out over the next few years.

I would like to thank the Board, my senior management team, all their staff, advisers and shareholders for the support they have shown to the Company over this period. The Company operates in a dynamic and challenging market, but one full of opportunity and promise. I am confident that we are on the right path for a bright and successful future.

MILTON JENNINGS
CHIEF EXECUTIVE OFFICER



*Klaas Kuipers, Fidelity Life Actuary and Chief Executive Officer – 1987 to 2001.*


"It's not our job to shape
our children but to nurture
who they really are."
– Anonymous

# STATUTORY AND OTHER DISCLOSURES

for the year ended 30 June 2014

| | Direct shareholdings | | Indirect beneficial shareholdings | | Total remuneration and other benefits |
|---|---|---|---|---|---|
| Director | As at 30 June 2014 | Increase/ (decrease) during the year | As at 30 June 2014 | Increase/ (decrease) during the year | |
| **Ian Braddock** Chairman | 531 | – | 9,933 | – | $149,403 |
| **Colin Wise** Director | 500 | - | 8,354 | – | $74,701 |
| **Jeff Meltzer** Director | 517 | – | 10,342 | – | $74,701 |
| **Carole Durbin** Director | 3,750 | – | – | – | $74,701 |
| **Anne Blackburn** Director | 500 | – | – | – | $74,701 |
| **Roger Garrett*** Director | – | – | 500 | 500 | $12,450 |

## Information on directors of the parent company

In accordance with the Company's constitution, Jeff Meltzer and Carole Durbin retire by rotation at the AGM and being eligible, offer themselves for re-election.

Jeff Meltzer is a trustee of the Fidelity Family Trust, which holds 788,370 (2013: 788,370) shares in Fidelity Life.

Ian Braddock is a trustee of the Fidelity Life Employee Share Purchase Scheme which holds 12,360 (2013: 20,900) shares in Fidelity Life.

## Director's insurance

In accordance with the constitution, Fidelity Life Assurance Company Limited and its subsidiaries have arranged policies of directors' and employees' liability insurance which, together with a deed of indemnity, ensure that directors will incur no monetary loss as a result of actions undertaken by them as directors provided they operate within the law. The directors certified that the premium was fair and reasonable to the Company.

## Subsidiary Company Directors

| | Ian Braddock | Colin Wise | Jeff Meltzer |
|---|---|---|---|
| Fidelity Fund Management Limited | | • | • |
| Fidelity Capital Guaranteed Bond Limited | • | • | • |
| Fidelity Securities Limited** | • | | • |

No subsidiary company director received in his capacity as such, directors' fees nor other such benefits.

* Roger Garrett was appointed to the Board on 7 May 2014. He passed away on 23 June 2014.

** Fidelity Securities Limited was sold to Grosvenor Investment Management Limited on 23 August 2013. Ian Braddock and Jeff Meltzer resigned as directors on that date.

## Employee remuneration

Details of total remuneration packages including grossed-up benefits for employees of the parent company are set out below.

| Remuneration ranges | Number of employees in each band | |
|---|---|---|
| | 2014 | 2013 |
| $660,000-$670,000 | 1 | 0 |
| $460,000-$470,000 | 1 | 1 |
| $450,000-$460,000 | 1 | 0 |
| $440,000-$450,000 | 0 | 1 |
| $320,000-$330,000 | 0 | 1 |
| $290,000-$300,000 | 3 | 0 |
| $280,000-$290,000 | 0 | 1 |
| $270,000-$280,000 | 0 | 1 |
| $250,000-$260,000 | 1 | 1 |
| $240,000-$250,000 | 0 | 4 |
| $230,000-$240,000 | 5 | 0 |
| $220,000-$230,000 | 0 | 3 |
| $210,000-$220,000 | 3 | 0 |
| $200,000-$210,000 | 3 | 0 |
| $190,000-$200,000 | 5 | 2 |
| $180,000-$190,000 | 2 | 4 |
| $170,000-$180,000 | 2 | 4 |
| $160,000-$170,000 | 8 | 3 |
| $150,000-$160,000 | 4 | 1 |
| $140,000-$150,000 | 4 | 1 |
| $130,000-$140,000 | 6 | 5 |
| $120,000-$130,000 | 5 | 8 |
| $110,000-$120,000 | 12 | 6 |
| $100,000-$110,000 | 20 | 9 |

## Auditors

PricewaterhouseCoopers have indicated their willingness to continue as auditors of the Group.

## Use of company information

No notices were received from directors regarding the use of company information that would not have been available to them other than in their capacity as directors.

## Events after balance date

The directors are not aware of any matter or circumstance since the end of the financial year, not otherwise dealt with in this report or the attached financial statements that has significantly affected the operations of Fidelity Life Assurance Company Limited.

## Shareholders

The following table shows the names and holdings of the ten largest shareholders of the Company as at 30 June 2014.

| Shareholders | Shares held |
|---|---|
| 1. Whale M J & Meltzer J P | 788,370 |
| 2. Burgess G A J & Burgess M S | 263,867 |
| 3. Farmers' Mutual Group | 166,185 |
| 4. Trotter K & Childs P & Hughes C | 24,096 |
| 5. Alison D J & Alison K H | 12,360 |
| 6. Braddock I L & Jennings M J | 13,636 |
| 7. Meltzer J P & Porus J L | 10,342 |
| 8. Alison K H & Alison D J & Webber J E | 9,958 |
| 9. Braddock I L & Braddock F M | 9,933 |
| 10. Hamilton Y D & Vanderwee J C & Hamilton R B & Hamilton G R | 9,471 |

# STATEMENT OF CORPORATE GOVERNANCE

for the year ended 30 June 2014

*The directors are elected by the shareholders and are accountable for the performance of the group and compliance by the group with laws and standards.*

## The Board

The Board of Directors controls and monitors the business of Fidelity Life Assurance Company Limited and subsidiary companies on behalf of the shareholders. The directors are elected by the shareholders and are accountable for the performance of the Group and compliance by the Group with laws and standards. The Board has adopted the Financial Markets Authority "Principles and Guidelines of Corporate Governance" as a framework against which the Board monitors and reviews its corporate governance.

## Board membership

At 30 June 2014 the Board comprised five non-executive directors, including a non-executive chairman.

## Board attendance

Attendance at the scheduled and unscheduled formal meetings of the Board and its committees for the period 1 July 2013 to 30 June 2014 was as follows:

| | Board | | Audit & Risk | | Nomination | | Remuneration |
|---|---|---|---|---|---|---|---|
| | Scheduled | Unscheduled | Scheduled | Unscheduled | Scheduled | Unscheduled | Scheduled |
| **Meetings** | 9 | 5 | 5 | 3 | 1 | 6 | 2 |
| **Ian Braddock** | 9 | 5 | 5 | 3 | 1 | 6 | 2 |
| **Colin Wise** | 7 | 4 | n/a | n/a | 1 | 5 | 2 |
| **Jeff Meltzer** | 8 | 3 | 4 | 2 | 1 | 6 | n/a |
| **Carole Durbin** | 9 | 5 | 5 | 3 | 1 | 6 | n/a |
| **Anne Blackburn** | 8 | 4 | 5 | 3 | 1 | 5 | 2 |
| **Roger Garrett*** | 1 | 1 | n/a | n/a | n/a | n/a | n/a |

Board members also attended a number of informal meetings during the year.

* Roger Garrett was appointed to the Board on 7 May 2014. He passed away on 23 June 2014.

## Committees

The Board has formally constituted three Board committees: the Audit & Risk Committee, the Remuneration Committee and the Nomination Committee.

**Audit & Risk Committee:** Established as a link between the Board and external auditors. Provides independent oversight of the effectiveness of the Company's financial reporting and risk management processes. Committee membership is reviewed annually.

**Members:** Anne Blackburn (Chair), Ian Braddock, Jeff Meltzer and Carole Durbin.

**Remuneration Committee**: Established to assist the Board with the remuneration structures for the Company's Chief Executive Officer and senior executives.

**Members:** Colin Wise (Chair), Ian Braddock and Anne Blackburn.

**Nomination Committee:** Established to assist in the planning of the Board's composition and the appointment of new directors.

**Members:** all directors.

## Directors' shareholdings

Directors are required to hold at least 500 shares. They must refrain from dealing in the Company's shares except for the periods from the announcement of annual results to 30 November, and the announcement of half year results to 30 April; and must refrain from trading at any time if they have market sensitive information. The same restrictions are imposed upon senior management.

## Directors' fees

The level of non-executive directors' fees was last approved at the shareholders meeting on 24 October 2013 as $65,000 per director and $130,000 for the chairman.

No additional fees are paid for attendance at Board committee meetings.

## Non-executive directors' superannuation fund

In accordance with the Company's constitution, it has been the Company's policy to pay a sum into a superannuation fund for each director's retirement. This amount is equal to 10% of that director's fees after the deduction of all taxes payable, as settled by the Company. Distribution of the proceeds is at the discretion of the trustees of the fund.

## Ethics

The Board has adopted the Code of Proper Practice for Directors of the New Zealand Institute of Directors. The Board acknowledges the need for the continued maintenance of a high standard of corporate governance practices and ethical conduct by all directors and employees of Fidelity Life Assurance Company Limited.

## Delegational framework

The Board has formally delegated to the Chief Executive Officer the day-to-day management of the Group. The Chief Executive Officer recommends to the Board changes in the business, performance, goals, strategies and plans of the Group.

Comprehensive formal delegations of financial authority to management are in place, as are agreed policy frameworks with respect to the principal operational aspects of the Group.

Annual budgets and longer term strategic financial plans are agreed by the Board, which in turn monitors management's performance relative to the goals and plans.

## Internal controls

The Group has in place an integrated framework of controls designed to safeguard the Group's assets and interests and to ensure the integrity of its reporting. The overall framework has been developed and guidelines formulated for risk management structures and processes in areas additional to financial risk.

## Business risks

All committee duties have been developed to allow the board to identify and manage the various business risks faced by the Group. In order to ensure that procedures are current and comprehensive, the responsibilities of each committee are reviewed annually.

# FINANCIAL STATEMENTS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| | | Group | | Parent | |
|---|---|---|---|---|---|
| | Note | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 |
| **Insurance business** | | | | | |
| **Revenue** | | | | | |
| Insurance premium revenue | | 185,037 | 104,134 | 185,037 | 104,134 |
| Insurance premium ceded to reinsurers | 7 | (100,073) | (35,191) | (100,073) | (35,191) |
| Fee and commission income | 8 | 5,032 | 891 | 2,388 | 891 |
| Investment income | 9 | 40,120 | 39,406 | 40,120 | 39,406 |
| Property income | 10 | 571 | 1,284 | 571 | 1,284 |
| Other income | 11 | 14,922 | 65 | 14,910 | 65 |
| **Total insurance revenue** | | 145,609 | 110,589 | 142,953 | 110,589 |
| **Expenses** | | | | | |
| Claims expense | 12 | 90,247 | 54,671 | 90,247 | 54,671 |
| Reinsurance recoveries | 13 | (71,084) | (38,685) | (71,084) | (38,685) |
| Net change in life insurance contract liabilities | 30 | (19,841) | (13,142) | (19,841) | (13,142) |
| Net change in life investment contract liabilities | 31 | 20,042 | 23,378 | 20,042 | 23,378 |
| Commission and management expenses | 14 | 97,908 | 64,640 | 95,351 | 64,640 |
| **Total insurance expenses** | | 117,272 | 90,862 | 114,715 | 90,862 |
| **Net profit before tax from continuing operations** | | 28,337 | 19,727 | 28,238 | 19,727 |
| Income tax expense | 15 | 9,682 | 3,280 | 9,654 | 3,280 |
| **Net profit after tax from continuing operations** | | 18,655 | 16,447 | 18,584 | 16,447 |
| **Net discontinued operations income after tax** | 16 | 16,481 | 628 | 16,481 | 628 |
| **Profit for the year attributable to the owners of the Company and Group** | | 35,136 | 17,075 | 35,065 | 17,075 |
| **Other comprehensive income** | | | | | |
| **Items that will not be reclassified to profit or loss:** | | | | | |
| Revaluation movement, net of tax | 34 | 104 | 400 | 104 | 400 |
| Employee share purchase plan | 33 | 45 | 59 | 45 | 59 |
| Other comprehensive income for the year, net of tax | | 149 | 459 | 149 | 459 |
| **Total comprehensive income for the year attributable to the owners of the Company and Group** | | 35,285 | 17,534 | 35,214 | 17,534 |
| **Total comprehensive income for the year attributable to the owners of the Company and Group arises from** | | | | | |
| Continuing operations | | 18,804 | 16,906 | 18,733 | 16,906 |
| Discontinuing operations | | 16,481 | 628 | 16,481 | 628 |
| | | 35,285 | 17,534 | 35,214 | 17,534 |
| **Basic and diluted earnings per share** | | | | | |
| From continuing operations | 36 | 12.96 | 11.43 | | |
| From discontinued operations | 36 | 11.45 | 0.43 | | |

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

# STATEMENTS OF FINANCIAL POSITION

as at 30 June 2014

| | | Group | | Parent | |
|---|---|---|---|---|---|
| | Note | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 |
| **Assets** | | | | | |
| Cash and cash equivalents | 17 | 27,079 | 12,984 | 26,852 | 12,790 |
| Assets arising from reinsurance contracts | 18 | 21,540 | 12,091 | 21,540 | 12,091 |
| Financial assets at fair value through profit or loss | 19 | 518,174 | 485,463 | 518,174 | 419,850 |
| Derivative financial instruments | 19 | 2,106 | 857 | 2,106 | 857 |
| Loans and other receivables | 21 | 32,611 | 31,520 | 32,598 | 31,520 |
| Investment property | 22 | - | 10,203 | - | 10,203 |
| Property, plant and equipment | 23 | 21,241 | 10,121 | 21,241 | 10,121 |
| Investment in subsidiaries | 24 | - | - | 7 | 8 |
| Income tax asset | 15 | 7,923 | 3,881 | 7,923 | 3,881 |
| Deferred tax assets | 25 | 24,641 | 17,065 | 24,621 | 17,065 |
| Deferred acquisition costs – investment | 26 | 11 | 6 | 11 | 6 |
| Intangible assets | 27 | 6,197 | 4,283 | 6,197 | 4,283 |
| **Total assets** | | 661,523 | 588,474 | 661,270 | 522,675 |
| **Liabilities** | | | | | |
| Payables and other financial liabilities | 28 | 48,363 | 30,541 | 48,211 | 30,520 |
| Current tax liabilities | | 3,061 | 428 | 3,031 | 428 |
| Derivative financial instruments | 19 | 210 | 2,557 | 210 | 2,557 |
| Deferred tax liabilities | 25 | 37,773 | 26,839 | 37,773 | 26,839 |
| Interest bearing liabilities | 29 | - | 65,778 | - | - |
| Life insurance contract liabilities | 30 | (58,642) | (30,595) | (58,642) | (30,595) |
| Life investment contract liabilities | 31 | 438,647 | 338,214 | 438,647 | 338,214 |
| Deferred income | 32 | 6,150 | - | 6,150 | - |
| **Total liabilities** | | 475,562 | 433,762 | 475,380 | 367,963 |
| **Net Assets** | | 185,961 | 154,712 | 185,890 | 154,712 |
| **Equity** | | | | | |
| Share capital | 33 | 13,512 | 13,186 | 13,512 | 13,186 |
| Retained earnings | 34 | 171,176 | 140,357 | 171,105 | 140,357 |
| Revaluation reserve | 34 | 1,273 | 1,169 | 1,273 | 1,169 |
| **Total Equity** | | 185,961 | 154,712 | 185,890 | 154,712 |

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

For and on behalf of the Board

12 September 2014

Ian Braddock
**Chairman**

Anne Blackburn
**Director**

| | Note | Share capital $'000 | Retained earnings $'000 | Reserves $'000 | Total $'000 |
|---|---|---|---|---|---|
| Group | | | | | |
| Balance at 1 July 2012 | | 12,946 | 126,686 | 769 | 140,401 |
| Profit for the year | | - | 17,075 | - | 17,075 |
| Other comprehensive income | | | | | |
| Items that will not be reclassified to profit or loss: | | | | | |
| Revaluations, net of tax | 34 | - | - | 400 | 400 |
| Employee share purchase plan | 33 | 59 | - | - | 59 |
| Total other comprehensive income for the year | | 59 | - | 400 | 459 |
| Total comprehensive income for the year | | 59 | 17,075 | 400 | 17,534 |
| Transactions with owners | | | | | |
| Share capital vested from Trust | 33 | 181 | - | - | 181 |
| Dividends | 35 | - | (3,404) | - | (3,404) |
| Total transactions with owners | | 181 | (3,404) | - | (3,223) |
| Balance at 30 June 2013 | | 13,186 | 140,357 | 1,169 | 154,712 |
| Balance at 1 July 2013 | | 13,186 | 140,357 | 1,169 | 154,712 |
| Profit for the year | | - | 35,136 | - | 35,136 |
| Other comprehensive income | | | | | |
| Items that will not be reclassified to profit or loss: | | | | | |
| Revaluations, net of tax | 34 | - | - | 104 | 104 |
| Employee share purchase plan | 33 | 45 | - | - | 45 |
| Total other comprehensive income for the year | | 45 | - | 104 | 149 |
| Total comprehensive income for the year | | 45 | 35,136 | 104 | 35,285 |
| Transactions with owners | | | | | |
| Ordinary shares issued | 33 | 24 | - | - | 24 |
| Share capital vested from Trust | 33 | 257 | - | - | 257 |
| Dividends | 35 | - | (4,317) | - | (4,317) |
| Total transactions with owners | | 281 | (4,317) | - | (4,036) |
| Balance at 30 June 2014 | | 13,512 | 171,176 | 1,273 | 185,961 |

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

| | Note | Share capital | Retained earnings | Reserves | Total |
|---|---|---|---|---|---|
| | | $'000 | $'000 | $'000 | $'000 |
| **Parent** | | | | | |
| Balance at 1 July 2012 | | 12,946 | 126,686 | 769 | 140,401 |
| Profit for the year | | - | 17,075 | - | 17,075 |
| Other comprehensive income | | | | | |
| Items that will not be reclassified to profit or loss: | | | | | |
| Revaluations, net of tax | 34 | - | - | 400 | 400 |
| Employee share purchase plan | 33 | 59 | - | - | 59 |
| Total other comprehensive income for the year | | 59 | - | 400 | 459 |
| Total comprehensive income for the year | | 59 | 17,075 | 400 | 17,534 |
| Transactions with owners | | | | | |
| Share capital vested from Trust | 33 | 181 | - | - | 181 |
| Dividends | 35 | - | (3,404) | - | (3,404) |
| Total transactions with owners | | 181 | (3,404) | - | (3,223) |
| Balance at 30 June 2013 | | 13,186 | 140,357 | 1,169 | 154,712 |
| Balance at 1 July 2013 | | 13,186 | 140,357 | 1,169 | 154,712 |
| Profit for the year | | - | 35,065 | - | 35,065 |
| Other comprehensive income | | | | | |
| Items that will not be reclassified to profit or loss: | | | | | |
| Revaluations, net of tax | 34 | - | - | 104 | 104 |
| Employee share purchase plan | 33 | 45 | - | - | 45 |
| Total other comprehensive income for the year | | 45 | - | 104 | 149 |
| Total comprehensive income for the year | | 45 | 35,065 | 104 | 35,214 |
| Transactions with owners | | | | | |
| Ordinary shares issued | 33 | 24 | - | - | 24 |
| Share capital vested from Trust | 33 | 257 | - | - | 257 |
| Dividends | 35 | - | (4,317) | - | (4,317) |
| Total transactions with owners | | 281 | (4,317) | - | (4,036) |
| Balance at 30 June 2014 | | 13,512 | 171,105 | 1,273 | 185,890 |

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

| | Note | Group 2014 $'000 | Group 2013 $'000 | Parent 2014 $'000 | Parent 2013 $'000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Premiums from life insurance contracts | | 181,806 | 104,214 | 181,806 | 104,214 |
| Deposits from life investment contracts | | 122,773 | 55,560 | 122,773 | 55,560 |
| Reinsurance received | | 62,937 | 36,942 | 62,937 | 36,942 |
| Receipts from major contracts | 39 | 68,748 | - | 68,748 | - |
| Interest received | | 8,532 | 8,387 | 8,531 | 8,386 |
| Dividends received | | 45 | 37 | 45 | 37 |
| Distributions from unitised investments | | 10,548 | 6,574 | 10,548 | 6,574 |
| Other investment income | | 9,783 | 17,168 | 9,783 | 17,168 |
| Other income | | 20,926 | 65 | 17,988 | 65 |
| Benefits paid under life insurance contracts | | (83,184) | (54,329) | (83,184) | (54,329) |
| Benefits paid under life investment contracts | | (42,382) | (39,675) | (42,382) | (39,675) |
| Reinsurance premiums paid | | (92,325) | (34,744) | (92,325) | (34,744) |
| Commission paid | | (50,554) | (34,961) | (46,990) | (34,961) |
| Payments to suppliers and employees | | (47,798) | (29,032) | (48,755) | (28,978) |
| Income tax paid | | (4,392) | (3,051) | (4,375) | (3,051) |
| **Net cash inflows from operating activities** | 37 | 165,463 | 33,155 | 165,148 | 33,208 |
| **Cash flows from investing activities** | | | | | |
| Purchases of intangible assets | | (3,225) | (928) | (3,225) | (928) |
| Purchases of financial assets | | (304,491) | (234,119) | (304,491) | (234,119) |
| Purchases of property, plant and equipment | | (1,636) | (938) | (1,630) | (938) |
| Purchase of business combinations | 38 | (71,746) | - | (71,746) | - |
| Deposit paid on acquisition | 21, 38 | - | (2,000) | - | (2,000) |
| Proceeds from sale of financial assets | | 288,849 | 207,517 | 223,149 | 207,517 |
| Payments to bond holders | | (65,870) | - | - | - |
| Proceeds (to)/from related companies | 42 | - | (1,887) | 122 | (1,887) |
| Proceeds on sale of property, plant and equipment | | 47 | 45 | 31 | 45 |
| Proceeds on sale of discontinued operations | 16 | 11,000 | - | 11,000 | - |
| **Net cash outflows from investing activities** | | (147,072) | (32,310) | (146,790) | (32,310) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from issue of ordinary shares, net of transaction costs | | 24 | - | 24 | - |
| Ordinary dividends paid | | (4,320) | (3,404) | (4,320) | (3,404) |
| **Net cash outflows from financing activities** | | (4,296) | (3,404) | (4,296) | (3,404) |
| **Net increase/(decrease) in cash and cash equivalents** | | 14,095 | (2,559) | 14,062 | (2,506) |
| Cash and cash equivalents at 1 July | | 12,984 | 15,543 | 12,790 | 15,296 |
| **Cash and cash equivalents at 30 June** | 17 | 27,079 | 12,984 | 26,852 | 12,790 |

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

## 1. GENERAL INFORMATION

Fidelity Life Assurance Company Limited ('Fidelity Life') (the 'Company' or 'Parent') and its subsidiaries (together called the 'Group') are financial services companies that provide insurance and investment management services. The Company and its subsidiaries are profit oriented entities.

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is Level 1, 81 Carlton Gore Road, Newmarket, Auckland, New Zealand.

These consolidated financial statements have been approved for issue by the Board of Directors on 12 September 2014. The Company's owners do not have the power to amend these financial statements after issue.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### (a) Basis of preparation

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

#### Entities reporting

The financial statements include separate financial statements for Fidelity Life Assurance Company Limited, a separate legal entity (the 'Parent'); and the consolidated entity (the 'Group'), consisting of the Company and its subsidiaries.

#### Statutory base

The Company is registered under the Companies Act 1993 and licensed under the Insurance (Prudential Supervision) Act 2010 ('IPSA'). It is an issuer in terms of the Securities Act 1978. The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

#### Historical cost convention

With the exception of the information relating to the Parent's 100% owned subsidiary Fidelity Capital Guaranteed Bond Limited ('FCGBL') 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.

Due to the events occurring in August 2011, detailed in note 16(b), the financial statements of FCGBL have been prepared, and consolidated into the Group accounts, on a realisable value basis.

### (b) Principles of consolidation

#### Subsidiaries

The consolidated financial statement incorporates the assets and liabilities of all subsidiaries of the Company as at 30 June 2014.

Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### Business Combinations

The Company applies the acquisition method to account for business combinations. The cost of an acquisition is measured as the fair value of the assets given and equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit or loss component of the statements of comprehensive income.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (b) Principles of consolidation (continued)

For amalgamations of entities under common control, the assets and liabilities of the amalgamated entities are included in the consolidated financial statements at their carrying values, calculated on the entities' accounting policies at the date of amalgamation. Any balance on amalgamation is recognised in the equity of the remaining entity.

### (c) Foreign currency translation

#### Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated and parent financial statements are presented in New Zealand dollars, which is the Company's functional currency and the Group's presentation currency.

#### Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss component of the statements of comprehensive income.

### (d) Segment reporting

An operating segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other operating segments. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ('CODM') who reviews the operating results on a regular basis and makes decisions on resource allocation and assessing performance. Following the maturity of the capital guaranteed bonds held by FCGBL on 15 July 2013, the Group comprises only one operating segment and therefore no segmental information has been disclosed.

### (e) Premium revenue

#### Life insurance contracts

Premiums on life insurance contracts with a regular due date are recognised on an accruals basis. Where a policy provides for payment on a specific date, then such premiums are recognized as revenue when due. Unpaid premiums on policies that have deemed to have lapsed at balance date are not recognised as revenue.

#### Life investment contracts

Amounts received under life investment contracts are separated into their fee and deposit components. The fee component is recognised as income on an accruals basis and the deposit component is recognised as an increase in the liability for investment contracts.

### (f) Investment income

#### Interest income

Interest income is recognised using the effective interest 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 through profit or loss are recognised through the profit or loss component of the statements of comprehensive income.

### (g) Fee and commission income

Fee revenue on investment contracts is recognised when the service is provided. To the extent that the service will be provided in future periods, this amount is deferred to the liability for investment contracts and amortised as the services are provided. Commission revenue is recognized when the service is provided.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (h) Administration fee income

Administration fee revenue is recognised when the service has been provided.

### (i) Deferred income

Deferred income is recognised over the expected life of the life insurance contracts to which it relates.

### (j) Claims expense

#### Life insurance contracts

Claims are recognised when the liability to a policyholder has been established or upon notification of the insured event.

#### Life investment contracts

Claims under life investment contracts represent withdrawals and surrenders of investment deposits and are recognised as a reduction in the liability for investment contracts.

### (k) Expenses

All operating expenses in respect of life insurance or life investment contracts have been apportioned between policy acquisitions, policy maintenance and investment management expenses.

#### Policy acquisition costs

Policy acquisition costs comprise the costs of acquiring new business, including commission, advertising, policy issue and underwriting costs, agency expenses and other sales costs.

#### Acquisition Costs – Life Insurance Contracts

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 life insurance contract liabilities and amortised over the life of the policies written. Unamortised acquisition costs are a component of life insurance contract liabilities. Amortisation of acquisition costs is recognised in the profit or loss component of the statement of comprehensive income as a component of net change in life insurance contract liabilities at the same time as policy margins are released.

#### Acquisition Costs – Life Investment Contracts

Commission that varies with and is directly related to securing new contracts is capitalised as a deferred acquisition cost asset along with an administration and marketing allowance. All other acquisition costs are recognised as expenses in the profit or loss component of the statement of comprehensive income when incurred. The deferred acquisition cost asset is subsequently amortised over the life of the contracts and is recognised in the profit or loss component of the statements of comprehensive income.

Unamortised acquisition costs are recorded in deferred acquisition costs – investments on the statements of financial position.

#### Maintenance and Investment Management Expenses

Maintenance costs are the fixed and variable costs of administering policies subsequent to sale. These include general growth and development costs. Maintenance costs include all operating costs other than acquisition and investment management costs.

Investment management expenses are the fixed and variable costs of managing investment funds. Maintenance and investment management expenses are recognised in the profit or loss component of the statements of comprehensive income on an accrual basis.

### (l) Outwards reinsurance

Premiums ceded to reinsurers under reinsurance contracts are recorded as an outwards reinsurance expense. Where the reinsurance premium is paid in advance the expense is recognised over the period of indemnity of the reinsurance contract and a portion is treated at balance date as a prepayment. Where the reinsurance premium is paid in arrears the outstanding amount at balance date is treated as a payable.

### (m) Reinsurance recoveries

Reinsurance assets consist of amounts receivable in respect of ceded insurance liabilities and are recognised as revenue. Amounts recoverable from reinsurers are estimated in accordance with the relevant reinsurance contract and in a manner consistent with the outstanding claims.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (n) Life insurance business

#### Classification

Life insurance contracts are those contracts that transfer significant insurance risk. Life investment contracts are those contracts with no significant insurance risk, but which give rise to a financial asset and/or liability.

A contract with a discretionary participation feature is unbundled where possible so that the deposit component of the contract is treated as a life investment contract and the insurance component of the contract is treated as an insurance contract.

#### Life insurance contract liabilities

Life insurance liabilities ('policyholder liabilities') in the statements of financial position and the increase or decrease in policyholder liabilities in the profit or loss component of the statements of comprehensive income have been calculated in accordance with the New Zealand Society of Actuaries Professional Standard No 3 – Determination of Life Insurance Policy Liabilities ('PS3') which prescribes the Margin on Services ('MoS') basis.

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. Policy services provided over the lifetime of a contract include the costs of expected claims, maintaining policies and investment management. Profit margins relating to the expected income from providing policy services for each of the major product groupings are used to defer and amortise the profit over the life of the policies. Typically gross claims are used as a 'profit carrier' to release profits as services are provided. 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, except in the case of some investment business where policyholder liabilities are determined as the accumulated benefits to policyholders. Profit margins for participating business are set in relation to the value of supporting assets.

MoS profit comprises the following components:

Planned margins of revenues over expenses

At the time of writing a policy and at each balance date, best estimate assumptions are used to determine all expected future payments and premiums.

The difference between actual and assumed experience

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.

Changes to underlying assumptions

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 end of the year, except for changes in discount rates which are recognised in the year that the rates are changed. The financial effect of all other changes to the assumptions underlying the measurement of policyholder liabilities made during the reporting period, is recognised in the profit or loss component of the statements of comprehensive income over the future reporting periods during which services are provided to policyholders.

Loss recognition on groups of related products

If, based on best estimate assumptions, written business for a group of related products is expected to be unprofitable, the total expected loss for that related product group is recognised in the profit or loss component of the statements of comprehensive income immediately. When loss making business becomes profitable previously recognised losses are reversed.

Investment earnings on assets in excess of policy liabilities

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

Participating policies

Policyholder liabilities attributable to participating policies include the value of future planned shareholder profit margins and an allowance for future supportable bonuses. The value of supportable bonuses and planned shareholder profit margins account for all profit on a policy based on best estimate assumptions. Under MoS methodology, the value of supportable bonuses and the shareholder profit margin relating to a reporting year will emerge as expected profit in that year.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (n) Life insurance business (continued)

Life Investment Contract Liabilities

Life investment contracts are determined to be either participating or non participating. A participating contract is eligible for a share of the profits of the returns of the underlying funds invested in.

Participating

A small amount of life investment contract liabilities are participating investment contracts. The Group establishes a liability equal to the future benefit entitlement to be paid out to the contract holders.

Non participating

Life investment contracts that are non-participating are unit-linked and are measured at fair value. The fair value of a unit linked contract is determined using the current unit values that reflect the fair value of the financial assets backing the contract, multiplied by the number of units attributed to the contract holder.

There are a small amount of non-participating contracts that are non-linked and are measured at amortised cost. This is calculated by determining the present value of future expected cash flows payable discounted at the risk free rate of return appropriate to the contract.

### (o) Investment property

Investment property is property that is held for long-term rental yields and is not occupied by the Group. Where partly occupied by the Group these properties are partly accounted for as property, plant and equipment (refer to property and equipment policy below). Investment property is carried at its fair value, which is supported by market evidence, as assessed by qualified external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Changes in fair values are recorded in the profit or loss component of the statements of comprehensive income in other income.

### (p) Property and equipment

Owner-occupied land and buildings are carried at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less annual subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Increases in the carrying amount arising on revaluation of land and buildings are credited to revaluation reserves in other comprehensive income. Decreases that offset previous increases of the same asset are charged against revaluation reserves directly in other comprehensive income; all other decreases are charged to the profit or loss component of the statements of comprehensive income. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the profit or loss component of the statements of comprehensive income and depreciation based on the asset's original cost is transferred from revaluation reserves to retained earnings.

All other items classed as property and equipment within the statements of financial position are carried at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss component of the statements of comprehensive income during the financial year in which they are incurred.

Depreciation is calculated using the straight-line method to write down the cost of other assets to their residual values over their estimated useful lives as follows:

- Properties building component 50 years
- Building fit out 8 years
- Leasehold improvements 8 years
- Motor vehicles 5 years
- Computer equipment 4 years
- Furniture and office equipment 5 years

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amount and are recognised within other income. Repairs and maintenance are charged to the profit or loss component of the statements of comprehensive income during the financial period in which they are incurred.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (q) Intangible assets

#### (i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired business or associate at the date of acquisition. Goodwill on acquisitions of businesses is included in intangible assets. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

#### (ii) Software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Employee and contractor costs associated with developing significant, identifiable and unique software products controlled and utilised by the Company and Group are capitalised and treated as intangible assets. These costs are amortised over their estimated useful lives (three to five years) on a straight line basis.

The amortisation expense, costs associated with minor software development and costs associated with or maintaining computer software programmes are recognised as an expense in the profit or loss component of the statements of comprehensive income as incurred.

#### (iii) Acquired value of in-force business ('AVIF')

The present value of future profits on a portfolio of life insurance and investment contracts, acquired either directly or through the purchase of a subsidiary, is recognised as an asset. In most cases, this is classified as AVIF but, for non-participating investment contracts, it is included within intangibles. In all cases, the AVIF is amortised over the useful lifetime of the related contracts in the portfolio on a systematic basis. The rate of amortisation is chosen by considering the profile of the additional value of in-force business acquired and the expected depletion in its value. The value of the acquired in-force long-term business is reviewed annually for any impairment in value and any reductions are charged as expenses in the profit or loss component of the statements of comprehensive income. Details of the methodology and assumptions are included in note 27.

### (r) Impairment of non-financial assets

Assets with definite useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment irrespective of whether any circumstances identifying a possible impairment have been identified. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

### (s) Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments with less than 90 days' maturity from the date of acquisition. For the purposes of the statements of cash flows, cash and cash equivalents also include bank overdrafts, which are included in payables and other financial liabilities on the statements of financial position.

Statement of cash flows

The following are the definitions of the terms used in the statements 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 Group.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (t) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss component of the statements of comprehensive income on a straight line basis over the period of the lease.

### (u) Financial instruments

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and other receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its investment at initial recognition and re-evaluates this designation at each reporting date.

#### (i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss on initial recognition. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading. Assets are designated at fair value through profit or loss if a group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented investment strategy, and information about the group of assets is provided internally on that basis to key management personnel. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of balance date.

Purchases and sales of financial assets are recognised on trade date, the date on which the Group commits to purchase or sell. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through the profit or loss. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

#### (ii) Fair value

The fair value of the Group's financial assets and liabilities that are measured at fair value is determined based on available market prices or using appropriate valuation methods if these are not traded in an active market. Financial instruments carried at fair value are categorised into the three level fair value hierarchy based on significance of inputs used in the measurement. Level 1 includes inputs of quoted prices in active markets for identical assets or liabilities. Level 2 includes inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly. Level 3 includes inputs for the assets or liabilities that are not based on observable market data.

Realised and unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category, interest and dividends are included in the profit or loss component of the statements of comprehensive income in the period in which they arise.

#### (iii) Derivatives

Derivative financial instruments include foreign exchange contracts, interest rate futures, currency and interest rate swaps, and currency and interest rate options.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to fair value.

Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models.

Changes in the value of any derivative instrument are recognised in the profit or loss component of the statement of comprehensive income.

#### (iv) Impairment

The Group assesses at each balance date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

If the carrying value of an investment is greater than the recoverable amount, the carrying value is reduced through a charge to the profit or loss component of the statement of comprehensive income in the period of impairment.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (v) Provisions

A provision is recognised in the statements of financial position when: the Group 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.

### (w) Contingent liability

The Group 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 Group'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.

### (x) Employee benefits

#### (i) Employee entitlements

Provision is made for employee entitlements for services rendered up to balance date. This includes wages and salaries, including non-monetary benefits, annual leave, long service leave and accumulating sick leave. Liabilities arising in respect of employee entitlements expected to be settled within 12 months of the reporting date are measured at their nominal amounts. All other employee entitlements are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, discount rates used are based on the interest rates attaching to government securities which have terms to maturity approximating the terms of the related liability.

#### (ii) Employee Share Ownership Scheme

Historically the Group operated an equity-settled share based compensation plan in which the Group offered employees the right to purchase shares at a discount in return for employee services. The discount granted to employees is recognised as an expense over the vesting period with a corresponding increase in equity. At any time during the vesting period the employee has an option to require the Group to re-purchase the shares at the lower of cost or fair value. Therefore, the Group recognises a liability at balance date for the amount that the Group can be required to pay to repurchase the shares. Once the vesting period is complete the Group extinguishes the liability and recognises a corresponding increase in equity.

### (y) 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.

### (z) Dividends

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date.

### (aa) Loans and other receivables

Loans and other receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. The Group's loans and other receivables comprise receivables, cash and cash equivalents and assets arising from reinsurance contracts in the statements of financial position.

Loans and other receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment.

A provision for impairment of loans and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of a bad debt provision account, and the amount of the loss is recognised in the profit or loss component of the statements of comprehensive income within other expenses. When a receivable is uncollectible, it is written off against the provision.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (ab) Income tax

The income tax expense comprises both current and deferred tax. Income tax expense is recognised in the profit or loss component of the statements of comprehensive income 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 statements 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 at 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.

#### Life insurance tax

A new income tax regime was introduced for Life Insurers from 1 July 2010. Tax is payable on investment income allocated to policyholders and on shareholder cash flows (investment income, premiums less claims, less expenses). For the first five years of the new tax regime (1 July 2010 – 30 June 2015) there are concessions which allow most legacy policies to continue being taxed in a similar manner to that incurred under the old regime as explained below.

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.

### (ac) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are recognised at fair value. They are usually paid within 30 days of recognition.

### (ad) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the profit or loss component of the statements of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

### (ae) Borrowing costs

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

### (af) Fiduciary activities

Assets and income arising from fiduciary activities, together with related undertakings to return such assets to customers, are excluded from these financial statements where the Group has no contractual rights in the assets.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (ag) Derecognition and offset of financial assets and financial liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired;
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third-party under a "pass-through" arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and has either transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Financial assets and liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### (ah) Early adoption of standards or amendments

The Group has not early adopted any new standards or amendments to standards except as detailed below:

- NZ IFRS 4 *Insurance Contracts Appendix C* – The amendments to Appendix C were issued in April 2014 and are applicable for reporting periods beginning on or after 1 July 2014. The amendments have been introduced following the changes to the Insurance (Prudential Supervision) Act 2010 ('IPSA') which required life insurance entities to establish and maintain statutory funds to carry out their life insurance business, and *Solvency Standard for Life Insurance Business* issued by the Reserve Bank of New Zealand required life insurers to disclose in their financial statements information about their solvency calculations and solvency margins for each life fund. The amendments set out the details of the disaggregated information that must be disclosed for each life fund. The Group adopted this amendment to the standard effective 1 July 2013. Application of this amendment does not affect any of the amounts recognised in the financial statements, but impacts the information disclosed relating to investment linked business and amounts relating to non-investment linked business.

### (ai) Standards, amendments and interpretations adopted during year

The following accounting standards and amendments to standards relevant to the Group have become mandatory for adoption from 1 July 2013, but have not had any material effect on the financial position or performance of the Group:

- NZ IFRS 10 *Consolidated financial statements* – This standard was issued in May 2011 and replaces all of the guidance on control and consolidation in NZ IAS 27 Consolidated and separate financial statements, and NZ SIC-12 Consolidation – special purpose entities. The standard was mandatory for the Group's financial statements for the year beginning 1 July 2013. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships.
- NZ IFRS 12 *Disclosure of interests in other entities* – The standard was issued in May 2011 and sets out the required disclosures for entities reporting under the two new standards, IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements*, and replaces the disclosure requirements currently found in IAS 28. Application of the new standard has had no financial impact, only disclosure impact on the type of information disclosed in the notes to the financial statements.
- NZ IFRS 13 *Fair value measurement* – The standard was released in May 2011 and explains how to measure fair value and aims to enhance fair value disclosures. Application of the new standard has had no financial impact, only disclosure impact on the type of information disclosed in the notes to the financial statements.
- External Reporting Board Standard A1 *Accounting Standards Framework (For-profit Entities Update)* – The standard establishes a for-profit tier structure and outlines which suite of accounting standards entities in different tiers must follow. The Group is a Tier 1 entity. Application of the standard has no impact on the current or prior year financial statements.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (aj) Standards, amendments and interpretations to existing standards issued but not yet effective

The following new accounting standards and amendments to standards relevant to the Group are not yet effective and have not been applied in preparing the financial statements:

- NZ IFRS 9 *Financial instruments* – The standard addresses the classification, measurement and recognition of financial assets and financial liabilities. NZ IFRS 9 was issued in September 2014 and will be mandatory for the Group's financial statements for the year beginning 1 July 2018. It replaces the parts of NZ IAS 39 that relate to the classification and measurement of financial instruments and hedge accounting. NZ IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the NZ IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The new hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risks. NZ IFRS 9 introduces a new expected credit loss model for calculating the impairment of financial assets. The Group is yet to assess NZ IFRS 9's full impact.
- IFRS 15 *Revenue from contracts with customers* – This standard addresses recognition of revenue from contracts with customers. It replaces the current revenue recognition guidance in IAS 18 *Revenue* and IAS 11 *Construction contracts* and is applicable to all entities with revenue. It sets out a 5 step model for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Group has yet to assess IFRS 15's full impact. The Group will apply this standard from 1 July 2017.

## 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 Group 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.

### (a) Insurance liabilities – effect of changes and assumptions

Policy liabilities arising from life insurance and life investment contracts are calculated at each reporting date using mathematical and statistical models. The valuations are prepared by experienced Fellows of the New Zealand Society of Actuaries on the basis of 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; and
- Other factors such as regulation, competition, interest rates, the performance of the capital markets and general economic conditions

The uncertainties surrounding these assumptions mean that it is likely that the actual observed claims incidence will vary from the liability estimated at the reporting date.

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

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

### (b) Acquired value of in-force business

The balance of acquired value of in-force business ('AVIF') is reviewed for impairment at each reporting period by the Appointed Actuary.

The key factors that affect the estimation of the valuation are:

- The life expectancy of the outstanding life insurance contracts;
- The value of planned profit margins, discounted at a risk adjusted rate of return; and
- The discount rate to use for assessing the value of economic capital.

Where the outcome of the valuation differs adversely against the book value of the AVIF there is an impact to the profit and loss component of the statements of comprehensive income and the AVIF intangible balance recognised on the statements of financial position.

### (c) Deferred tax

Significant judgements relating to the calculation of policyholder liabilities (note 3(a)) also impact the Group and Company's deferred tax assets and liabilities. The Group and Company have made an assessment of anticipated tax assets and liabilities based on estimates of when additional taxes will be due and benefits will arise.

Where the expected tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the reported profit or loss and current and deferred tax amounts in the period in which such determination is made.

### (d) Fair values

When measuring the fair value of an asset or liability, where available, the Group uses quoted market prices. Where there is no market price available, a valuation technique is used. Management applies judgement in selecting valuation techniques and setting valuation assumptions and inputs.

Further information about the assumptions made in measuring fair values is included in the following notes:

Note 5 (E) – Risk management

Note 19 – Fair value of financial assets and liabilities through profit and loss

Note 22 (b) – Investment property

Note 38 – Business combinations

## 4. ACTUARIAL METHODS AND POLICIES

The actuarial reports on policyholder liabilities and solvency reserves for the years ended 30 June 2013 and 30 June 2014 were prepared by the Appointed Actuary, John Smith MSc FNZSA FIAA, and peer reviewed by the Consulting Actuary, Peter Davies BBusSc FNZSA FIAA of Davies Financial and Actuarial Limited.

The results incorporate the life policies of TOWER Health and Life Limited and the group risk business of TOWER (N.Z.) Limited ('acquired policies') acquired on 1 August 2013 and legacy direct mail policies based on data supplied by a third-party administrator and accounting information maintained by the Company.

The value of the policyholder liabilities has been determined in accordance with PS3 and NZ IFRS 4 Insurance Contracts.

The actuaries have examined the information used for the determination of the liabilities and have satisfied themselves as to the accuracy of the data from which the policyholder liabilities have been determined, and that all policies have been valued accurately.

The accumulation method to determine liabilities has been used for all investment contracts (Gold Medal type policies, group superannuation deposits, Power Saver and bonds). There is no allowance in the policyholder liabilities for deferred acquisition charges on investment contracts. A prospective reserve is held for the potential shortfall if the market value of assets backing Gold Medal policies is insufficient to cover guaranteed maturity benefits.

Assurances, annuities, disability claims in payment and risk contracts have been valued using the projection method as in previous years.

The value of supporting assets for participating policies issued by Farmers Mutual Life Limited ('FMLL') is the fund value transferred on 28 February 2007 rolled up with subsequent cash flow and interest, adjusted by any difference between the actual and MoS supportable bonuses at each year end.

The valuation assumptions are based on best estimates for each component in terms of PS3. To determine the best estimates, the actuaries examined observable market data and recent experience of the Company and appropriateness of assuming that the current experience continues.

| Discount Rates | At 30 June 2014 | At 30 June 2013 | Opening valuation of acquired policies |
|---|---|---|---|
| 10 year NZ Government bond rate – gross discount rate | **4.42%** | 4.13% | 4.21% |
| Discounted cash flows on renewable risk plans and level premium risk plans | **4.42%** | 4.13% | 4.21% |
| Non-participating assurances – net interest rate | **3.18%** | 2.97% | NA |
| Claim reserves and provisions for investment guarantees – Gross interest rate | **4.42%** | 4.13% | 4.21% |
| Annuities – net interest rate | **3.18%** | 2.97% | NA |
| Former FMLL participating plans. Derived from expected after-tax return on the assets backing the participating fund | **3.75%** | 3.75% | NA |

## 4. ACTUARIAL METHODS AND POLICIES (CONTINUED)

| Solvency Reserves Discount Rates | At 30 June 2014 | At 30 June 2013 | Opening valuation of acquired policies |
|---|---|---|---|
| The solvency reserves are valued in accordance with the Solvency Standard for Life Insurance Business issued by the Reserve Bank of New Zealand in August 2011. | | | |
| Insurance risk capital requirement – Before tax | **4.42%** | 4.13% | NA |
| Insurance risk capital requirement – After tax | **3.18%** | 2.97% | NA |
| Participating plans – risk free rate (not a higher expected after-tax return on assets) | **3.18%** | 2.97% | NA |

All contracts except annuities, participating business and traditional assurances were valued on a gross basis, assuming no tax charge would arise if the prescribed adverse yield applied. Annuities, participating business and traditional assurances were valued on a net basis.

| | At 30 June 2014 | At 30 June 2013 | Opening valuation of acquired policies |
|---|---|---|---|
| Taxation | Payable on investment income allocated to policyholders and on shareholder cash flows (investment income, premiums less claims, less expenses). This change has been incorporated into the valuation methodology for annuities and participating contracts which were valued on a net basis. | | |
| Taxation Assumed long-run rate | **28%** | 28% | 28% |
| Asset Mix | **The current asset mix was assumed to continue into the future.** | The current asset mix was assumed to continue into the future. | NA |
| Inflation Rates – rate where applicable | **2.0%** | 2.5% | 2.0% |
| Profit carriers – where valued on the projection method | **Interest earnings for traditional policies.**<br>**Claims net of reinsurance treaties for all other policies (if applicable).** | Premiums for all policies except traditional polices and mortgage repayment insurance. | Claims net of original reinsurance. |
| Investment and maintenance expenses | The maintenance expenses of policies are based on an analysis of existing and projected costs and product margins. Where those expenses relate to life insurance, trauma and disability insurance it has been assumed that those expenses increase at the same rate that premiums increase – according to age rather than the inflation rate. | | |

## 4. ACTUARIAL METHODS AND POLICIES (CONTINUED)

| Mortality Rates | At 30 June 2014 | At 30 June 2013 | Opening valuation of acquired policies |
|---|---|---|---|
| Base mortality | **Based on the NZ10 Insured Lives mortality table. At ages 70 and over mortality rates from the NZ07 Insured Lives mortality table are used. Thereafter 100% is used.** | Based on net reinsurance rates. | Adjusted version of the NZ07 Insured Lives table was used. |
| Underwritten business | **35% of the standard table in year 1 and 65% of the standard table in year 2.** | Selection rebate of 100% was applied in the first year. | NA |
| Smoker status | **Available 90% of the standard table is used for non-smokers and 180% is used for smokers.** | Based on net reinsurance rates. | Adjusted version of the NZ97 table was used. |
| Guaranteed acceptance plans | **Mortality is assumed to be 500% of standard mortality up to age 55, falling to 200% of standard mortality at age 75.** | Duration based rates were used. | Adjusted version of the NZ97 table was used. |
| Limited premium guaranteed acceptance plans | **Mortality is assumed to be 200% of the NZ10 table.** | 200% of reinsurance rates. | NA |
| Former FMLL participating business | **Mortality assumption is 100% of NZ97(5) select table.** | Mortality assumption is 100% of NZ97(5) select table. | NA |
| Annuitant mortality | **Assumed to follow the IMA92C20 and IFA92C20 standard tables with a reduction in attained age of 5 up to age 55 falling by 1 year for every 10 years of age to nil from age 95.** | Assumed to follow the IMA92C20 and IFA92C20 standard tables with a reduction in attained age of 5 up to age 55 falling by 1 year for every 10 years of age to nil from age 95. | NA |

| Morbidity | At 30 June 2014 | At 30 June 2013 | Opening valuation of acquired policies |
|---|---|---|---|
| Trauma claims | **Assumed to be equal to 90% of net reinsurance rates.** | Assumed to be 100% of reinsurance rates with a 100% selection rebate in the first year. | Adjusted versions of reinsurance rates. |
| Capitalised value of Income Protection claims | **Assumed to be equal to 85% of reinsurance rates.** | Assumed to be 100% of reinsurance rates with a 100% selection rebate in the first year. | Adjusted CIDA85 tables have been used. |
| Total and Permanent Disability rates | **Assumed to be 60% of net reinsurance rates.** | Assumed to be 100% of reinsurance rates with a 100% selection rebate in the first year. | Adjusted versions of reinsurance rates. |

## 4. ACTUARIAL METHODS AND POLICIES (CONTINUED)

### Rates of discontinuance:

Assumed rates of discontinuance were standardised to incorporate the acquired policies and are shown in the table:

| | Year 1 | Year 2 – 5 | Years 6+ |
|---|---|---|---|
| YRT: Life & accelerated Critical Care/TPD | 7.0% | 11.0% – 12.0% | 11.5% |
| YRT: Free-standing Critical Care/TPD | 7.5% | 13.0% – 14.5% | 13.5% |
| YRT: I.P. | 8.5% | 13.5% – 16.0% | 15.5% |
| NIMS (legacy plans) | 7.0% | 7.0% | 7.0% |
| WL & Endowments incl. PAR contracts | 3.0% | 3.0% | 3.0% |
| Level Term | 7.0% | 8.0% – 12.0% | 4.0% |
| Direct Mail | 2.0% | 2.0% | 2.0% |
| Automatic acceptance with premiums limited to ten years | 20.0% | 0% – 10.0% | 0.0% |
| Automatic acceptance with level or reviewable premiums | 25.0% | 5% – 15.0% | 5.0% |

A rate of 2% for each year over age 70 is assumed in addition to the above rates.

Additional shock lapse assumption of 2.5% was applied to the legacy policies on the Talisman administration system in the 2015 financial year.

For lump sum policies in the acquired policies rates ranging from 7.5% to 15% were assumed at 1 August 2013. For income protection policies in the acquired policies rates ranging from 8% to 15% were assumed at 1 August 2013. Other rates are unchanged from 2013.

| Surrender values | At 30 June 2014 | At 30 June 2013 | Opening valuation of acquired policies |
|---|---|---|---|
| Former FMLL – whole of life and endowment assurances | **90% of the net premium reserve with double Zillmer calculated using NZ97(5) mortality table discounted at 4.8%, ignoring any terminal bonus.** | 90% of the net premium reserve with double Zillmer calculated using NZ97(5) mortality table discounted at 4.8%, ignoring any terminal bonus. | NA |
| Legacy assurances | **Surrender value is based on the A49/52 ultimate mortality table discounted at 4.5%.** | Surrender value is based on the A49/52 ultimate mortality table discounted at 4.5%. | NA |
| Exit charge on bonds and power saver | **Nil** | Nil | NA |
| Exit charge on Gold Medal | **5.0%, reducing by 1.0% each year from the policy anniversary four years preceding maturity.**<br>**Policies issued after July 2009 do not have an exit charge.** | 5.0%, reducing by 1.0% each year from the policy anniversary four years preceding maturity.<br>Policies issued after July 2009 do not have an exit charge. | NA |

## 4. ACTUARIAL METHODS AND POLICIES (CONTINUED)

| Bonus policy | At 30 June 2014 | At 30 June 2013 | Opening valuation of acquired policies |
|---|---|---|---|
| Participating business – Fidelity Life with-profit assurances | Assumed that the current bonus allocation will continue indefinitely. The bonus is equal to conservative portfolio return on cash deposits plus a cash bonus of 10% of premiums paid. | | |
| Participating business – FMLL plans – supportable bonus rate | **0.60% of the sum assured and reversionary bonus.** | 0.74% of the sum assured and reversionary bonus. | NA |
| Participating business – FMLL plans – Current bonus declaration | **0.60%** | 0.75% | NA |
| Policyholder's share of the surplus on the participating pool | **83.3%**<br>**Matches the value of supportable assets at date of transfer from Farmers Mutual Group Limited to Fidelity Life.** | 83.3%<br>Matches the value of supportable assets at date of transfer from Farmers Mutual Group Limited to Fidelity Life. | NA |

**Profit Margins:** Profit margins have been incorporated for existing product categories to release those profits arising in the future which are not in relation to the provision of the original acquisition cost as and when those profits are released.

Profit margins were adjusted to ensure that there was no capitalisation of future profits arising from changes to demographic assumptions and rates used in the projection. However, changes to economic and financial assumptions are capitalised.

**Impact of actuarial changes in assumptions:** Under MoS, for life insurance contract valuations using the projection method, changes in actuarial assumptions are recognised by adjusting the value of future profit margins in life insurance contract liabilities. Future profit margins are released over future periods.

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

**Group and Parent**

| | Effect on Future Profit Margins | Effect on Life Insurance Contract Liabilities | Effect on Future Profit Margins | Effect on Life Insurance Contract Liabilities |
|---|---|---|---|---|
| | 2014 $'000 | 2014 $'000 | 2013 $'000 | 2013 $'000 |
| **Assumption change** | | | | |
| Discontinuance rates | **9,207** | **-** | (5,133) | - |
| Premium rates | **15,511** | **-** | (655) | - |
| Renewal expenses | **3,525** | **-** | (7,831) | - |
| Mortality/Morbidity rates | **12,170** | **-** | 7,911 | - |
| Reinsurance rate increases | **(25,767)** | **-** | - | - |
| Other modelling changes | **7,944** | **-** | 9,224 | - |
| Discount rate | **(3,301)** | **707** | (10,442) | (2,327) |

During the financial year the software used for the projection of future cash flows was upgraded to a new platform. During the upgrade process implicit historic assumptions were revised to align closer to current business processes.

## 4. ACTUARIAL METHODS AND POLICIES (CONTINUED)

### Sensitivity analysis of life investment contracts

The following table shows the changes in the value of future margins, policy liability and profit at 30 June if actuarial assumptions change as follows:

Group and Parent

2014

| | Change in Assumption | Effect on Future Margins | Effect on Policy Liability | Effect on Profit (before tax) |
|---|---|---|---|---|
| | | $'000 | $'000 | $'000 |
| Lapses | Decrease by 10% | - | - | (63) |
| Expenses | Increase by $1 million | - | - | (1,000) |

2013

| | Change in Assumption | Effect on Future Margins | Effect on Policy Liability | Effect on Profit (before tax) |
|---|---|---|---|---|
| | | $'000 | $'000 | $'000 |
| Lapses | Decrease by 10% | - | - | (80) |
| Expenses | Increase by $1 million | - | - | (1,000) |

### Sensitivity analysis of life insurance contracts

Refer to note 5(B) for sensitivity analysis for life insurance contracts.

### Assets backing life insurance and life investment business

All assets in wholesale unit trusts and segregated mandates are marked to market by external wholesale fund managers that primarily invest in investment grade listed securities.

Directly held investments comprise property and mortgages. Property is valued annually by an independent registered valuer. Mortgages are valued at outstanding balance less provision for bad debts.

## 4. ACTUARIAL METHODS AND POLICIES (CONTINUED)

The carrying value of the assets backing life insurance and life investment contracts is as follows:

**Group**

| | Life Investment | | Life Insurance | |
|---|---|---|---|---|
| | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 |
| Loans | 19,947 | 18,242 | 3,187 | 7,819 |
| Debt securities | 79,580 | 100,404 | 26,240 | 11,524 |
| Equity securities | 153,779 | 109,409 | 2,167 | 2,010 |
| Other investments | 154,489 | 87,798 | 81,221 | 109,562 |
| Investment property | - | 9,083 | - | 1,120 |
| Property, plant and equipment | 17,234 | 8,055 | 4,007 | 2,066 |
| Cash and cash equivalents | 13,618 | 5,223 | 10,506 | 7,567 |
| Other receivables | - | - | 7,166 | 5,459 |
| Assets arising from reinsurance recoveries | - | - | 21,540 | 12,091 |
| Investment in subsidiaries | - | - | - | 8 |
| Income tax asset | - | - | 4,042 | 3,881 |
| Deferred tax assets | - | - | 23,020 | 17,090 |
| Deferred acquisition costs – investment | - | - | 11 | 6 |
| Intangible assets | - | - | 5,968 | 4,283 |
| **Total assets backing** | 438,647 | 338,214 | 186,075 | 184,486 |

## 5. RISK MANAGEMENT

### Risk management framework

The Board of Directors (the 'Board') acknowledges the need for the continued maintenance of a high standard of corporate governance practices and ethical conduct by all directors and employees of Fidelity Life.

The Board of Directors has adopted the Financial Markets Authority (formally Securities Commission) 'Corporate Governance in New Zealand Principles and Guidelines' as a framework against which the Board monitors and reviews its corporate governance. The Board has also adopted the Code of Proper Practice for Directors of the New Zealand Institute of Directors.

The Board has formally delegated to the Chief Executive Officer the day to day management of the Group. The Chief Executive Officer recommends to the Board changes in the business, performance, goals, strategies and plans of the Group.

The Board has in place an integrated framework of controls designed to safeguard the Group's assets and interests and to ensure the integrity of its reporting.

The Board has established a number of standing committees that focus on specific areas of the Board's responsibilities. The committees currently constituted are:

- **Audit & Risk Committee** – established as a link between the Board and external auditors. Provides independent oversight of the effectiveness of the Company's financial reporting and risk management processes.
- **Nomination Committee** – established to assist in the planning of the Board's composition and the appointment of new directors.
- **Remuneration Committee** – established to assist the Board with the remuneration structures for the Company's Chief Executive Officer and senior executives.

The Board's committees operate under the same rules of conduct and procedure as the Board and provide a framework for efficient decision making. The Board's committees are subordinate to the Board which retains overall responsibility for decision making.

Under Reserve Bank of New Zealand ('RBNZ') requirements, all insurers are required to have a full licence. Fidelity Life was granted a full licence on 2 August 2013. The Company has an A- (Excellent) credit rating from A.M. Best, an approved credit rating agency.

Fidelity Life has a formalised risk management programme. The Company's risk management programme is supported by four key components:

i. The risk management policy states the objectives of the risk management framework and strategy; and identifies who is responsible for the various risk management activities, including oversight, implementation and assessment of effectiveness, monitoring and reporting.

ii. The risk management framework details how the Company ensures that effective risk management is real and reflected in the operational activities of the Company. The risk management framework considers risks at a strategic and operational level.

iii. The risk management strategy forms part of the annual strategic and business planning documents, identifying the key risk management initiatives that need to be planned and budgeted for. The risk management strategy is updated annually.

iv. The risk register allows Board, Audit & Risk Committee and senior management to critically evaluate if the risk management process is effectively identifying and addressing exposures. The risk register continuously evolves as risks are identified, monitored and treated.

The risk management programme is periodically reviewed to ensure the effectiveness of the overall risk management programme.

The business risk assessment estimates the consequences from adverse events and the likelihood that such adverse events might occur. The effectiveness of measures to mitigate the impact of adverse events or reduce the chance of adverse events is assessed against market norms and best practice. The controls for all identified risks are deemed to be at least adequate.

The Board has also appointed an Investment Committee to oversee the investments in line with the Statement of Investment Policy and Objectives ('SIPO') that is approved by the Board.

The Appointed Actuary submits an annual Financial Condition Report ('FCR') to the Board that encompasses the items specified in section 6.3 of the Reserve Bank of New Zealand's 'Solvency Standard for Life Insurance Business' as well as the New Zealand Society of Actuaries Professional Standards. The FCR examines all matters material to the financial condition of the Company and makes recommendations to maintain and enhance the Company's financial strength. The Board reviews the FCR and as appropriate approves and implements the recommendations of the Appointed Actuary. The Appointed Actuary submits an update at half year.

## 5. RISK MANAGEMENT (CONTINUED)

Distributors are required to be Authorised Financial Advisers to provide personalised advice on investment products. Distributors are required to be Registered Financial Advisers or Authorised Financial Advisers to provide advice on insurance products. Fidelity Life does not accept business that is submitted via advisers who are not permitted to provide such advice under the legislation. The Company is a member of the Insurance & Savings Ombudsman Scheme Inc. (ISO) dispute resolution scheme.

Risk is categorised as follows:

- Market
- Insurance
- Liquidity
- Credit
- Fair values
- Capital management

### A. Market risk

Market risk is the risk of changes in the fair value of financial instruments due to fluctuations in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk), whether such a change in price 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.

For each of the major components of market risk, the Company has put in place procedures to set out how each risk should be managed and monitored, and the approach to setting an appropriate risk appetite. The management of market risk is undertaken by the Investment Committee which is responsible for managing market risk, and a number of investment related risks.

Most investment contracts are linked to the underlying performance of asset portfolios. The Investment Committee oversees the selection of wholesale managers, construction of wholesale mandates and asset allocation within the permitted guidelines of the SIPO. The financial impact from changes in market risk is managed by the fund managers, however, market risk is borne by the policyholder.

There is a maturity guarantee provided under the Gold Medal range of policies. The Company is liable to make good any shortfall between the market value of assets and the minimum rate of return at maturity. The solvency reserve allows for a one-off shock to asset values (consistent with credit, equity and property ('CEP') risk capital charges defined in the RBNZ solvency standard) and long-term risk-free yield.

Each investment portfolio has a small proportion of non-linked funds to provide immediate liquidity for any policyholder that wishes to withdraw or switch.  Prescribed asset risk capital charges are maintained to meet currency, interest rate and price risks defined in the RBNZ solvency standard for life insurance business.

#### (i) Currency risk

Currency risk is the risk of changes in the fair value of financial instruments due to fluctuations in exchange rates. Foreign currency risk arises as the Company has assets invested in foreign currencies.

The Group's SIPO policy requires that the fund managers maintain sufficient assets to meet currency liabilities. Therefore, the Group limits its exposures regardless of foreign currency movements.

The Investment Committee meets with the currency adviser every quarter to determine the appropriate levels of forward currency contracts to enter into. These contracts are implemented by the Bank of New Zealand ('BNZ').

The forward foreign currency contracts are accounted for at fair value through profit or loss as the Group does not apply hedge accounting.

## 5. RISK MANAGEMENT (CONTINUED)

### A. Market risk (continued)

#### (i) Currency risk (continued)

Concentrations

The following table shows the assets of the Group and Parent (policyholder and shareholder) denominated in foreign currency:

| | Group | | Parent | |
|---|---|---|---|---|
| | 2014 NZ$'000 | 2013 NZ$'000 | 2014 NZ$'000 | 2013 NZ$'000 |
| **Non-monetary assets** | | | | |
| AUD | 190,782 | 134,896 | 190,782 | 134,896 |
| GBP | 33,189 | 28,847 | 33,189 | 28,847 |
| USD | 410 | 4,012 | 410 | 4,012 |
| **Total assets in foreign currency** | 224,381 | 167,755 | 224,381 | 167,755 |
| **Percentage of total assets** | 33.9% | 28.5% | 33.9% | 32.1% |

Sensitivity analysis

The following table, which includes only shareholder investments, shows the change in profit after tax and the effect on equity if there was an increase/decrease in the foreign exchange rates of 10% with all other variables assumed unchanged:

**Group and Parent**

| | +10% change in foreign exchange rates | | | | -10% change in foreign exchange rates | | | |
|---|---|---|---|---|---|---|---|---|
| | Impact on post tax profit | | Impact on equity | | Impact on post tax profit | | Impact on equity | |
| | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 |
| AUD | 53 | 14 | 53 | 14 | (43) | (11) | (43) | (11) |
| GBP | 21 | 123 | 21 | 123 | (18) | (100) | (18) | (100) |
| USD | 2 | 14 | 2 | 14 | (2) | (11) | (2) | (11) |
| | 76 | 151 | 76 | 151 | (63) | (122) | (63) | (122) |

#### (ii) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices.

Price risk exists for directly held securities and exchange traded funds. Price risk also exists for wholesale unit-trusts, common trust funds and wholesale investment mandates or Portfolio Investment Entities ('PIE') based on movements in the underlying securities within the wholesale vehicles.

The Investment Committee delegates active monitoring of its investments owned directly by the Company. Concentrations of specific holdings are also managed and monitored by the Company's fund managers.

Most price risk is borne by policyholders who have selected the investment portfolio that invests in a particular mix of assets. The unit-price of investment portfolios includes the full and immediate change in market values of underlying investments.

Shareholders' funds provide security to meet adverse fluctuations in insurance risks rather than investment market risks. Thus, shareholders' funds are invested defensively to minimise price risk.

## 5. RISK MANAGEMENT (CONTINUED)

### A. Market risk (continued)

#### (ii) Price risk (continued)

Sensitivity analysis

The following table shows the change in profit after tax and the effect on equity if there was an increase/decrease in the market value of investments of +/- 10% with all other variables assumed unchanged:

**Group and Parent**

| | +10% change in price variable | | | | -10% change in price variable | | | |
|---|---|---|---|---|---|---|---|---|
| | Impact on post tax profit | | Impact on equity | | Impact on post tax profit | | Impact on equity | |
| | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 |
| Change in the Market Value of: | | | | | | | | |
| New Zealand and Australian Shares | 143 | 142 | 143 | 142 | (143) | (142) | (143) | (142) |
| International Shares | 64 | 47 | 64 | 47 | (64) | (47) | (64) | (47) |
| New Zealand Property | 301 | 34 | 301 | 34 | (301) | (34) | (301) | (34) |
| Bond Options (Derivatives) | 66 | 67 | 66 | 67 | (66) | (67) | (66) | (67) |
| | 574 | 290 | 574 | 290 | (574) | (290) | (574) | (290) |

#### (iii) Interest rate risk

Interest rate risk is the risk of loss to the Group arising from adverse changes in interest rates.

Fair value interest rate risk

Fair value interest rate risk arises from the potential for a change in interest rates to cause a fluctuation in the fair value of financial instruments and life insurance contract liabilities.

Cash flow interest rate risk

Cash flow interest rate risk is the potential for a change in interest rates to change interest expense and interest income in future periods.

The Group's investments that are subject to fair value interest rate risk include fixed interest securities and put and call options that are taken out against overseas interest rates.

Investments held in mortgages and policy loans are subject to cash flow interest rate risk.

Most interest rate risk is borne by policyholders who have selected the investment portfolio that invests in a particular mix of assets. The unit-price of investment portfolios includes the full and immediate change in market values of underlying investments.

Shareholders' funds provide security to meet adverse fluctuations in insurance risks rather than investment market risks. Thus, shareholders' funds are invested defensively to minimise interest rate risk.

## 5. RISK MANAGEMENT (CONTINUED)

### A. Market risk (continued)

#### (iii) Interest rate risk (continued)

#### Sensitivity analysis

The following table shows the change in profit and the effect on equity if there was an increase/decrease in interest rates of 1% with all other variables assumed unchanged:

Group

| | +1% change in interest rates | | | | -1% change in interest rates | | | |
|---|---|---|---|---|---|---|---|---|
| | Impact on post tax profit | | Impact on equity | | Impact on post tax profit | | Impact on equity | |
| | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 |
| Cash and Cash Equivalents | 95 | 56 | 95 | 56 | (95) | (56) | (95) | (56) |
| Loans | 23 | 56 | 23 | 56 | (23) | (56) | (23) | (56) |
| NZ Debt Securities | (2,823) | (5,656) | (2,823) | (5,656) | 2,351 | 5,799 | 2,351 | 5,799 |
| International Debt Securities | (31) | (17) | (31) | (17) | 26 | 19 | 26 | 19 |
| | (2,736) | (5,561) | (2,736) | (5,561) | 2,259 | 5,706 | 2,259 | 5,706 |

Parent

| | +1% change in interest rates | | | | -1% change in interest rates | | | |
|---|---|---|---|---|---|---|---|---|
| | Impact on post tax profit | | Impact on equity | | Impact on post tax profit | | Impact on equity | |
| | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 |
| Cash and Cash Equivalents | 95 | 54 | 95 | 54 | (95) | (54) | (95) | (54) |
| Loans | 23 | 56 | 23 | 56 | (23) | (56) | (23) | (56) |
| NZ Debt Securities | (2,823) | (5,656) | (2,823) | (5,656) | 2,351 | 5,799 | 2,351 | 5,799 |
| International Debt Securities | (31) | (17) | (31) | (17) | 26 | 19 | 26 | 19 |
| | (2,736) | (5,563) | (2,736) | (5,563) | 2,259 | 5,708 | 2,259 | 5,708 |

### B. Insurance Risk

Insurance exists to provide peace of mind to people who will be compensated for part or all of a financial loss that is relatively infrequent, strikes at random and is potentially devastating for an individual or their family.

The Company pools the risks of tens of thousands of policyholders, each of whom pays a relatively modest premium for their insurance cover. The relatively few claims are met from the many premiums paid into the insurance pool.

The Appointed Actuary sets premium rates based on the expected incidence of claims, costs of running the insurance pool (including commission to sales intermediaries) and a contingency margin to cover the variability risk and cost of capital that provide solvency support for the insurance pool.

The exposure of the Company to variation in the incidence of claims and concentration of risk is controlled through the use of reinsurance that caps the total amount payable on each claim to a predefined amount of risk retained on each individual person.

The Company actively manages its exposure under its retention agreements with its reinsurers. Levels of retained risk are increased or decreased to reflect changes in the Company's retention risk profile.

## 5. RISK MANAGEMENT (CONTINUED)

### B. Insurance Risk (continued)

The exposure of the Company to mis-estimation of the expected incidence of claims is controlled by setting rates based on actuarial research undertaken by international reinsurance companies to derive pure risk premium rates.

Most premium rates are adjustable every year so any systemic strain can be rectified. Premium rates are not adjusted for random fluctuations.

The analysis of recent experience for each component in the insurance premiums is included in the annual FCR and half-yearly actuarial valuation reports. Profitability is estimated from monthly management accounts.

Sensitivity analysis

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 compensating changes in future premiums), policy liability (including future profit margins) and surplus at 30 June if actuarial assumptions change as follows:

2014

| | | Future Margins | Policy Liability | Profit |
|---|---|---|---|---|
| | | $'000 | $'000 | $'000 |
| Discount rate/inflation rate | Increase by 0.25% | (2,906) | 53 | (53) |
| | Decrease by 0.25% | 3,020 | 7 | (7) |
| Mortality/Morbidity | Increase by 10% | (18,613) | 178 | (178) |
| | Decrease by 10% | 18,912 | (174) | 174 |
| Lapses | Increase by 10% | (30,961) | - | - |
| | Decrease by 10% | 37,516 | - | - |
| Expenses | Increase by 10% | (24,180) | 5 | (5) |
| | Decrease by 10% | 24,178 | (5) | 5 |
| Terminations | Increase by 10% | - | (252) | 252 |
| | Decrease by 10% | - | 263 | (263) |

2013

| | | Future Margins | Policy Liability | Profit |
|---|---|---|---|---|
| | | $'000 | $'000 | $'000 |
| Discount rate/inflation rate | Increase by 0.25% | (2,249) | (552) | 358 |
| | Decrease by 0.25% | 2,334 | 629 | (429) |
| Mortality/Morbidity | Increase by 10% | (57,247) | 120 | (487) |
| | Decrease by 10% | 14,905 | (110) | 526 |
| Lapses | Increase by 10% | (22,521) | - | - |
| | Decrease by 10% | 27,732 | - | - |
| Expenses | Increase by 10% | (21,325) | 5 | - |
| | Decrease by 10% | 21,325 | (5) | - |
| Terminations | Increase by 10% | - | (312) | 312 |
| | Decrease by 10% | - | 329 | (329) |

## 5. RISK MANAGEMENT (CONTINUED)

### B. Insurance Risk (continued)

| Variable | Impact of a movement in the underlying variable |
|---|---|
| **Mortality risk** | For insurance contracts providing death benefits, greater mortality rates would lead to higher levels of claims, increasing associated claims cost and therefore reducing profit and shareholders' equity. |
| **Morbidity risk** | The cost of claims related to health depends on both the incidence of policyholders being diagnosed with a critical illness or becoming temporarily or permanently disabled and the duration for which they remain temporarily or permanently disabled. Higher than expected incidence and duration would be likely to increase claim costs, reducing profit and shareholders' equity. |
| **Expense risk** | An increase in the level or inflationary growth of expenses over assumed levels will decrease profit and shareholders' equity. |
| **Termination risk** | The impact of the termination rate assumption depends on a range of factors including the type of contract, the surrender value basis (where applicable) and the duration in force. |

### C. Liquidity risk

Management of liquidity risk is designed to ensure that the Group and Company have the ability to meet their financial obligations as they fall due at a reasonable cost.

The Group is exposed to daily calls on its available cash resources from maturing policies, policy claims, surrenders and cashing in or switching between investment portfolios.

Through the application of a liquidity management policy the Group seeks to maintain sufficient resources to meet its obligations as they fall due including adverse scenarios for voluntary withdrawals by policyholders.

Investment durations are matched with the expected timeframes of liabilities to ensure that liabilities are adequately covered.

Each investment portfolio has a small proportion of non-linked funds to provide immediate liquidity for any policyholder that wishes to withdraw funds or switch portfolios.

#### Maturity analysis

The table below shows the maturity of the contractual undiscounted cash flows of the Group and Company's financial assets and liabilities. Where the counterparty has discretion in requesting immediate payment without exit penalty, liabilities have been classified according to the earliest time period in which the Group may be required to pay. Cash flows on derivative financial instruments are analysed on a gross basis, unless they are settled net.

In relation to FCGBL (included in Group figures) the inputs have been prepared on the basis of expected cash flow maturities post the Close Out of Fund.

## 5. RISK MANAGEMENT (CONTINUED)

### C. Liquidity risk (continued)

**Group 2014**

| | Less than 1 year | Between 1 & 2 years | Between 2 & 5 years | Over 5 years | Total | Carrying amount |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Financial assets: | | | | | | |
| Cash and cash equivalents | 27,079 | - | - | - | 27,079 | 27,079 |
| Loans and other receivables | 12,221 | 3,152 | 5,531 | 16,881 | 37,785 | 29,838 |
| Financial assets at fair value through profit or loss | 423,698 | 10,649 | 71,452 | 35,582 | 541,381 | 518,174 |
| Derivative financial instruments | 10,841 | - | - | - | 10,841 | 2,106 |
| Assets arising from reinsurance contracts | 21,540 | - | - | - | 21,540 | 21,540 |
| | 495,379 | 13,801 | 76,983 | 52,463 | 638,626 | 598,737 |
| Financial liabilities: | | | | | | |
| Policyholder liabilities – investment (non-participating) contracts | 255,499 | 12,082 | 35,359 | 135,707 | 438,647 | 438,647 |
| Payables and other financial liabilities | 43,553 | - | - | - | 43,553 | 43,553 |
| Derivative financial instruments | 8,740 | - | - | 205 | 8,945 | 210 |
| | 307,792 | 12,082 | 35,359 | 135,912 | 491,145 | 482,410 |
| Policyholder liabilities – insurance contracts | 899 | 649 | 2,679 | 8,550 | 12,777 | (58,642) |

**Group 2013**

| | Less than 1 year | Between 1 & 2 years | Between 2 & 5 years | Over 5 years | Total | Carrying amount |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Financial assets: | | | | | | |
| Cash and cash equivalents | 12,984 | - | - | - | 12,984 | 12,984 |
| Loans and other receivables | 7,307 | 4,672 | 6,939 | 24,601 | 43,519 | 28,188 |
| Financial assets at fair value through profit or loss | 380,439 | 18,406 | 59,529 | 42,959 | 501,333 | 485,463 |
| Derivative financial instruments | 1,310 | 560 | 347 | 722 | 2,939 | 857 |
| Assets arising from reinsurance contracts | 12,091 | - | - | - | 12,091 | 12,091 |
| | 414,131 | 23,638 | 66,815 | 68,282 | 572,866 | 539,583 |
| Financial liabilities: | | | | | | |
| Policyholder liabilities – investment (non-participating) contracts | 146,810 | 11,969 | 32,012 | 147,423 | 338,214 | 338,214 |
| Payables and other financial liabilities | 26,978 | - | - | - | 26,978 | 26,978 |
| Derivative financial instruments | 2,557 | - | - | - | 2,557 | 2,557 |
| Interest bearing liabilities | 65,865 | - | - | - | 65,865 | 65,778 |
| | 242,210 | 11,969 | 32,012 | 147,423 | 433,614 | 433,527 |
| Policyholder liabilities – insurance contracts | 936 | 826 | 2,023 | 8,167 | 11,952 | (30,595) |

## 5. RISK MANAGEMENT (CONTINUED)

### C. Liquidity risk (continued)

Parent 2014

| | Less than 1 year | Between 1 & 2 years | Between 2 & 5 years | Over 5 years | Total | Carrying amount |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Financial assets: | | | | | | |
| Cash and cash equivalents | 26,852 | - | - | - | 26,852 | 26,852 |
| Loans and other receivables | 12,221 | 3,152 | 5,531 | 16,881 | 37,785 | 29,825 |
| Financial assets at fair value through profit or loss | 423,698 | 10,649 | 71,452 | 35,582 | 541,381 | 518,174 |
| Derivative financial instruments | 10,841 | - | - | - | 10,841 | 2,106 |
| Assets arising from reinsurance contracts | 21,540 | - | - | - | 21,540 | 21,540 |
| | 495,152 | 13,801 | 76,983 | 52,463 | 638,399 | 598,497 |
| Financial liabilities: | | | | | | |
| Policyholder liabilities – investment (non-participating) contracts | 255,499 | 12,082 | 35,359 | 135,707 | 438,647 | 438,647 |
| Payables and other financial liabilities | 43,401 | - | - | - | 43,401 | 43,401 |
| Derivative financial instruments | 8,740 | - | - | 205 | 8,945 | 210 |
| | 307,640 | 12,082 | 35,359 | 135,912 | 490,993 | 482,258 |
| Policyholder liabilities – insurance contracts | 899 | 649 | 2,679 | 8,550 | 12,777 | (58,642) |

Parent 2013

| | Less than 1 year | Between 1 & 2 years | Between 2 & 5 years | Over 5 years | Total | Carrying amount |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Financial assets: | | | | | | |
| Cash and cash equivalents | 12,790 | - | - | - | 12,790 | 12,790 |
| Loans and other receivables | 7,307 | 4,672 | 6,939 | 24,601 | 43,519 | 28,188 |
| Financial assets at fair value through profit or loss | 314,739 | 18,406 | 59,529 | 42,959 | 435,633 | 419,850 |
| Derivative financial instruments | 1,310 | 560 | 347 | 722 | 2,939 | 857 |
| Assets arising from reinsurance contracts | 12,091 | - | - | - | 12,091 | 12,091 |
| | 348,237 | 23,638 | 66,815 | 68,282 | 506,972 | 473,776 |
| Financial liabilities: | | | | | | |
| Policyholder liabilities – investment (non-participating) contracts | 146,810 | 11,969 | 32,012 | 147,423 | 338,214 | 338,214 |
| Payables and other financial liabilities | 26,957 | - | - | - | 26,957 | 26,957 |
| Derivative financial instruments | 2,557 | - | - | - | 2,557 | 2,557 |
| | 176,324 | 11,969 | 32,012 | 147,423 | 367,728 | 367,728 |
| Policyholder liabilities – insurance contracts | 936 | 826 | 2,023 | 8,167 | 11,952 | (30,595) |

## 5. RISK MANAGEMENT (CONTINUED)

### D. Credit risk

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations.

In respect of Group assets, the Group manages credit risk by monitoring exposures entered into by the fund managers and assets held directly by the Group. Financial assets are subject to prudential limits on credit exposure.

The following table provides information regarding the aggregated credit risk exposure, for financial asset categories with external credit ratings. Other financial asset categories are unrated.

**Group 2014**

| | AAA to AA- | BBB+ to BBB- | BB+ to B- | Unrated | Total |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| Cash and cash equivalents | 27,079 | - | - | - | 27,079 |
| Assets arising from reinsurance contracts | 21,540 | - | - | - | 21,540 |
| Debt securities | 68,311 | 31,784 | 759 | 4,965 | 105,819 |
| Derivatives | 2,106 | - | - | - | 2,106 |
| Loans | - | - | - | 23,849 | 23,849 |
| | 119,036 | 31,784 | 759 | 28,814 | 180,393 |

**Group 2013**

| | AAA to AA- | BBB+ to BBB- | BB+ to B- | Unrated | Total |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| Cash and cash equivalents | 12,984 | - | - | - | 12,984 |
| Assets arising from reinsurance contracts | 12,091 | - | - | - | 12,091 |
| Debt securities | 142,137 | 27,982 | 775 | 6,647 | 177,541 |
| Derivatives | 857 | - | - | - | 857 |
| Loans | - | - | - | 26,984 | 26,984 |
| | 168,069 | 27,982 | 775 | 33,631 | 230,457 |

## 5. RISK MANAGEMENT (CONTINUED)

### D. Credit risk (continued)

Parent 2014

| | AAA to AA- | BBB+ to BBB- | BB+ to B- | Unrated | Total |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| Cash and cash equivalents | 26,852 | - | - | - | 26,852 |
| Assets arising from reinsurance contracts | 21,540 | - | - | - | 21,540 |
| Debt securities | 68,311 | 31,784 | 759 | 4,965 | 105,819 |
| Derivatives | 2,106 | - | - | - | 2,106 |
| Loans | - | - | - | 23,836 | 23,836 |
| | 118,809 | 31,784 | 759 | 28,801 | 180,153 |

Parent 2013

| | AAA to AA- | BBB+ to BBB- | BB+ to B- | Unrated | Total |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| Cash and cash equivalents | 12,790 | - | - | - | 12,790 |
| Assets arising from reinsurance contracts | 12,091 | - | - | - | 12,091 |
| Debt securities | 76,524 | 27,982 | 775 | 6,647 | 111,928 |
| Derivatives | 857 | - | - | - | 857 |
| Loans | - | - | - | 26,984 | 26,984 |
| | 102,262 | 27,982 | 775 | 33,631 | 164,650 |

#### Group and Parent

Included in the statement of financial position are unitised funds of $250,909,000 (2013: $196,503,000). Unitised products are invested within the guidelines of the Group's SIPO. The SIPO requires investments to be well diversified, outlines minimum credit rating applicable dependent on type of asset and the maximum exposure to class of investment.

#### Concentration of credit risk

Concentration of credit risk exists if a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions.

The concentration of credit risk on financial assets is generally the carrying amount, net of any provisions for doubtful debts. The Group does not expect any investment or reinsurance counterparties to fail to meet their obligations given their high credit ratings.

#### Asset quality

An ageing analysis of loans receivable is shown below. All loans are deemed not to be impaired unless specifically disclosed as such:

| | Group | | Parent | |
|---|---|---|---|---|
| | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 |
| Current | 17,389 | 16,537 | 17,389 | 16,537 |
| Less than three months | 3,498 | 4,234 | 3,497 | 4,234 |
| Between three and six months | 797 | 1,821 | 797 | 1,821 |
| Greater than six months past due | 1,165 | 2,006 | 1,153 | 2,006 |
| Impaired | 1,000 | 2,386 | 1,000 | 2,386 |
| **Total due** | 23,849 | 26,984 | 23,836 | 26,984 |

As at 30 June 2014 $2.0m (2013: $1.0m) of loans receivable would have been past due at balance date, however their terms were re-negotiated.

## 5. RISK MANAGEMENT (CONTINUED)

### D. Credit risk (continued)

Maximum exposure to credit risk

The maximum exposure relating to each class of financial asset is its carrying value.

Collateral held as security

Loans are secured in a variety of ways, including mortgages over property, life insurance cover, a charge over future business income, a personal guarantee or a charge over other assets. For mortgages, which comprise 83% of the loans portfolio, the Company policy is for a maximum loan to value ratio of less than 75%. In the event of a default, the Group is able to sell or repledge the mortgage collateral held. In the case of policy loans, the loan is secured by the underlying policy. If the outstanding loan exceeds the level of security held it is actively managed to reduce the Group's exposure. At present the fair value of all security across the entire portfolio is not calculated.

Collateral taken possession of

The Group did not hold any collateral which it was permitted to sell or repledge in the absence of default, at the end of either 2014 or 2013.

**Provision for impairment of receivables**

| | Group and Parent | |
|---|---|---|
| | 2014 $'000 | 2013 $'000 |
| Carrying amount at the beginning of the year | 923 | 774 |
| Provisions recognised during the year | 508 | 366 |
| Balances written off during the year | (510) | - |
| Unused amounts reversed | (219) | (217) |
| **Carrying amount at the end of the year** | 702 | 923 |

The provisions above are all made against specific loans and receivables where it is considered there have been events making full repayment unlikely. There have been no collective provisions included (2013: nil).

The creation and release of the provision for impaired receivables has been included in other expenses in the profit or loss component of the statements of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

### E. Fair values

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

(i) Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.

(ii) Level 2 – inputs other than quoted prices included within level 1 that are observable for the assets or liability, either directly (as prices) or indirectly (derived from prices).

(iii) Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability. (Refer note 19 for details of the classification of the Group's financial instruments held at fair value through profit or loss).

## 5. RISK MANAGEMENT (CONTINUED)

### F. Capital management

Capital Risk is managed by the Board with reference to the FCR presented by the Appointed Actuary which includes projections of the solvency margin over the next 5 years for a central basis and various scenarios that would create a bigger solvency strain than the central basis.

On the basis of the projections, the Appointed Actuary makes recommendations on items that may have a bearing on future solvency or maintenance of the Company's credit rating.

Prior to receipt of a Close Out Notice (refer note 16(b)), funds held by FCGBL were invested within the Active Portfolio which were used to generate investment income and used as collateral to generate option income as set out in FCGBL's Investment Statement and Supplemental Trust Deed. At 30 June 2013 all assets were held with the Capital Guarantor.

#### Priority of creditors claims

Following the receipt of a Close Out Notice on 11 August 2011 by FCGBL (refer note 16(b)), and the investment of the Fund in a Fixed Portfolio, the Fund was in a deficit position. As there was no Surplus on Close Out of the Fund, suspended and future interest payable was discharged and cancelled. As a result there were no payments to bondholders other than settlement by the Trustee of the senior bondholder principal amount of $75 million on the Maturity Date of 15 July 2013. At 30 June 2014 the fund has been closed out (refer note 16).

#### Guarantees

FCGBL entered in to a Reimbursement Agreement dated 7 February 2007 with Westpac Banking Corporation, New Zealand Branch who guaranteed payment of the Principal Amount at maturity of the Capital Guaranteed Bonds to the extent that the Principal Amount could not be paid in full by FCGBL from the Liquidated Proceeds of the Fund. The Capital Guaranteed Bond matured on 15 July 2013, refer to note 16 for further information.

#### Solvency

The Company's capital management goals are to maintain a strong capital base to protect policyholders; to maintain an excellent credit rating; and to support its dividend policy.

From 2 August 2013, the Company has operated under a licence issued by the RBNZ, under the provisions of IPSA.

One of the ongoing licensing requirements is to comply with the Solvency Standard for Life Insurance Business issued by RBNZ in August 2011 (the 'Solvency Standard'). It is a requirement that the actual solvency capital must at all times exceed the higher of $5 million and the minimum solvency capital.

During the year ended 30 June 2014, the Company complied with all capital and other licensing requirements. The Appointed Actuary continuously monitors the capital position of the Company and updates the Board of Directors of the solvency position on a monthly basis.

The Audit and Risk Committee reviews the annual and interim financial statements and receives an actuarial review by independent consulting actuary.

The Board of Directors considers an annual FCR prepared by the Appointed Actuary in accordance with both professional standards issued by the New Zealand Society of Actuaries and the Solvency Standard. The FCR identifies and describes all material risks (of which it is reasonable to expect the Appointed Actuary to be aware) and steps taken or proposed to address such risks. The FCR includes consideration of: related entities; assets, investment policy and matching; investment guarantees; tax; bonuses; dividend policy and capital requirements; risk assessment, controls and operational risk; unit-pricing; persistency; counter-party risks; product pricing, cost of sales and planned growth; and compliance with new and proposed legislation.

## 5. RISK MANAGEMENT (CONTINUED)

### F. Capital management (continued)

The Company manages its capital by considering the return on capital reported under NZ IFRS and projections of solvency margin. Regulatory capital is made up of two components, actual solvency capital and minimum solvency capital. This is calculated as follows for Fidelity Life as the Life Insurer of the Group:

| | Statutory Fund | Non Statutory Fund | Total | Total |
|---|---|---|---|---|
| | 2014 $'000 | 2014 $'000 | 2014 $'000 | 2013 $'000 |
| Actual Solvency Capital | 131,175 | 16,594 | 147,769 | 126,700 |
| Minimum solvency capital | 116,019 | 2,898 | 118,917 | 96,605 |
| **Solvency margin** | 15,156 | 13,696 | 28,852 | 30,095 |

## 6. PROFIT AFTER TAXATION

| | Group | | Parent | |
|---|---|---|---|---|
| | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 |
| Profit after taxation arose from | | | | |
| **Life insurance contracts** | | | | |
| Planned margins of revenues over expenses | 12,236 | 9,657 | 12,236 | 9,657 |
| Difference between actual and assumed experience | 1,719 | (3,113) | 1,003 | (3,113) |
| Effects of changes in underlying assumptions | (403) | (289) | (403) | (289) |
| Investment earnings on assets in excess of life insurance liabilities | 3,987 | 2,821 | 3,987 | 2,821 |
| | 17,539 | 9,076 | 16,823 | 9,076 |
| **Life investment contracts** | | | | |
| Difference between actual and assumed experience | 184 | 955 | 184 | 955 |
| Effects of changes in underlying assumptions | 21 | 123 | 21 | 123 |
| | 205 | 1,078 | 205 | 1,078 |
| Investment earnings on assets in excess of policy liabilities | 3,855 | 6,921 | 4,506 | 6,921 |
| Non-statutory fund (net of tax) | 13,537 | - | 13,531 | - |
| **Profit after taxation** | 35,136 | 17,075 | 35,065 | 17,075 |

## 7. INSURANCE PREMIUM CEDED TO REINSURERS

Insurance premiums ceded to reinsurers on life insurance contracts were $100,073,000 (2013: $35,191,000) for the Group and Parent. During the year reinsurance treaties were entered into in relation to acquired life insurance policies (refer note 39).

Reinsurance contracts were held with the following reinsurers during 2014: Swiss Re Life and Health Australia Limited, Munich Reinsurance Company of Australasia Limited, RGA Reinsurance Company of Australia Limited, Hannover Life Re of Australasia Limited, General Reinsurance Life Australia Limited and John Hancock Insurance Company (U.S.A.).

(2013: Swiss Re Life and Health Australia Limited, Munich Reinsurance Company of Australasia Limited, RGA Reinsurance Company of Australia Limited, Hannover Life Re of Australasia Limited and General Reinsurance Life Australia Limited).

## 8. FEE AND COMMISSION INCOME

| | Group | | Parent | |
|---|---|---|---|---|
| | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 |
| Administration fees | 2,391 | 891 | 2,388 | 891 |
| Commission income | 2,641 | - | - | - |
| **Total fee and commission income** | 5,032 | 891 | 2,388 | 891 |

## 9. INVESTMENT INCOME

### Group and Parent 2014

| | Debt Securities | Unit Trusts | Loans | Derivatives | Other | Total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Interest and similar income | 7,043 | - | 1,532 | - | 2 | 8,577 |
| Dividends and distributions | 26 | 10,548 | - | - | 19 | 10,593 |
| Net fair value gains/(losses) | (2,515) | 11,654 | - | 11,825 | (14) | 20,950 |
| **Net investment income** | 4,554 | 22,202 | 1,532 | 11,825 | 7 | 40,120 |

### Group and Parent 2013

| | Debt Securities | Unit Trusts | Loans | Derivatives | Other | Total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Interest and similar income | 6,609 | - | 1,768 | - | 9 | 8,386 |
| Dividends and distributions | - | 6,639 | - | - | 37 | 6,676 |
| Net fair value gains | 193 | 22,010 | - | 2,123 | 18 | 24,344 |
| **Net investment income** | 6,802 | 28,649 | 1,768 | 2,123 | 64 | 39,406 |

## 10. PROPERTY INCOME

| | Group and Parent | |
|---|---|---|
| | 2014 $'000 | 2013 $'000 |
| Increase in fair value of investment property (note 22) | 48 | 476 |
| Rental income from property | 523 | 808 |
| **Total investment property income** | 571 | 1,284 |

Effective 1 April 2014 the investment property was reclassified as an owner-occupied property (refer note 22(c)).

## 11. OTHER INCOME

| | Group | | Parent | |
|---|---|---|---|---|
| | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 |
| Reinsurance treaty policy administration fee | 14,223 | - | 14,223 | - |
| Deferred income amortisation (note 32) | 626 | - | 626 | - |
| Other income | 73 | 65 | 61 | 65 |
| **Total other income** | 14,922 | 65 | 14,910 | 65 |

Under the terms of the reinsurance treaties entered into during the year the Company received a quarterly policy administration fee (refer note 39).

## 12. CLAIMS EXPENSE

| | Group and Parent | |
|---|---|---|
| | 2014 $'000 | 2013 $'000 |
| Claims paid to policyholders under life insurance contracts | | |
| Claims paid on death or critical illness | 90,247 | 54,671 |
| **Total life insurance claims and benefits paid** | 90,247 | 54,671 |

## 13. REINSURANCE RECOVERIES

Reinsurance recoveries received for the year on life insurance contracts were $71,084,000 (2013: $38,685,000) for the Group and Parent. During the year the Company entered into reinsurance treaties in relation to acquired life insurance policies (refer note 39).

## 14. COMMISSION AND MANAGEMENT EXPENSES

| | Group | | Parent | |
|---|---|---|---|---|
| | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 |
| **Life insurance contracts** | | | | |
| Acquisition costs | | | | |
| Commissions | 25,116 | 19,669 | 25,116 | 19,669 |
| Other expenses | 20,060 | 13,924 | 20,060 | 13,924 |
| Maintenance costs | | | | |
| Commissions | 13,166 | 10,542 | 13,941 | 10,542 |
| Other expenses | 23,514 | 14,620 | 23,514 | 14,620 |
| Corporate financing activities[1] | 3,012 | 1,837 | 3,012 | 1,837 |
| | 84,868 | 60,592 | 85,643 | 60,592 |
| **Life investment contracts** | | | | |
| Acquisition costs | | | | |
| Commissions | 2,813 | 1,330 | 2,813 | 1,330 |
| Movement in deferred acquisition cost | (5) | (1) | (5) | (1) |
| Other expenses | 3 | 3 | 3 | 3 |
| Maintenance costs | | | | |
| Commissions | 2,426 | 1,988 | 2,426 | 1,988 |
| Other expenses | 155 | 118 | 155 | 118 |
| Investment management expenses | 826 | 610 | 826 | 610 |
| | 6,218 | 4,048 | 6,218 | 4,048 |
| Non Statutory Fund expenses[2] | 6,822 | - | 3,490 | - |
| **Total commissions and management expenses** | 97,908 | 64,640 | 95,351 | 64,640 |

1 During the year the Company has completed corporate financing activities with respect to the purchase of the acquired policies. The associated costs of the transaction incurred during the period were $1.0m (2013: $1.8m) (refer note 38).

On 4 December 2013, the Company acquired the remaining shares of TriMax Assurance Services Limited ('TriMax') for consideration of $781,002.

The acquired entity held a product manufacture, distribution and administration agreement with the Company. As the transaction was not a purchase of a business under accounting standards (NZ IFRS 3 Business Combinations) the consideration paid has been classified as a corporate financing activity expense.

Following the purchase of the shares, Grosvenor Financial Services Group Limited ('GFSGL') assigned its rights and obligations in relation to a Management Agreement held with TriMax to the Company for $1.2m. This amount has been classified as a corporate financing expense.

2 The Company's statutory fund was implemented on 1 July 2013 (refer note 46 for further details).

## 14. COMMISSION AND MANAGEMENT EXPENSES (CONTINUED)

| | Group | | Parent | |
|---|---|---|---|---|
| | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 |
| Total commission and management expenses include the following: | | | | |
| Employee benefit expense | | | | |
| Wages and salaries and other short term benefits | 24,321 | 14,223 | 23,833 | 14,223 |
| Employee share purchase scheme (note 33) | 45 | 59 | 45 | 59 |
| Remuneration of auditors (appointed auditor: PricewaterhouseCoopers) | | | | |
| Audit services | 336 | 155 | 336 | 155 |
| Advisory services[1] | 25 | 28 | 25 | 28 |
| Acquisition advice services | - | 151 | - | 151 |
| Tax services | | | | |
| – Compliance | 32 | 36 | 32 | 36 |
| – Advisory | 23 | 9 | 23 | 9 |
| Additional amounts paid to auditors[2] | | | | |
| Depreciation (note 23) | 870 | 619 | 870 | 619 |
| Amortisation | | | | |
| Acquired in-force business (note 27) | 463 | 465 | 463 | 465 |
| Software (note 27) | 848 | 514 | 848 | 514 |
| Impairment | | | | |
| Internally developed software (note 27) | - | 588 | - | 588 |
| Directors' fees | 461 | 448 | 461 | 448 |
| Operating lease costs | 633 | 162 | 633 | 162 |
| Direct rental property expenses (note 22) | 384 | 322 | 384 | 322 |
| Bad and doubtful debts expense | 101 | 148 | 101 | 148 |

1 Advisory services includes executive remuneration benchmarking and indicative valuation of shares.

2 Amounts included in commission and management expenses in discontinued operations are $38,000 for audit services and $19,000 for taxation advisory services (2013: $10,000 for audit services).

During the normal course of business, management has written off receivables from agents' commission accounts where the agencies have been terminated. In addition, as disclosed under note 21, the Company has decreased its provision for impairment of the mortgages and loans portfolio, and agents' commission accounts by $221,000 (2013 increase of $149,000).

These amounts are included in bad and doubtful debts expense.

## 15. INCOME TAX EXPENSE

| | Group | | Parent | |
|---|---|---|---|---|
| | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 |
| **(a) Income tax expense** | | | | |
| Current tax | 9,587 | 2,069 | 9,556 | 2,069 |
| Deferred tax | 152 | 1,196 | 155 | 1,196 |
| Adjustment to prior period deferred tax | (57) | 15 | (57) | 15 |
| | 9,682 | 3,280 | 9,654 | 3,280 |
| Tax expense attributed to policyholders | 7,532 | 4,684 | 7,532 | 4,684 |
| Tax expense/(credit) attributed to shareholders | 2,150 | (1,404) | 2,122 | (1,404) |
| **Total tax expense** | 9,682 | 3,280 | 9,654 | 3,280 |
| **(b) Numerical reconciliation of income tax expense to prima facie tax payable** | | | | |
| Profit before income tax expense from continuing operations | 28,337 | 19,727 | 28,238 | 19,727 |
| Tax at the New Zealand tax rate of 28% (2013: 28%) | 7,934 | 5,524 | 7,907 | 5,524 |
| Tax effect of non-taxable income | (5,795) | (9,021) | (5,796) | (9,021) |
| Tax effect of non-deductible expenses | 7,850 | 7,142 | 7,850 | 7,142 |
| Subsidiary tax losses transferred to parent company | - | (98) | - | (98) |
| Benefit of imputation credits received | (294) | (281) | (294) | (281) |
| Prior period adjustment | (13) | 14 | (13) | 14 |
| **Income tax expense** | 9,682 | 3,280 | 9,654 | 3,280 |

Income tax expense includes both tax on shareholder profits and on returns attributed to policyholders.

### (c) Imputation credit account

| | Group | | Parent | |
|---|---|---|---|---|
| | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 |
| Imputation credits available for use in subsequent reporting periods | 173 | 117 | 173 | 117 |

### (d) Tax charge relating to components of other comprehensive income

The tax charge relating to components of other comprehensive income is as follows:

| | Before tax | Deferred Tax charge | After tax | Before tax | Deferred Tax charge | After tax |
|---|---|---|---|---|---|---|
| | 2014 $'000 | 2014 $'000 | 2014 $'000 | 2013 $'000 | 2013 $'000 | 2013 $'000 |
| Group and Parent | | | | | | |
| Fair value gains/(losses) on revaluation – land and building | 144 | (40) | 104 | 555 | (155) | 400 |
| Employee share purchase plan expense | 45 | - | 45 | 59 | - | 59 |
| | 189 | (40) | 149 | 614 | (155) | 459 |

## 15. INCOME TAX EXPENSE (CONTINUED)

### (e) Income tax asset

| | Group | | Parent | |
|---|---|---|---|---|
| | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 |
| Income tax prepaid | **3,881** | 3,881 | **3,881** | 3,881 |
| Tax benefit recognised on business combination (note 38) | **4,042** | - | **4,042** | - |
| | **7,923** | 3,881 | **7,923** | 3,881 |

Income tax prepaid of $3,881,000 (2013: $3,881,000) is recognised on the statements of financial position of the Company and Group at 30 June 2014. The income tax will be utilised to meet the Company's future shareholder income tax liabilities once tax losses carried forward have been exhausted. The Company cannot request a refund of this income tax prepaid and it will not be utilised in the next financial year.

## 16. DISCONTINUED OPERATIONS

| | Group | | Parent | |
|---|---|---|---|---|
| | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 |
| Revenue | | | | |
| Fee and commission income | **671** | 3,753 | **671** | 3,753 |
| Other income | **-** | 1 | **-** | - |
| **Total revenue** | **671** | 3,754 | **671** | 3,753 |
| Expenses | | | | |
| Claims expenses | **7** | - | **7** | - |
| Net change in life insurance contract liabilities | **(97)** | (399) | **(97)** | (399) |
| Commission and management expenses | **724** | 3,436 | **724** | 3,435 |
| **Total expenses** | **634** | 3,037 | **634** | 3,036 |
| **Net profit before tax on discontinued operations** | **37** | 717 | **37** | 717 |
| Income tax expense | **56** | 89 | **56** | 89 |
| **Net (loss)/profit after tax on discontinued operations** | **(19)** | 628 | **(19)** | 628 |
| **Gain on sale of management rights** | **16,500** | - | **16,500** | - |
| **Net profit after tax** | **16,481** | 628 | **16,481** | 628 |

### (a) Sale of Management Rights in the Fidelity KiwiSaver Scheme to Grosvenor Investment Management Limited

On 23 August 2013, the Company completed the sale of its management rights in the Fidelity KiwiSaver Scheme to Grosvenor Investment Management Limited ('GIML') and Grosvenor Financial Services Group Limited ('GFSGL') for consideration of $16.5m comprising $11.0m cash and $5.5m shares in GFSGL. The amount represented the minimum receivable by Fidelity Life in relation to the transaction, with the potential for additional payments if the number of members in the Fidelity KiwiSaver Scheme increased by at least 2,000 in each of the two years post completion. The Company does not believe that there will be any payment received under this provision. The costs associated with the sale were $0.3m.

Fidelity Securities Limited, the Fund Manager of the five Fidelity wholesale funds (Fidelity Global Shares Fund, Fidelity Global Bond Fund, Fidelity Property Fund, Fidelity Asset Class Conservative Fund, and Fidelity Asset Class Growth Fund), along with the management rights to the five wholesale funds, were also included within the sale.

## 16. DISCONTINUED OPERATIONS (CONTINUED)

### (a) Sale of Management Rights in the Fidelity KiwiSaver Scheme to Grosvenor Investment Management Limited (continued)

The revenue and expenses relating to the management rights in the Fidelity KiwiSaver Scheme have been disclosed separately in the statements of comprehensive income as a discontinued operation. The results in relation to the Fidelity KiwiSaver Scheme were:

| | Group and Parent | |
|---|---|---|
| | 2014 $'000 | 2013 $'000 |
| **Revenue** | | |
| Fee and commission income[1] | 671 | 3,753 |
| **Total revenue** | 671 | 3,753 |
| **Expenses** | | |
| Claims expenses | 7 | - |
| Net change in life insurance contract liabilities | (97) | (399) |
| Commission and management expenses | 724 | 3,435 |
| **Total expenses** | 634 | 3,036 |
| **Net profit before tax on discontinued operations** | 37 | 717 |
| Income tax expense | 56 | 89 |
| **Net (loss)/profit after tax on discontinued operations** | (19) | 628 |
| **Gain on sale of management rights** | 16,500 | - |
| **Net profit after tax** | 16,481 | 628 |

1 Fee and other commission income includes administration and management fees.

**Income taxation from discontinued operations consists of:**

| | Group and Parent | |
|---|---|---|
| | 2014 $'000 | 2013 $'000 |
| (a) Income tax expense | | |
| Current tax | 56 | 89 |
| | 56 | 89 |
| (b) Numerical reconciliation of income tax expense to prima facie tax payable | | |
| Income before income tax expense | 37 | 717 |
| Tax at the New Zealand tax rate of 28% (2013: 28%) | 10 | 201 |
| Tax effect of non-taxable/non-deductible amounts | 46 | (112) |
| **Income tax expense from discontinued operations** | 56 | 89 |

## 16. DISCONTINUED OPERATIONS (CONTINUED)

### (a) Sale of Management Rights in the Fidelity KiwiSaver Scheme to Grosvenor Investment Management Limited (continued)

| | Group and Parent | |
|---|---|---|
| | 2014 $'000 | 2013 $'000 |
| Cash flows of disposal group classified as held for sale | | |
| Operating cash inflows | 10,820 | 1,231 |
| **Total cash inflows** | 10,820 | 1,231 |

Fidelity Life, as the former manager of the Fidelity KiwiSaver Scheme, identified errors in the members' PIE tax calculation. Overall, this has resulted in a net overpayment of PIE tax to the Inland Revenue. The Manager is in the process of claiming the excess tax from the Inland Revenue on behalf of members for reimbursement at the earliest practicable date. Above a threshold of three dollars, Fidelity Life will compensate members, in accordance with the requirements of the trustee, for the loss of income arising from these overpayments to the Inland Revenue up to the date that the members are reimbursed. A best estimate of this compensation is $75,000; but the level of final compensation up to the date of final payment is still to be determined.

### (b) Fidelity Capital Guaranteed Bond

| | Group | |
|---|---|---|
| | 2014 $'000 | 2013 $'000 |
| **Investment income** | | |
| Financial instruments designated at fair value through profit or loss – Debt securities | 87 | 2,119 |
| Increase in funds attributable to Bondholders | (87) | (2,118) |
| **Investment income** | - | 1 |
| **Expenses** | | |
| Auditors' fees | - | 10 |
| Other expenses | 11 | 49 |
| Movement in provision for future on-going operating expenses | (11) | (58) |
| **Total operating expenses** | - | 1 |
| **Net profit before tax on discontinued operations** | - | - |
| Income tax expense | - | - |
| **Net profit after tax on discontinued operations** | - | - |

In August 2011 there was significant volatility in investment markets. Major losses were incurred by the Company's wholly owned subsidiary, Fidelity Capital Guaranteed Bond Limited ('FCBGL').The net asset value of the investments ('the Fund') managed by Tyndall Investment Management Limited, fell below the Bond Floor on 10 August 2011, triggering an Event of Default leading to the Capital Guarantor, Westpac Banking Corporation, New Zealand Branch, issuing a Close Out Notice and assuming control and direction of the Fund. Open position Active Portfolio Assets were closed out, and in accordance with the Supplementary Trust Deed (No. 1), the resulting proceeds were invested in Fixed Portfolio Assets during August 2011. The resulting proceeds were invested in a zero coupon bond and cash. No future interest coupons were paid and interest was no longer expensed or accrued.

Following these events in the 2011 financial statements FCGBL was deemed to be a discontinuing operation and the financial statements for the subsidiary were based on a realisable value basis.

## 16. DISCONTINUED OPERATIONS (CONTINUED)

### (b) Fidelity Capital Guaranteed Bond (continued)

The Capital Guaranteed Bond matured on 15 July 2013. Senior bondholders were repaid their capital investment in full on the maturity date, with no additional cost to the Company. The repayment sources were:

| | $'000 |
|---|---|
| Zero-coupon bond (face value) | 65,700 |
| Money market bank account and cash | 170 |
| Payment by the capital guarantor | 9,130 |
| | 75,000 |

In the current year, interest income and net changes in financial assets at fair value through profit or loss on investments have been offset by a realisable value adjustment to the senior bond liability. In addition the provision for on-going expenses has been adjusted to reflect actual expenses incurred in the year. The net impact is that profit before tax for discontinued operations is nil.

As at 30 June 2014 FCGBL had no assets or liabilities. Assets and liabilities for 30 June 2013 were carried at net realisable values. All assets were held with the Capital Guarantor and comprised a $65.6 million zero coupon bond with a face value of $65.7 million on the maturity date of 15 July 2013; and $0.2 million of cash and accrued interest in a money market bank account. In addition at 30 June 2013 the Company had $0.03 million in a separate operating bank account to cover on-going expenses accrued and expected to be incurred prior to the maturity date of 15 July 2013.

## 17. CASH AND CASH EQUIVALENTS

| | Group | | Parent | |
|---|---|---|---|---|
| | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 |
| Cash at bank and in hand | | | | |
| Bank balances | 18,270 | 12,984 | 18,043 | 12,790 |
| Deposits at call | 8,809 | - | 8,809 | - |
| **Total cash and cash equivalents** | 27,079 | 12,984 | 26,852 | 12,790 |

## 18. ASSETS ARISING FROM REINSURANCE CONTRACTS

| | Group and Parent | |
|---|---|---|
| | 2014 $'000 | 2013 $'000 |
| Assets arising from reinsurance contracts comprise: | | |
| Life insurance contracts | 21,540 | 12,091 |
| | 21,540 | 12,091 |
| **Life insurance contracts reinsurance assets** | | |
| Carrying amount at 1 July | 12,091 | 10,347 |
| Reinsurance claims on opening acquired policies | 3,017 | - |
| Reinsurance claims made to reinsurers | 43,967 | 38,277 |
| Payments received from reinsurers | (37,535) | (36,533) |
| **Carrying amount at 30 June** | 21,540 | 12,091 |
| Expected maturity | | |
| Within 12 months | 21,540 | 12,091 |
| | 21,540 | 12,091 |

During the year the Company entered into reinsurance treaties in relation to acquired life insurance policies (refer note 39).

## 19. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES THROUGH PROFIT OR LOSS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial instruments that are measured in the statements of financial position at fair value (excluding short term amounts held at a reasonable approximation of fair value), are categorised under a three level hierarchy, reflecting the availability of observable market inputs when estimating the fair value. If different levels of inputs are used to measure a financial instrument's fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement. The three levels are:

Level1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying amounts of all financial assets and liabilities approximate their fair values.

## 19. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES THROUGH PROFIT OR LOSS (CONTINUED)

The following table shows the Group and Parent's assets and liabilities categorised by fair value measurement hierarchy levels:

**Group and Parent**
**As at 30 June 2014**

| | Level 1 | Level 2 | Level 3 | Total fair value |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| **Assets** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Debt securities | | | | |
| Local Authority | - | 7,748 | - | 7,748 |
| New Zealand Government | - | 17,931 | - | 17,931 |
| Corporate-New Zealand | - | 80,140 | - | 80,140 |
| Unitised funds | - | 250,909 | - | 250,909 |
| Total debt securities | - | 356,728 | - | 356,728 |
| Equity securities | | | | |
| Corporate-New Zealand | 804 | - | 5,500 | 6,304 |
| Unitised funds | - | 155,142 | - | 155,142 |
| Total equity securities | 804 | 155,142 | 5,500 | 161,446 |
| Financial assets at fair value through profit or loss | 804 | 511,870 | 5,500 | 518,174 |
| Derivative financial assets | | | | |
| Forward currency | - | 2,057 | - | 2,057 |
| Foreign currency swaps | - | 49 | - | 49 |
| Total derivative assets | - | 2,106 | - | 2,106 |
| Total financial assets at fair value | 804 | 513,976 | 5,500 | 520,280 |
| **Liabilities** | | | | |
| Derivative financial liabilities | | | | |
| Forward currency | - | 5 | - | 5 |
| Interest rate swaps | - | 205 | - | 205 |
| Total derivative financial instruments | - | 210 | - | 210 |
| Total financial liabilities at fair value | - | 210 | - | 210 |

## 19. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES THROUGH PROFIT OR LOSS (CONTINUED)

Group
As at 30 June 2013

| | Level 1 | Level 2 | Level 3 | Total fair value |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| **Assets** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Debt securities | | | | |
| Local Authority | - | 8,355 | - | 8,355 |
| New Zealand Government | - | 21,357 | - | 21,357 |
| Corporate-New Zealand | - | 82,216 | 65,613 | 147,829 |
| Unitised funds | - | 196,503 | - | 196,503 |
| Total debt securities | - | 308,431 | 65,613 | 374,044 |
| Equity securities | | | | |
| Corporate-New Zealand | 797 | - | - | 797 |
| Unitised funds | - | 110,622 | - | 110,622 |
| Total equity securities | 797 | 110,622 | - | 111,419 |
| Total financial assets at fair value | 797 | 419,053 | 65,613 | 485,463 |
| Derivative financial assets | | | | |
| Forward currency | - | 392 | - | 392 |
| Interest rate swaps | - | 465 | - | 465 |
| Total derivative assets | - | 857 | - | 857 |
| Total financial assets at fair value | 797 | 419,910 | 65,613 | 486,320 |
| **Liabilities** | | | | |
| Derivative financial liabilities | | | | |
| Forward currency | - | 2,477 | - | 2,477 |
| Put options | - | 80 | - | 80 |
| Total derivative financial instruments | - | 2,557 | - | 2,557 |
| Total financial liabilities at fair value | - | 2,557 | - | 2,557 |

## 19. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES THROUGH PROFIT OR LOSS (CONTINUED)

Parent
As at 30 June 2013

| | Level 1 | Level 2 | Level 3 | Total fair value |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| **Assets** | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Debt securities | | | | |
| Local Authority | - | 8,355 | - | 8,355 |
| New Zealand Government | - | 21,357 | - | 21,357 |
| Corporate-New Zealand | - | 82,216 | - | 82,216 |
| Unitised funds | - | 196,503 | - | 196,503 |
| Total debt securities | - | 308,431 | - | 308,431 |
| Equity securities | | | | |
| Corporate-New Zealand | 797 | - | - | 797 |
| Unitised funds | - | 110,622 | - | 110,622 |
| Total equity securities | 797 | 110,622 | - | 111,419 |
| Total financial assets at fair value | 797 | 419,053 | - | 419,850 |
| Derivative financial assets | | | | |
| Forward currency | - | 392 | - | 392 |
| Interest rate swaps | - | 465 | - | 465 |
| Total derivative assets | - | 857 | - | 857 |
| Total financial assets at fair value | 797 | 419,910 | - | 420,707 |
| **Liabilities** | | | | |
| Derivative financial liabilities | | | | |
| Forward currency | - | 2,477 | - | 2,477 |
| Put options | - | 80 | - | 80 |
| Total derivative financial instruments | - | 2,557 | - | 2,557 |
| Total financial liabilities at fair value | - | 2,557 | - | 2,557 |

The notional principal amounts of outstanding derivatives at 30 June 2014 were:

- forward foreign exchange contracts $141,001,000 (2013: $120,404,000)
- forward foreign exchange swaps $8,836,000 (2013: nil)
- interest rate swaps $25,000,000 (2013: $55,000,000)
- put options $nil (2013:$3,990,000)

## 19. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES THROUGH PROFIT OR LOSS (CONTINUED)

The following methods and assumptions were used by the Group in estimating the fair values of financial instruments

### (i) Cash and cash equivalents

The carrying amount of cash and cash equivalents reasonably approximate their fair value.

### (ii) Loans and receivables and other financial liabilities held at amortised cost

Carrying values of loans and receivables, adjusted for impairment values, and carrying values of other financial liabilities held at amortised cost reasonably approximate their fair values.

### (iii) Derivative financial liabilities

The fair value of derivative financial assets and liabilities is determined by reference to the underlying market values.

### (iv) Interest bearing securities

The fair value of senior unsecured bonds is determined by reference to the quoted market price of the underlying debt securities.

### (v) Life investment policies

The carrying value of life investments reasonably approximates the fair value. Inputs utilised within the valuation of this balance are disclosed in note 4.

### (vi) Financial assets at fair value through profit or loss and held for trading

The fair value of financial instruments traded in active markets is based on quoted market prices at measurement date. A market is regarded as active if quoted prices are readily available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are in included in Level 1.

The fair value of instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

Specific valuation techniques to value financial instruments include:

- Quoted market prices (other than those included in level 1) or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flows analysis, are used to determine fair value for remaining financial instruments.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. At 30 June 2014, the Level 3 category includes shares in GFSGL valued at $5,500,000 which were acquired as part of the divestment of the Fidelity KiwiSaver Scheme. (Refer note 16a). GFSGL is an unlisted entity with limited share transactions.

The valuation of the shares was based upon a model developed at the time of the transaction and reviewed by the Company during due diligence. The valuation was based on GFSGL's net tangible assets, adjusted for known future events; and an estimate of future maintainable earnings from GFSGL's investment management operations, multiplied by an appropriate market multiple.

The share issuance included a put option for the Company to sell shares back to GFSGL for a fixed price on the second anniversary of the closing date of the transaction.

## 19. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES THROUGH PROFIT OR LOSS (CONTINUED)

Management have reviewed the key assumptions within the model used to value the shares at the date of issue to the Company and reviewed publicly available information to determine how these assumptions may have changed at balance date. Professional judgement by experienced management has been utilised to review and evaluate how this information would potentially affect the valuation of the shares.

The review shows there is potential upside for both the future maintainable earnings and price earnings multiple utilised within the valuation model. However management consider a potential increase to be subjective in nature.

At 30 June 2014 the Company believes the valuation of the shares to be in the range of $3.36 per share to $3.49 per share. However due to the subjective nature of the assumptions used in the model, the Company has therefore recorded the investment at the lower end of the range.

At 30 June 2013, FCGBL's financial assets held at fair value through profit or loss were classified as level 3 in the fair value hierarchy. These assets comprised a zero coupon bond debt security issued by a New Zealand registered bank. The bond matured on 15 July 2013.

## 20. DERIVATIVE FINANCIAL INSTRUMENTS

The Group utilises derivative financial instruments to reduce investment risk. Specifically, derivatives are used to achieve cost effective short-term re-weightings of asset class, sector and security exposures and to hedge portfolios, as an economic hedge, when a market is subject to significant short term risk.

Derivatives used by the Group include interest rate swaps and foreign exchange forward contracts. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The fair values of interest rate swaps are calculated by discounting estimated future cash flows based on the terms and maturity of each contract using market interest rates. The average interest rate is based on the outstanding balances at the start of the financial year.

## 21. LOANS AND OTHER RECEIVABLES

| | Group | | Parent | |
|---|---|---|---|---|
| | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 |
| Mortgage and agents' loans | 22,557 | 25,995 | 22,557 | 25,995 |
| Policy loans | 94 | 143 | 94 | 143 |
| Other loans | 1,198 | 846 | 1,185 | 846 |
| Total loans | 23,849 | 26,984 | 23,836 | 26,984 |
| Less provision for impairment on loans[1] | (702) | (923) | (702) | (923) |
| Net loans receivable | 23,147 | 26,061 | 23,134 | 26,061 |
| Other receivables | | | | |
| Proceeds due from sale of investments | 50 | 287 | 50 | 287 |
| Outstanding premiums | 4,180 | 848 | 4,180 | 848 |
| Prepayments | 2,773 | 1,332 | 2,773 | 1,332 |
| Interest due on loans | 239 | 380 | 239 | 380 |
| Prepaid deposit[2] | - | 2,000 | - | 2,000 |
| Reinsurance receivable | 1,889 | - | 1,889 | - |
| Sundry receivables | 333 | 612 | 333 | 612 |
| Total other receivables | 9,464 | 5,459 | 9,464 | 5,459 |
| **Total loans and other receivables** | 32,611 | 31,520 | 32,598 | 31,520 |
| Expected maturity | | | | |
| Within 12 months | 16,498 | 8,805 | 16,485 | 8,805 |
| Later than 12 months | 16,113 | 22,715 | 16,113 | 22,715 |
| | 32,611 | 31,520 | 32,598 | 31,520 |

1 The provisions are all made against specific loans and receivables where it is considered there has been events making full repayment unlikely.

There have been no collective provisions included (2013: nil).

The creation and release of the provision for impaired receivables has been included in other expenses in the profit or loss component of the statements of other comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

Refer to note 5(D) for reconciliation of impairment provision.

2 In 2013, the Company paid a deposit of $2.0m on entering the agreement to purchase the acquired policies. Refer to note 38 for further information on the acquisition.

## 22. INVESTMENT PROPERTY

| | Group and Parent | |
|---|---|---|
| | 2014 $'000 | 2013 $'000 |
| **At fair value** | | |
| Opening balance | 10,203 | 9,275 |
| Capitalised expenditure | 84 | 452 |
| Net gain from fair value adjustment | 48 | 476 |
| Transfer to owner-occupied property (note 23) | (10,335) | - |
| **Closing balance** | - | 10,203 |

### (a) Direct operating expenses from investment property

| | Group and Parent | |
|---|---|---|
| | 2014 $'000 | 2013 $'000 |
| That generated rental income during the year | 384 | 322 |
| | 384 | 322 |

### (b) Fair value

The property comprises a commercial office building located in Auckland.

The movements in the property were:

| | Group and Parent | |
|---|---|---|
| | 2014 $'000 | 2013 $'000 |
| Opening balance | 19,250 | 17,500 |
| Additions | 294 | 852 |
| Gains recognised in comprehensive income | 48 | 476 |
| Gains recognised in other comprehensive income | 144 | 555 |
| Depreciation | (236) | (133) |
| **Closing balance** | 19,500 | 19,250 |

The valuation of the property is measured at fair value at each reporting date. Fair value represents the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the reporting date. The methodology used to value the property includes significant unobservable inputs (level 3 of the fair value hierarchy).

The property was valued on 30 June 2014 at $19.5m (2013: $19.3m), by P R Amesbury (ANZIV, SPINZ) an independent registered valuer in the firm of Barratt-Boyes Jefferies Lawton Limited.

The fair value is based on active market prices calculated on capitalisation rates derived from sales of comparable properties, adjusted, if necessary, for any difference in the nature, location or condition of the property.

| | Group and Parent | |
|---|---|---|
| | 2014 | 2013 |
| **Primary assumptions used in valuing the property** | | |
| Capitalisation rate[1] | 6.75% | 6.00% |
| Discount rate[2] | 8.50% | 9.00% |

1 The fair value of the property would increase/decrease if the capitalisation rate was lower/higher.

2 The fair value of the property would increase/decrease if the risk adjusted discount was lower/higher.

## 22. INVESTMENT PROPERTY (CONTINUED)

### (c) Transfer to "Property, plant and equipment"

Effective 1 April 2014, the investment property was transferred to "Property, plant and equipment" following the Company's occupation of the building increasing to 85.6% of the total area of the building. The property was transferred at the fair value – refer note 23.

### (d) Contractual obligations

There are no contractual obligations to purchase, construct or develop investment property or for any other repairs, maintenance or enhancements (2013: nil).

## 23. PROPERTY, PLANT AND EQUIPMENT

Group and Parent

| | Land and buildings | Building fit out and improvements | Motor vehicles | Computer equipment | Furniture and office equipment | Total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **At 1 July 2012** | | | | | | |
| Cost/Valuation | 8,224 | 1,064 | 445 | 1,673 | 748 | 12,154 |
| Accumulated depreciation | - | (780) | (231) | (1,213) | (648) | (2,872) |
| **Net book amount** | 8,224 | 284 | 214 | 460 | 100 | 9,282 |
| **Year ended 30 June 2013** | | | | | | |
| Opening net book amount | 8,224 | 284 | 214 | 460 | 100 | 9,282 |
| Additions | 401 | 2 | 201 | 254 | 80 | 938 |
| Revaluation | 555 | - | - | - | - | 555 |
| Depreciation | (133) | (131) | (87) | (215) | (53) | (619) |
| Disposals | - | (9) | (26) | - | - | (35) |
| **Closing net book amount** | 9,047 | 146 | 302 | 499 | 127 | 10,121 |
| **At 1 July 2013** | | | | | | |
| Cost/Valuation | 9,047 | 1,057 | 499 | 1,908 | 828 | 13,339 |
| Accumulated depreciation | - | (911) | (197) | (1,409) | (701) | (3,218) |
| **Net book amount** | 9,047 | 146 | 302 | 499 | 127 | 10,121 |
| **Year ended 30 June 2014** | | | | | | |
| Opening net book amount | 9,047 | 146 | 302 | 499 | 127 | 10,121 |
| Additions | 210 | 90 | 322 | 717 | 218 | 1,557 |
| Transfer from investment property | 10,335 | - | - | - | - | 10,335 |
| Revaluation | 144 | - | - | - | - | 144 |
| Depreciation | (236) | (76) | (128) | (341) | (89) | (870) |
| Disposals | - | - | (45) | - | (1) | (46) |
| **Closing net book amount** | 19,500 | 160 | 451 | 875 | 255 | 21,241 |
| **At 30 June 2014** | | | | | | |
| Cost/Valuation | 19,500 | 1,147 | 706 | 2,625 | 1,031 | 25,009 |
| Accumulated depreciation | - | (987) | (255) | (1,750) | (776) | (3,768) |
| **Net book amount** | 19,500 | 160 | 451 | 875 | 255 | 21,241 |

## 23. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

### Group and Parent

**(a) Owner-occupied properties**

Owner-occupied properties are stated at their revalued amounts as assessed by qualified external valuers. Values are calculated on the basis of existing use, being the estimated arm's length value at which the properties could be exchanged with vacant possession and without allowing for alternatives to their current use. The most recent valuation was undertaken by P R Amesbury a registered valuer in the firm of Barratt-Boyes Jefferies Lawton Limited on 30 June 2014. For further information on the valuation refer to note 22(b).

**(b) If land and buildings were stated on the historical cost basis, the amounts would be as follows:**

| | Group and Parent | |
|---|---|---|
| | 2014 $'000 | 2013 $'000 |
| Cost | 17,858 | 7,318 |
| Accumulated depreciation | (1,477) | (1,241) |
| **Net book amount** | 16,381 | 6,077 |

## 24. INVESTMENT IN SUBSIDIARIES

The Parent holds the following interests in subsidiaries

| Company | Nature of activities | Class of Shares | Ownership | |
|---|---|---|---|---|
| | | | 2014 | 2013 |
| Fidelity Capital Guaranteed Bond Limited | Investment (Discontinued Operations) | Ordinary | 100% | 100% |
| Fidelity Fund Management Limited | Non-trading Trustee Company | Ordinary | 100% | 100% |
| Fidelity Securities Limited | Fund Manager (Discontinued Operations) | Ordinary | 0% | 100% |
| Life and Advisory Services Limited | Investment Services | Ordinary | 100% | 0% |
| TriMax Assurance Services Limited | Insurance Broker | Ordinary | 100% | 15% |

All subsidiaries are incorporated in New Zealand and have a balance date of 30 June.

Fidelity Securities Limited was sold to GIML on 23 August 2013 (refer note 16).

Life and Advisory Services Limited was purchased on 1 August 2013 (refer note 38).

TriMax Assurance Services Limited was purchased on 4 December 2013 (refer note 14).

Life Operations Limited ('LOL') was purchased on 1 August 2013. (Refer note 38). On 10 September 2013, LOL and the Company amalgamated to become Fidelity Life Assurance Company Limited under Part XIII of the Companies Act 1993.

The following summarises the results of LOL for the period from the date of purchase to the date of amalgamation:

| | $'000 |
|---|---|
| Revenue | 1,361 |
| Expenses | (1,361) |
| Net profit before tax | - |
| Income tax expense | - |
| **Net profit after tax** | - |

## 24. INVESTMENT IN SUBSIDIARIES (CONTINUED)

The following table summaries the assets acquired and liabilities assumed by the Company as part of the amalgamation:

| | $'000 |
|---|---|
| Loans and other receivables | 238 |
| Plant and equipment (at net book value) | 58 |
| Deferred tax asset | 99 |
| **Total Assets** | 395 |
| Creditors and accruals | 85 |
| Employee entitlements | 229 |
| Payable to parent | 81 |
| Total liabilities | 395 |
| **Net Assets** | - |

## 25. DEFERRED TAX

The balance comprises temporary differences attributable to:

| Deferred tax assets | Fixed assets | Deferred income | Provisions | Unused tax losses | Total |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Group** | | | | | |
| Balance at 30 June 2012 | 65 | - | 1,126 | 13,520 | 14,711 |
| Movement through profit or loss | 12 | - | 349 | 1,993 | 2,354 |
| Balance at 30 June 2013 | 77 | - | 1,475 | 15,513 | 17,065 |
| Movement through profit or loss | (49) | 320 | (180) | 7,369 | 7,460 |
| Deferred tax on business combination | - | - | 116 | - | 116 |
| **Balance at 30 June 2014** | 28 | 320 | 1,411 | 22,882 | 24,641 |
| **Parent** | | | | | |
| Balance at 30 June 2012 | 65 | - | 1,126 | 13,520 | 14,711 |
| Movement through profit or loss | 12 | - | 349 | 1,993 | 2,354 |
| Balance at 30 June 2013 | 77 | - | 1,475 | 15,513 | 17,065 |
| Movement through profit or loss | (49) | 320 | (183) | 7,369 | 7,457 |
| Deferred tax on business combination | - | - | 99 | - | 99 |
| **Balance at 30 June 2014** | 28 | 320 | 1,391 | 22,882 | 24,621 |

| | Group | | Parent | |
|---|---|---|---|---|
| | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 |
| **Deferred tax assets to be recovered:** | | | | |
| Later than 12 months | 23,230 | 15,590 | 23,230 | 15,590 |
| Within 12 months | 1,411 | 1,475 | 1,391 | 1,475 |
| | 24,641 | 17,065 | 24,621 | 17,065 |

## 25. DEFERRED TAX (CONTINUED)

| Deferred tax liabilities | Intangibles | Property | Insurance reserves | Deferred acquisition costs | Total |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Group** | | | | | |
| Balance at 30 June 2012 | (391) | 420 | 1,362 | 21,730 | 23,121 |
| Movement through profit or loss | 366 | 96 | (117) | 3,218 | 3,563 |
| Movement through other comprehensive income | - | 155 | - | - | 155 |
| Balance at 30 June 2013 | (25) | 671 | 1,245 | 24,948 | 26,839 |
| Movement through profit or loss | 295 | 790 | 355 | 6,116 | 7,556 |
| Deferred tax on business combination | - | - | (62) | 34,022 | 33,960 |
| Deferred tax on reinsurance treaties acquired | - | - | 56 | (30,678) | (30,622) |
| Movement through other comprehensive income | - | 40 | - | - | 40 |
| **Balance at 30 June 2014** | 270 | 1,501 | 1,594 | 34,408 | 37,773 |
| **Parent** | | | | | |
| Balance at 30 June 2012 | (391) | 420 | 1,362 | 21,730 | 23,121 |
| Movement through profit or loss | 366 | 96 | (117) | 3,218 | 3,563 |
| Movement through other comprehensive income | - | 155 | - | - | 155 |
| Balance at 30 June 2013 | (25) | 671 | 1,245 | 24,948 | 26,839 |
| Movement through profit or loss | 295 | 790 | 355 | 6,116 | 7,556 |
| Deferred tax on business combination | - | - | (62) | 34,022 | 33,960 |
| Deferred tax on reinsurance treaties acquired | - | - | 56 | (30,678) | (30,622) |
| Movement through other comprehensive income | - | 40 | - | - | 40 |
| **Balance at 30 June 2014** | 270 | 1,501 | 1,594 | 34,408 | 37,773 |

| | Group | | Parent | |
|---|---|---|---|---|
| | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 |
| **Deferred tax liabilities to be settled:** | | | | |
| Later than 12 months | 36,930 | 26,839 | 36,930 | 26,839 |
| Within 12 months | 843 | - | 843 | - |
| | 37,773 | 26,839 | 37,773 | 26,839 |

## 26. DEFERRED ACQUISITION COSTS – INVESTMENT

| | Group and Parent | |
|---|---|---|
| | 2014 $'000 | 2013 $'000 |
| Carrying amount at 1 July | 6 | 867 |
| Acquisition costs deferred during the year | 11 | 6 |
| Amortisation | (6) | (867) |
| **Carrying amount at 30 June** | 11 | 6 |

## 27. INTANGIBLE ASSETS

Group and Parent

| | Software | Internally developed software | AVIF | Total |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 |
| **At 1 July 2012** | | | | |
| Cost | 1,201 | 2,466 | 6,054 | 9,721 |
| Accumulated amortisation | (908) | - | (3,891) | (4,799) |
| **Net book amount** | 293 | 2,466 | 2,163 | 4,922 |
| **Year ended 30 June 2013** | | | | |
| Opening net book amount | 293 | 2,466 | 2,163 | 4,922 |
| Additions | 100 | 828 | - | 928 |
| Amortisation | (104) | (410) | (465) | (979) |
| Impairment charge | - | (588) | - | (588) |
| **Closing net book amount** | 289 | 2,296 | 1,698 | 4,283 |
| **At 1 July 2013** | | | | |
| Cost | 1,301 | 3,294 | 6,054 | 10,649 |
| Accumulated amortisation | (1,012) | (998) | (4,356) | (6,366) |
| **Net book amount** | 289 | 2,296 | 1,698 | 4,283 |
| **Year ended 30 June 2014** | | | | |
| Opening net book amount | **289** | **2,296** | **1,698** | **4,283** |
| Additions | **576** | **2,649** | **-** | **3,225** |
| Amortisation | **(257)** | **(591)** | **(463)** | **(1,311)** |
| **Closing net book amount** | **608** | **4,354** | **1,235** | **6,197** |
| **As at 30 June 2014** | | | | |
| Cost | **1,877** | **5,943** | **6,054** | **13,874** |
| Accumulated amortisation | **(1,269)** | **(1,589)** | **(4,819)** | **(7,677)** |
| **Net book amount** | **608** | **4,354** | **1,235** | **6,197** |

### Internally developed software

Software includes internally developed software. This relates to the development of significant, identifiable and unique software utilised by the Company and Group. Employee and contractor costs associated with developing the software are capitalised and amortised over the estimated useful life being 3-5 years. Internally developed software includes the charges for both implemented projects and any work in progress at the end of the year. Amortisation commences once the software is put into production.

An impairment review is undertaken annually to determine if any impairment has occurred on the outstanding unamortised amount. No impairment charge has been recognised in 2014 (2013: $588,000).

### Acquired value of in-force business

The acquired value of in-force business ('AVIF') from the acquisition of Farmers' Mutual Life Limited ('FMLL') has been determined by an actuarial valuation and relates to the future anticipated profits emerging from the life insurance contracts.

## 28. PAYABLES AND OTHER FINANCIAL LIABILITIES

| | | Group | | Parent | |
|---|---|---|---|---|---|
| | Note | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 |
| Creditors and accruals | | 6,881 | 5,482 | 6,599 | 5,454 |
| Claims notified | | 18,918 | 11,653 | 18,918 | 11,653 |
| Income in advance | | 245 | - | 245 | - |
| Premiums in advance | | 231 | 412 | 231 | 412 |
| Reinsurance liabilities | | 17,754 | 9,843 | 17,754 | 9,843 |
| Employee entitlements | | 3,754 | 2,314 | 3,754 | 2,314 |
| Payable to subsidiary | | - | - | 130 | 7 |
| Employee share purchase plan provision | 49 | 580 | 837 | 580 | 837 |
| | | 48,363 | 30,541 | 48,211 | 30,520 |
| **Expected maturity** | | | | | |
| Within 12 months | | 47,802 | 29,936 | 47,650 | 29,915 |
| Later than 12 months | | 561 | 605 | 561 | 605 |
| **Total payables and other financial liabilities** | | 48,363 | 30,541 | 48,211 | 30,520 |

## 29. INTEREST BEARING LIABILITIES

| | Group | | Parent | |
|---|---|---|---|---|
| | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 |
| Capital guaranteed bonds | - | 65,778 | - | - |
| Total interest bearing liabilities | - | 65,778 | - | - |
| **Expected maturity** | | | | |
| Within 12 months | - | 65,778 | - | - |
| | - | 65,778 | - | - |

FCGBL was delisted from the New Zealand Debt Exchange ('NZDX') on 13 September 2013 following repayment of the bonds.

In accordance with the FCGBL's supplemental Trust Deed the principal and interest amounts owing to the holders of the Capital Guaranteed Bonds ranked ahead of all amounts owing to the Subordinated bondholder.

The carrying value of the Capital Guaranteed Bonds at 30 June 2013 reflected the market value of the underlying investment portfolio on a realisable value basis. The Trustee was permitted, in accordance with the Supplemental Trust Deed and Guarantee to make demand to Westpac as Guarantor for any difference between the principal amount of the outstanding Senior Bonds and the liquidated proceeds from the Fixed Portfolio.

Due to the Close Out of the Fund resulting in no surplus, as described in note 16(b), coupon payments were discharged and cancelled.

## 30. LIFE INSURANCE CONTRACT LIABILITIES/(ASSET)

| | Group and Parent | |
|---|---|---|
| | 2014 $'000 | 2013 $'000 |
| **Opening balance at 1 July** | (30,595) | (17,054) |
| Asset acquired as part of business combination | (95,703) | - |
| Liabilities assumed as part of reinsurance treaties contract | 87,594 | - |
| Premiums received | 185,037 | 101,676 |
| Liabilities released for payments on death, surrender and other terminations in the year | (90,254) | (54,671) |
| Insurance premium ceded to reinsurers | (100,073) | (35,191) |
| Reinsurance recoveries | 71,084 | 38,685 |
| Non-investment commission | (38,229) | (30,211) |
| Expenses other than commission | (47,363) | (33,099) |
| Other movements | (140) | (730) |
| **Closing balance at 30 June** | (58,642) | (30,595) |
| Expected maturity | | |
| Within 12 months | 899 | 936 |
| Later than 12 months | (59,541) | (31,531) |
| | (58,642) | (30,595) |
| Life insurance contracts with a discretionary participation feature that have a guaranteed element | 32,291 | 32,047 |
| **Life insurance contract liabilities contain the following components** | | |
| Future policy benefits | 763,000 | 647,430 |
| Future expenses | 277,835 | 239,067 |
| Planned margins of revenues over expenses | 151,344 | 117,901 |
| Future revenues | (1,250,821) | (1,034,993) |
| | (58,642) | (30,595) |

## 31. LIFE INVESTMENT CONTRACT LIABILITIES

| | Group and Parent | |
|---|---|---|
| | 2014 $'000 | 2013 $'000 |
| Participating contracts | | |
| Guaranteed element | 199,920 | 194,751 |
| | 199,920 | 194,751 |
| Non-participating contracts designated at fair value through profit or loss | 238,727 | 143,463 |
| | 438,647 | 338,214 |
| Movement in life investment contract liabilities | | |
| **Opening balance at 1 July** | 338,214 | 298,949 |
| Contributions received | 127,150 | 58,018 |
| Fees deducted from account balances | (4,377) | (2,458) |
| Liabilities released for payments on death, surrender and other terminations in the year | (42,382) | (39,675) |
| Investment return credited to policyholders | 23,602 | 25,328 |
| Other movements | (3,560) | (1,948) |
| **Closing balance at 30 June** | 438,647 | 338,214 |
| **Expected maturity** | | |
| Within 12 months | 255,499 | 145,634 |
| Later than 12 months | 183,148 | 192,580 |
| | 438,647 | 338,214 |

## 32. DEFERRED INCOME

| | Group and Parent | |
|---|---|---|
| | 2014 $'000 | 2013 $'000 |
| Balance as at 1 July | - | - |
| Income deferred during the year | (6,776) | - |
| Amortisation | 626 | - |
| **Balance as at 30 June** | (6,150) | - |

The deferred income has arisen as part of the reinsurance treaties that the Company entered into during the year. This income is being recognised over 10 years (refer note 39).

## 33. SHARE CAPITAL

| | Group and Parent | | | |
|---|---|---|---|---|
| | 2014 Shares | 2013 Shares | 2014 $'000 | 2013 $'000 |
| **(a) Authorised share capital** | | | | |
| Ordinary shares – fully paid. No par value | 1,439,267 | 1,439,082 | 13,512 | 13,186 |
| **(b) Movements** | | | | |
| Opening balance of ordinary shares issued | 1,439,082 | 1,439,082 | 13,186 | 12,946 |
| Issues of ordinary shares during the year | 185 | - | 24 | - |
| Employee share purchase plan fully vested shares | - | - | 257 | 181 |
| Employee share purchase plan expense | - | - | 45 | 59 |
| **Closing balance of ordinary shares issued** | 1,439,267 | 1,439,082 | 13,512 | 13,186 |
| Held: | | | | |
| Directly | 1,426,907 | 1,418,182 | | |
| Employee share purchase plan trust | 12,360 | 20,900 | | |
| **Total balance of ordinary shares held** | 1,439,267 | 1,439,082 | | |

### (c) 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.

## 34. RETAINED EARNINGS AND RESERVES

### (a) Revaluation reserve

Movements in the revaluation reserve were as follows:

| | Group | | Parent | |
|---|---|---|---|---|
| | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 |
| Balance at 1 July | 1,169 | 769 | 1,169 | 769 |
| Owner occupied land and buildings revaluation, net of tax | 104 | 400 | 104 | 400 |
| **Balance at 30 June** | 1,273 | 1,169 | 1,273 | 1,169 |

The asset revaluation reserve is used to record increments and decrements on the revaluation of the owner occupied land and buildings.

### (b) Retained earnings

Movements in retained earnings were as follows:

| | Group | | Parent | |
|---|---|---|---|---|
| | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 |
| Balance at 1 July | 140,357 | 126,686 | 140,357 | 126,686 |
| Profit for the year | 35,136 | 17,075 | 35,065 | 17,075 |
| Dividends (note 35) | (4,317) | (3,404) | (4,317) | (3,404) |
| **Balance at 30 June** | 171,176 | 140,357 | 171,105 | 140,357 |

## 35. DIVIDENDS

| | Group and Parent | | | |
|---|---|---|---|---|
| | 2014 Per share | 2013 Per share | 2014 $'000 | 2013 $'000 |
| **Ordinary shares** | | | | |
| Final dividend | 3.00 | 2.37 | 4,317 | 3,404 |
| **Total dividend paid** | 3.00 | 2.37 | 4,317 | 3,404 |

On 10 September 2014 the Company declared an ordinary dividend of $3.15 (gross of tax) per share issued amounting to $4,533,691 (gross of tax). The dividends are not imputed. This dividend is not recognised in the financial statements, as it is a post balance date declaration with no liability attaching at 30 June 2014.

## 36. EARNINGS PER SHARE

### (i) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares on issue during the year.

| | 2014 '000 | 2013 '000 |
|---|---|---|
| Profit attributable to equity holders of the Company | $18,655 | $16,447 |
| Profit from discontinued operations attributable to equity holders of the Company | $16,481 | $628 |
| Weighted average number of ordinary shares in issue | 1,439 | 1,439 |

| | 2014 $ | 2013 $ |
|---|---|---|
| **Basic earnings per share** | | |
| From continuing operations | 12.96 | 11.43 |
| From discontinued operations | 11.45 | 0.43 |

### (ii) Diluted

There is no dilution in the earnings per share as the employee share purchase plan is recognised within the basic earnings per share, as all shares are currently issued.

## 37. RECONCILIATION OF NET PROFIT AFTER TAXATION TO CASH FLOWS FROM OPERATING ACTIVITIES

| | Group | | Parent | |
|---|---|---|---|---|
| | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 |
| **Net profit after taxation** | 35,136 | 17,075 | 35,065 | 17,075 |
| **Non cash items** | | | | |
| (Gains)/losses on sale of property and equipment | (18) | 16 | (6) | 16 |
| Profit on sale of operations | (16,384) | - | (16,384) | - |
| Fair value gains on investment property | (48) | (476) | (48) | (476) |
| Fair value gains on investments | (8,187) | (19,220) | (8,187) | (17,102) |
| Depreciation of property and equipment | 870 | 619 | 870 | 619 |
| Equity compensation plans, equity settled expense | 45 | 59 | 45 | 59 |
| Amortisation of acquired value of in-force business and intangibles | 849 | 979 | 849 | 979 |
| Impairment of acquired value of in-force business and intangibles | 463 | 588 | 463 | 588 |
| Realisation adjustment to Senior Bonds | 87 | 2,118 | - | - |
| Movement in provision for future on-going expenses | (11) | (58) | - | - |
| | 12,802 | 2,017 | 12,667 | 1,758 |
| **Changes in working capital** | | | | |
| Increase in reinsurance assets | (9,449) | (1,744) | (9,449) | (1,744) |
| (Increase)/decrease in deferred acquisition costs | (5) | 861 | (5) | 861 |
| Increase in insurance liabilities and investment contracts | 80,495 | 25,724 | 80,495 | 25,724 |
| Receipts from major contracts | 68,748 | - | 68,748 | - |
| Decrease/(increase) in other assets | 58,748 | (657) | (6,748) | (658) |
| Increase in income tax balances | 5,447 | 317 | 5,336 | 317 |
| (Decrease)/increase in other liabilities | (47,727) | 2,706 | 17,700 | 2,702 |
| (Increase)/decrease in derivatives | (3,596) | 4,248 | (3,596) | 4,248 |
| **Cash flows from operating activities** | 165,463 | 33,155 | 165,148 | 33,208 |

## 38. BUSINESS COMBINATIONS

### (a) Purchase of life insurance policies from TOWER Health & Life Limited and the group risk business of TOWER Life (N.Z.) Limited

On 1 August 2013, the Company purchased the in-force life insurance policies of TOWER Health & Life Limited; the group risk business of TOWER Life New Zealand Limited ('acquired policies'); 100% of the shares of Life Operations Limited ('LOL') and 100% of the shares of Life and Advisory Services Limited ('LASL').

This acquisition broadens the breadth and depth of distribution and provides opportunity for economies of scale and entry into the group risk market via corporate brokers.

The Company paid $73.7m cash consideration for the acquired policies, the shares in LOL and LASL and the working capital balances acquired at 1 August 2013.

## 38. BUSINESS COMBINATIONS (CONTINUED)

### (a) Purchase of life insurance policies from TOWER Health & Life Limited and the group risk business of TOWER Life (N.Z.) Limited (continued)

The following table summarises the consideration paid for the acquired policies, the fair value of assets acquired and the liabilities assumed at the acquisition date:

| | $'000 |
|---|---|
| **Consideration at 1 August 2013** | |
| Cash | 73,746 |
| **Total consideration paid** | 73,746 |
| **Recognised amounts of identifiable assets acquired and liabilities assumed** | |
| Assets arising from reinsurance contracts (note 18) | 3,017 |
| Other receivables | 4,431 |
| Property, plant and equipment | 69 |
| Income tax asset (note 15) | 6,775 |
| Deferred tax asset (note 25) | 116 |
| Payables and other financial liabilities | (2,405) |
| Deferred tax liabilities (note 25) | (33,960) |
| Life insurance contract liabilities (note 30) | 95,703 |
| **Total identifiable net assets** | 73,746 |

Acquisition related costs of $1.0m (2013: $1.8m) have been charged to corporate financing activities within management expenses in the consolidated statements of comprehensive income for the year ended 30 June 2014.

The sale and purchase agreement ('SPA') includes two contingent earn-outs if lapse rates in the acquired policies are below 11.5% for the 12 months ended 31 July 2014; and if individual new business at Fidelity Life is in excess of $20.0m for the 12 month period ended 31 July 2014. At the date of the financial statements the Company does not believe that any payment will arise from either of these contingent earn-outs.

Assets arising from reinsurance contracts consist of $2.3m of prepaid reinsurance on group risk policies and $0.7m on individual risk policies. At 30 June 2014, these acquired balances had been utilised with the movement reflected in insurance premium ceded to reinsurers in the statements of comprehensive income.

Other receivables comprises $4.4m of premium debtors on the acquired policies. Amounts in relation to the premium debtors at acquisition have subsequently been received by the Company.

The income tax asset of $6.8m reflects the benefit accruing to the Company as a result of the tax concessions for life insurance policies written prior to 30 June 2010. This amount will be written-off against the tax benefit recorded in the Company's income tax computation for the 2014 and 2015 financial years. At 30 June 2014 the asset had reduced to $4.0m.

Payables and other financial liabilities includes $2.0m of outstanding claims reserves accrued against the acquired policies as at 1 August 2013. In addition there were $0.4m of accrued employee liabilities for the 65 employees transferring across to the Company as part of the transaction.

The $95.7m of negative life insurance contract liabilities represents the estimated future cash flows arising on the policies purchased as part of the transaction. The fair value attributed to these cash flows was actuarially determined in accordance with the estimates and judgements as recorded in note 3. Future movements in estimated cash flows on remaining policies will be recorded in the net change in life insurance contract liabilities in the statements of comprehensive income.

The deferred tax liability of $34.0m represents the estimated tax liability arising on the future cash flows arising on the policies purchased as part of the transaction.

The acquisition of the acquired policies contributed to the statements of comprehensive income, for the period since 1 August 2013, revenue of $70,074,000 and profit of $3,257,000.

As the purchase undertaken was that of a book of business rather than the purchase of an entity it is impractical to calculate the revenue or profit that the acquired policies would have contributed prior to purchase date as if it had been a share purchase.

## 39. MAJOR CONTRACTS ENTERED INTO DURING THE PERIOD

During the year reinsurance treaties were entered into in relation to acquired life insurance policies. The Company received an initial commission for the cession of future cash-flows, and funding for a proportionate share of working capital balances relating to the policies.

The following table summarises amounts received in relation to the reinsurance treaties and the identifiable assets and liabilities arising at the inception of the treaty:

| | $'000 |
|---|---|
| **Consideration at 1 August 2013** | |
| Initial commission | 84,456 |
| Amounts in relation to claims reserves ceded to reinsurer | (21,899) |
| Amounts received in relation to working capital balances | 6,191 |
| **Total consideration received** | 68,748 |
| **Recognised amounts of identifiable assets and liabilities** | |
| Assets arising from reinsurance contracts | 1,764 |
| Reinsurer's share of working capital balances | (6,764) |
| Deferred tax liabilities (note 25) | 30,622 |
| Deferred income (note 32) | (6,776) |
| Life insurance contract liabilities (note 30) | (87,594) |
| **Total** | (68,748) |

The initial commission is recognised within the life insurance contract liabilities and earned over the life of the acquired policies based on an actuarial methodology. Net change in insurance contract liabilities in the statements of comprehensive income for the year ended 30 June 2014 includes $0.6m of income in respect of the initial commission.

Deferred income of $6.8m arose on the transaction. This income is being recognised over 10 years being the expected average life expectancy of the life insurance contracts. This is recognised in the statements of comprehensive income through other income.

Under the terms of the reinsurance treaty the Company receives a quarterly policy administration fee. This is recognised in the statements of comprehensive income through other income.

## 40. INVESTMENT AND NON-INVESTMENT LINKED

NZ IFRS 4 requires disclosure of disaggregated information in respect of amounts relating to investment linked business, non investment linked business and shareholders' funds for certain categories as shown below. Non-investment linked business includes shareholders' funds held within the statutory fund.

Group

2014

| | Investment linked | Non investment linked | Total Statutory Fund |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| Investment assets | 422,696 | 74,491 | 497,187 |
| Other assets | 15,951 | 114,584 | 130,535 |
| Policy liabilities | 438,647 | (58,642) | 380,005 |
| Liabilities other than policy liabilities | - | 88,614 | 88,614 |
| Shareholders' retained earnings | - | 159,103 | 159,103 |
| Premium revenue and contributions received | 122,773 | 185,037 | 307,810 |
| Investment revenue | 36,214 | 3,906 | 40,120 |
| Claims expense and investment contracts payments | 42,382 | 90,247 | 132,629 |
| Other operating expenses | 6,218 | 84,868 | 91,086 |
| Investment revenues paid or allocated to policyholders | (23,602) | - | (23,602) |
| Operating profit before tax | 7,737 | 24,267 | 32,004 |
| Operating profit after tax | 205 | 21,394 | 21,599 |

Group

2013

| | Investment linked | Non investment linked | Total Statutory Fund |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| Investment assets | 330,813 | 166,638 | 497,451 |
| Other assets | 8,073 | 85,214 | 93,287 |
| Policy liabilities | 338,214 | (30,595) | 307,619 |
| Liabilities other than policy liabilities | - | 63,742 | 63,742 |
| Shareholders' retained earnings | - | 154,028 | 154,028 |
| Premium revenue and contributions received | 55,560 | 104,134 | 159,694 |
| Investment revenue | 35,228 | 5,463 | 40,691 |
| Claims expense and investment contracts payments | 39,675 | 54,671 | 94,346 |
| Other operating expenses | 4,048 | 64,028 | 68,076 |
| Investment revenues paid or allocated to policyholders | (25,328) | - | (25,328) |
| Operating profit before tax | 5,504 | 14,940 | 20,444 |
| Operating profit after tax | 1,078 | 15,997 | 17,075 |

## 41. FINANCIAL INSTRUMENTS BY CATEGORY

### Assets as per statements of financial position

| | Assets at fair value through profit or loss | Loans and other receivables | Total |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| **Group** | | | |
| **Year ended 30 June 2014** | | | |
| Financial assets at fair value through profit or loss | 518,174 | - | 518,174 |
| Derivative financial instruments | 2,106 | - | 2,106 |
| Loans and other receivables | - | 29,838 | 29,838 |
| Cash and cash equivalents | - | 27,079 | 27,079 |
| Assets arising from reinsurance contracts | - | 21,540 | 21,540 |
| | 520,280 | 78,457 | 598,737 |
| **Year ended 30 June 2013** | | | |
| Financial assets at fair value through profit or loss | 485,463 | - | 485,463 |
| Derivative financial instruments | 857 | - | 857 |
| Loans and other receivables | - | 28,188 | 28,188 |
| Cash and cash equivalents | - | 12,984 | 12,984 |
| Assets arising from reinsurance contracts | - | 12,091 | 12,091 |
| | 486,320 | 53,263 | 539,583 |

As per note 16(b) the instrument related to FCGBL has been measured on a realisable value basis (2013: realisable value basis).

| | Assets at fair value through profit or loss | Loans and other receivables | Total |
|---|---|---|---|
| **Parent** | | | |
| Year ended 30 June 2014 | | | |
| Financial assets at fair value through profit or loss | 518,174 | - | 518,174 |
| Derivative financial instruments | 2,106 | - | 2,106 |
| Loans and other receivables | - | 29,825 | 29,825 |
| Cash and cash equivalents | - | 26,852 | 26,852 |
| Assets arising from reinsurance contracts | - | 21,540 | 21,540 |
| | 520,280 | 78,217 | 598,497 |
| **Year ended 30 June 2013** | | | |
| Financial assets at fair value through profit or loss | 419,850 | - | 419,850 |
| Derivative financial instruments | 857 | - | 857 |
| Loans and other receivables | - | 28,188 | 28,188 |
| Cash and cash equivalents | - | 12,790 | 12,790 |
| Assets arising from reinsurance contracts | - | 12,091 | 12,091 |
| | 420,707 | 53,069 | 473,776 |

## 41. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

### Liabilities as per statements of financial position

| | Liabilities at fair value through profit or loss | Measured at amortised cost | Total |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| **Group** | | | |
| **Year ended 30 June 2014** | | | |
| Life investment contract liabilities | 438,647 | - | 438,647 |
| Derivative financial instruments | 210 | - | 210 |
| Payables and other financial liabilities | - | 43,553 | 43,553 |
| | 438,857 | 43,553 | 482,410 |
| **Year ended 30 June 2013** | | | |
| Life investment contract liabilities | 338,214 | - | 338,214 |
| Derivative financial instruments | 2,557 | - | 2,557 |
| Payables and other financial liabilities | - | 26,978 | 26,978 |
| Interest bearing liabilities | - | 65,778 | 65,778 |
| | 340,771 | 92,756 | 433,527 |

As per note 16(b) the instrument related to FCGBL has been measured on a realisable value basis (2013: realisable value basis).

| | Liabilities at fair value through profit or loss | Measured at amortised cost | Total |
|---|---|---|---|
| **Parent** | | | |
| **Year ended 30 June 2014** | | | |
| Life investment contract liabilities | 438,647 | - | 438,647 |
| Derivative financial instruments | 210 | - | 210 |
| Payables and other financial liabilities | - | 43,401 | 43,401 |
| | 438,857 | 43,401 | 482,258 |
| **Year ended 30 June 2013** | | | |
| Life investment contract liabilities | 338,214 | - | 338,214 |
| Derivative financial instruments | 2,557 | - | 2,557 |
| Payables and other financial liabilities | - | 26,957 | 26,957 |
| | 340,771 | 26,957 | 367,728 |

## 42. RELATED PARTY TRANSACTIONS

### (a) Parent entities

The ultimate parent entity within the Group is Fidelity Life Assurance Company Limited.

### (b) Directors

The names of persons who were Directors of the Company at any time during the financial year are as follows: Ian Braddock; Jeff Meltzer; Carole Durbin; Colin Wise; Anne Blackburn; Roger Garrett (appointed 7 May 2014, deceased 21 June 2014).

### (c) Key management personnel compensation

Key management personnel compensation for the year ended 30 June 2014 and the year ended 30 June 2013 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.

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Short term benefits | 3,759 | 2,873 |
| **Total** | 3,759 | 2,873 |

### (d) Other transactions with key management personnel or entities related to them

Information on transactions with key management personnel or entities related to them, other than compensation, is set out below.

| | Group and Parent | |
|---|---|---|
| | 2014 $'000 | 2013 $'000 |
| Loans to key management personnel, or entities related to them, comprise: | | |
| Secured loans: | | |
| Secured loans at 1 July | 1,273 | 1,946 |
| Secured loans advanced during the year | 102 | 34 |
| Loan repayments received – secured loans | (598) | (707) |
| **Secured loans at 30 June** | 777 | 1,273 |
| **Interest revenue from secured loans** | 45 | 90 |

All transactions are at arm's length.

### (e) Transactions with related parties

The following transactions occurred with related parties:

| | Group and Parent | |
|---|---|---|
| | 2014 $'000 | 2013 $'000 |
| Loans to shareholders comprise: | | |
| Secured loans: | | |
| Secured loans at 1 July | 2,433 | 3,409 |
| Secured loans advanced during the year | 357 | 76 |
| Loan repayments received – secured loans | (439) | (1,052) |
| **Secured loans at 30 June** | 2,351 | 2,433 |
| **Interest revenue from secured loans** | 144 | 166 |

## 42. RELATED PARTY TRANSACTIONS (CONTINUED)

### (e) Transactions with related parties (continued)

| | Group | | Parent | |
|---|---|---|---|---|
| | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 |
| Commission paid to related parties comprise: | | | | |
| Shareholders as at 30 June who held agency agreements with the Company | 3,711 | 2,950 | 3,711 | 2,950 |
| Life and Advisory Services Limited | - | - | 698 | - |
| TriMax Assurances Services Limited | - | - | 89 | - |
| | 3,711 | 2,950 | 4,498 | 2,950 |

All transactions are at arm's length.

### (f) Outstanding balances

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

| | Group | | Parent | |
|---|---|---|---|---|
| | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 |
| Fidelity Funds Management Limited | - | - | (7) | (7) |
| Fidelity Global Shares Fund | - | 13 | - | 13 |
| Fidelity Global Bond Fund | - | 13 | - | 13 |
| Fidelity KiwiSaver Scheme | - | (50) | - | (50) |
| Life and Advisory Services Limited | - | - | (33) | - |
| TriMax Assurances Services Limited | - | - | (89) | - |
| Loans made to shareholders | 2,351 | 2,433 | 2,351 | 2,433 |
| Agency accounts with shareholders | | | | |
| Due to Shareholder | (27) | (66) | (27) | (66) |

During the year Fidelity Life paid audit fees on behalf of Fidelity Global Shares Fund and Fidelity Global Bond Fund and recharged these costs to the entities as applicable. There were no other transactions with these entities for the year.

### (g) Terms and conditions

#### Secured loans

The secured loans are for periods of up to 25 years repayable in cash, at interest rates of 5.7% per annum (2013: 5.7% per annum), and are secured by first mortgages over individuals' residences or investment properties.

#### Unsecured loans

No unsecured loans were made to key management personnel or entities related to them during the year (2013: nil). Where an unsecured loan is extended interest is payable at the prescribed Inland Revenue Fringe Benefit Tax rate or higher.

#### Commissions paid to shareholders

Commissions paid to shareholders who hold agency agreements with the Company are paid at standard rates applicable to other commission agents.

#### Outstanding balances with related parties

Advances between the Company and subsidiaries are payable on demand. Outstanding balances are unsecured, do not bear interest and are repayable in cash.

## 42. RELATED PARTY TRANSACTIONS (CONTINUED)

### (g) Terms and conditions (continued)

#### Loans made to shareholders

Loans secured by mortgages over properties or other assets are made to shareholders during the normal course of business and at arm's length. In the year the average annual interest rate was 5.7% (2013: 5.7%) on a mixture of fixed and floating rates. The loans are for periods of up to 25 years.

## 43. GUARANTEES

### Fidelity KiwiSaver Scheme – Capital Guaranteed Kiwi Fund

The Company provides a guarantee to the Trustee for the benefit of members who hold Units in the Capital Guaranteed Kiwi Fund ('CGK Fund') of the Fidelity KiwiSaver Scheme ('Scheme'). Under the guarantee the Company guarantees that on 31 March 2015 the Unit Value of the CGK Fund will be not less than it was on 31 March 2014, which was $2.5696. The Company is required to give effect to its obligations under the guarantee by transferring into the Scheme for the CGK Fund investment assets of a value sufficient to ensure the Unit Value of the CGK Fund meets the guaranteed value as at 31 March 2015. The investment assets transferred must be authorised investments for the CGK Fund and are valued in accordance with the valuation methodology set out in the Scheme's Trust Deed.

The guarantee will expire on 7 April 2015.

The Company's obligation to pay under the guarantee is at all times subordinated to its obligation to pay all life insurance policyholder liabilities of the Company and is not referable to the Fidelity Life Statutory Fund Number 1. This means that in a liquidation of the Company or otherwise, the Company will only be required to meet its obligations under the guarantee after all life insurance policyholder liabilities have been paid in full. The Company's obligations under the guarantee are also unsecured and will rank behind all secured and preferential creditors of the Company and equally with all other unsecured creditors. There are no restrictions on the amount of insurance policyholder liabilities or secured or unsecured creditors that the Company may incur during the term of the guarantee.

As each of GIML and GFSGL has agreed to indemnify the Company for any losses arising under or in respect of this death benefit no provision within policy holder liabilities for this death benefit has been made (2013: $40,000).

### Fidelity KiwiSaver Scheme

The Company provides a death benefit to members of the Scheme. If a member dies while they are a member of the Scheme, on application by the member's personal representatives, the member's estate will be paid the death benefit "top up" if the member is eligible.

If the member's death is the result of an accident, and the value of the Member's Accumulation is less than $10,000, the Company will "top up" the death benefit payment to $10,000. This "top up" is only available if, at the date of the member's death, the member is making regular contributions and at the date of death was under the age of eligibility for NZ Superannuation but aged at least 10 years. If the member is under the age of 10 years the Company will top up any payment to $2,000. The value of any top up will be reduced by the total of any payments already made on hardship or disability grounds, or first home withdrawal.

The death benefit is not a life policy under the Insurance (Prudential Supervision) Act 2010 and is not referrable to the Fidelity Life Statutory Fund Number 1.

The Company's obligations to provide the death benefit will cease at the earlier of:

(a) 31 March 2015; or

(b) the date that the Scheme is merged into another KiwiSaver Scheme managed by GIML, GFSGL or a related company.

As each of GIML and GFSGL has agreed to indemnify the company for any losses arising under or in respect of this death benefit no provision within policy holder liabilities for this death benefit has been made (2013: $61,000).

## 44. CONTINGENCIES

The Group had no contingent liabilities or assets as at 30 June 2014 (2013:nil).

## 45. COMMITMENTS

### (a) Capital commitments

There were no material capital commitments at balance date other than those disclosed elsewhere in the financial statements (2013: nil).

### (b) Operating lease commitments : Group and Parent as lessee

Leases are for commercial office space in Tauranga, Wellington, and Dunedin and photocopier rental.

| | Group and Parent | |
|---|---|---|
| | 2014 $'000 | 2013 $'000 |
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: | | |
| Within one year | 122 | 204 |
| Later than one year but not later than five years | 309 | 234 |
| Later than five years | 6 | - |
| | 437 | 438 |

The Group entered into a photocopier lease agreement during the period which terminates on 31 July 2019.

### (c) Operating leases: Group and Parent as lessor

Leases are for commercial office space in Auckland.

| | Group and Parent | |
|---|---|---|
| | 2014 $'000 | 2013 $'000 |
| Commitments for minimum lease payments in relation to non-cancellable operating leases are receivable as follows: | | |
| Within one year | 263 | 384 |
| Later than one year but not later than five years | 175 | - |
| | 438 | 384 |

## 46. RESTRICTIONS ON ASSETS

As required by IPSA, the Company's statutory fund was established on 1 July 2013 and is called the Fidelity Life Statutory Fund Number 1. The Fidelity Life Statutory Fund Number 1 is established in the records of the Company and relates only to life insurance business, as defined under IPSA.

The purpose of a statutory fund is to ensure that the funds received and paid out in respect of life insurance policies are separately identifiable as being part of the statutory fund. The assets of the Fidelity Life Statutory Fund Number 1 are only available for the life insurance business. In addition the assets of the Fidelity Life Statutory Fund Number 1 enjoy certain protections under IPSA which are designed to ensure that the interests of holders of life insurance policies are given certain priority over the interests of other parties, such as unsecured creditors.

## 46. RESTRICTIONS ON ASSETS (CONTINUED)

The following table shows a summary of the consolidated balances of Fidelity Life's statutory fund for the year ended 30 June 2014:

| | $'000 |
|---|---|
| **Income Statement** | |
| Insurance premium revenue | 185,037 |
| Insurance premium ceded to reinsurers | (100,073) |
| Fee and commission income | 2,291 |
| Investment income | 39,728 |
| Investment property income | 571 |
| Other income | 14,900 |
| Claims expense | (90,247) |
| Reinsurance recoveries | 71,084 |
| Net change in life insurance contract liabilities | 19,841 |
| Net change in life investment contract liabilities | (20,042) |
| Commission and management expenses | (91,086) |
| Income tax expense | (10,405) |
| **Net income after tax attributable to shareholder equity (non participating)** | 21,599 |
| **Assets** | |
| Cash and cash equivalents | 24,123 |
| Assets arising from reinsurance contracts | 21,540 |
| Financial assets at fair value through profit or loss | 497,187 |
| Loans and other receivables | 30,589 |
| Property, plant and equipment | 21,241 |
| Deferred tax assets | 23,020 |
| Intangible assets | 5,968 |
| Other assets | 4,054 |
| **Total assets** | 627,722 |
| **Liabilities** | |
| Payables and other financial liabilities | 41,425 |
| Current tax liabilities | 3,056 |
| Deferred tax liabilities | 37,773 |
| Life insurance contract liabilities | (58,642) |
| Life investment contract liabilities | 438,647 |
| Deferred income | 6,150 |
| Derivatives | 210 |
| **Total liabilities** | 468,619 |
| **Net Assets** | 159,103 |

There are no other restrictions on the use of assets invested for policyholder benefits, nor any restrictions on legal titles to assets.

As at 30 June 2013 there were no restrictions on the use of assets invested for policyholder benefits, nor any restrictions on legal titles to assets, and accordingly no comparatives have been presented.

## 47. FIDUCIARY ACTIVITIES

Fidelity Fund Management Limited, a wholly owned subsidiary, acts as a trustee for a number of superannuation funds. The Company manages $290,477,000 (2013: $191,034,000) on behalf of this subsidiary.

As at 30 June 2013 the Company was also the manager of the Fidelity KiwiSaver Scheme and as such managed $304,134,000 on a fiduciary basis for the scheme. The Company sold the management rights to the Fidelity KiwiSaver Scheme on 23 August 2013, refer to note 16 for further information.

## 48. EVENTS OCCURRING AFTER BALANCE DATE

There were no events requiring adjustment to or disclosure in the financial statements other than the following:

- On 10 September 2014 the Company declared an ordinary dividend of $3.15 per share (refer note 35 for further details).

## 49. SHARE BASED COMPENSATION

The Fidelity Life Employee Share Purchase Scheme (the 'Scheme') was established by the Company in 1988 to assist employees to become shareholders. No shares have been allocated since 2007. From time to time employees who had been with the Company for a period of at least one year were entitled to participate in the Scheme. Shares were issued to the Scheme at an issue price based on the fair value of the shares at the date of issue. Fair value was determined by the Board of Directors by reference to a combination of recent trading activity and an independent valuer's report. Allocated shares participate in dividends, but voting rights are held by the trustees of the Scheme. Neither the Company nor its related parties have rights with respect to the shares issued by the Scheme.

Ian Braddock, the chairman of the Company, and Milton Jennings, CEO, are trustees of the Scheme, as such, they have non-beneficial control of any shares in the Scheme not yet allocated to employees. The Trustees are appointed by the Company's board of directors. Other key management personnel are also included within the Scheme.

Shares are held in trust for employees and vest eight years from the end of the income tax year in which the shares were purchased.

The Scheme entitled employees to purchase shares in Fidelity Life Assurance Company Limited at a discount. This discount is recorded by the Company and Group as an employee benefit expense. Refer to note 14 for the expense incurred by the Company and Group for the year.

The fair value of the shares has been determined in reference to the latest arm's length trading undertaken.

## 49. SHARE BASED COMPENSATION (CONTINUED)

Movements in the number and carrying value of shares held by the employee trust comprise:

| | 2014 | 2013 | 2014 | 2013 |
|---|---|---|---|---|
| | Number | Number | $'000 | $'000 |
| Held by Trust at 1 July | 20,900 | 29,383 | 837 | 1,018 |
| Shares vested from Trust | (8,540) | (8,483) | (257) | (181) |
| Balance at 30 June | 12,360 | 20,900 | 580 | 837 |

At 30 June 2014, shares held in employee trust unvested were as follows:

| | Year of Grant | Number of Shares | Market Price | Grant Price |
|---|---|---|---|---|
| **Fidelity Life Employee Share Purchase Scheme** | | | | |
| | 2006 | 8,705 | 64.76 | 43.18 |
| | 2007 | 3,655 | 83.75 | 55.84 |

At any time during the vesting period the employee has an option to require the Group to re-purchase the shares at the lower of cost or fair value.

# *Independent Auditors' Report*

to the shareholders of Fidelity Life Assurance Company Limited

## *Report on the Financial Statements*

We have audited the financial statements of Fidelity Life Assurance Company Limited ("the Company") on pages 20 to 97, which comprise the statements of financial position as at 30 June 2014, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 30 June 2014 or from time to time during the financial year.

### *Directors' Responsibility for the Financial Statements*

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company and the Group's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

We have no relationship with, or interests in, Fidelity Life Assurance Company Limited or any of its subsidiaries other than in our capacities as auditors and, tax advisors and providers of other assurance related and advisory services. These services have not impaired our independence as auditors of the Company and the Group.

*PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand*
*T: +64 (9) 355 8000, F: +64 (9) 355 8001, www.pwc.com/nz*

# *Independent Auditors' Report*

Fidelity Life Assurance Company Limited

***Opinion***

In our opinion, the financial statements on pages 20 to 97:

(i) comply with generally accepted accounting practice in New Zealand;

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the financial position of the Company and the Group as at 30 June 2014, and their financial performance and cash flows for the year then ended.

## *Report on Other Legal and Regulatory Requirements*

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 30 June 2014:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

## *Restriction on Distribution or Use*

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants Auckland
12 September 2014

# APPOINTED ACTUARY'S REVIEW OF FIDELITY LIFE ASSURANCE COMPANY LIMITED

at 30 June 2014

This return is prepared under sections 77 and 78 of the Insurance (Prudential Supervision) Act 2010 which requires that a licensed insurer must ensure that the actuarial information contained in, or used in the preparation of, financial statements of the insurer and any group financial statements is reviewed by the appointed actuary.

In relation to Financial Statements for Fidelity Life Assurance Company Limited for both the insurer and group for the year ended 30 June 2014 and as that date, I confirm the following:

**Appointed Actuary:** John Laurence Smith

**Work undertaken:** The review of the actuarial information contained in, or used in the preparation of, financial statements of the insurer and group was conducted in accordance with the Solvency Standard for Life Insurance Business (RBNZ, August 2011).

**Scope and limitations:** The actuarial information reviewed was: (a) information relating to an insurer's calculations of premiums, claims, reserves, dividends, insurance and annuity rates, and technical provisions; and (b) information relating to assessments of the probability of uncertain future events occurring and the financial implications for the insurer if those events do occur; and (c) information specified in the Solvency Standard for life Insurance Business as actuarial information for the purposes of this review.

There were no restrictions on the scope of my investigation.

The return is provided as a statutory disclosure by Fidelity Life Assurance Company Limited for both the insurer and group. No warranty is provided to third parties for any other purpose.

**Relationship with insurer:** I am a permanent employee of Fidelity Life Assurance Company Limited. I also own 2,700 shares in Fidelity Life Assurance Company Limited (2013: 2,650) of which 2,600 are owned directly (2013: 2,400) and 100 are beneficially held on my behalf (2013: 250).

**Information:** I obtained all information and explanations that I required.

**Actuarial Opinion:** In my actuarial opinion and from an actuarial perspective:

(i) the actuarial information contained in the insurer and group financial statements at and in the year to 30 June 2014 has been appropriately included in those statements;

(ii) the actuarial information used in the preparation of the insurer and group financial statements at and in the year to 30 June 2014 has been used appropriately.

**Solvency margin:** In my actuarial opinion and from an actuarial perspective:

Fidelity Life Assurance Company Limited (licensed insurer) is maintaining the solvency margin calculated under the solvency standard for life insurance business (IPSA 21(2)(b)).

**Statutory Funds:** In my actuarial opinion and from an actuarial perspective:

Fidelity Life Assurance Company Limited (licensed insurer) will maintain the solvency margin in respect of the Fidelity Life Statutory Fund No. 1 calculated under the solvency standard for life insurance business (IPSA 21(2)(c)).

John L Smith

John Smith
**Appointed Actuary**

12 September 2014

# DIRECTORY/EXTERNAL SERVICES

## Board of Directors

**Ian L Braddock**
BCom CA MInstD

Chairman

Auckland

Chartered Accountant

Chairman: Leukaemia & Blood Cancer Endowment Fund Trust

**Colin G O Wise**
Auckland

**Jeff Meltzer**
JP BCom FCA MInstD AAMINZ

Auckland

Chartered Accountant

Partner: Meltzer Mason

Director: Housing New Zealand Corporation

Trustee: Fidelity Family Trust

**Carole Durbin**
BCom LLB(Hons) FInstD

Auckland

Director/Trustee: Southern Cross Healthcare Group

Consultant: Simpson Grierson

**Anne Blackburn**
MA

Auckland

Director: TSB Bank Limited, Fisher Funds Management Limited

## Company Officers

**Chief Executive Officer**
Milton Jennings BCom CA

**Chief Financial Officer**
Ed Eadie BSc(Hons)

**Appointed Actuary**
John Smith MSc FNZSA FIAA

## Consulting Actuary

Peter Davies
BBus Sc FNZSA FIAA

## Solicitors

DLA Phillips Fox

Simpson Grierson

Wilson Harle

McVeagh Fleming

## Bankers

ANZ Bank New Zealand Limited

Westpac Banking Corporation New Zealand Branch

## Auditors

PricewaterhouseCoopers

## Investment Adviser

MCA NZ Limited

## Investment Managers

AMP Capital Investors (New Zealand) Limited

Devon Funds Management Limited New Zealand

Grosvenor Financial Services Group Limited

PIMCO Australia Pty Limited

State Street Global Advisors, Australia, Limited

SuperLife Limited

Tyndall Investment Management New Zealand Limited

Vanguard Investments Australia Limited

## Currency Adviser

Bancorp Treasury Services Limited

## Reinsurers

General Reinsurance Life Australia Limited

Hannover Life Re of Australasia Limited

Munich Reinsurance Company of Australasia Limited

RGA Reinsurance Company of Australia Limited

Swiss Re Life and Health Australia Limited

## Registered Office

Fidelity House
81 Carlton Gore Road
Newmarket
Auckland 1023
**Telephone** 09 373 4914
**Facsimile** 09 308 9953

## Hamilton Office

1st Floor
John Sullivan House
62 Tristram Street
Hamilton 3240
**Telephone** 07 929 4840
**Facsimile** 07 929 4841

## Tauranga Office

Level 1/Unit 3
9 Devonport Road
Tauranga 3110
**Telephone** 0800 434 335
**Facsimile** 07 579 5370

## Wellington Office

Level 1
1 Market Grove
Hutt Central
Lower Hutt 5010
**Telephone** 04 920 7477
**Facsimile** 04 586 8733

## Christchurch Office

Level 1
324 Cashel Street
Christchurch 8011
**Telephone** 03 377 2323
**Facsimile** 03 379 2818

## Dunedin Office

Ground Floor
Otago House
89 Princes Street
Dunedin 9016
**Telephone** 0508 566 726

**www.fidelitylife.co.nz**

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Fidelity Life Assurance Company Limited: 81 Carlton Gore Road, Newmarket, Auckland, PO Box 37 275 Parnell, Auckland 1151, New Zealand
**Telephone** 09 373 4914 or 0800 88 22 88, **Facsimile** 09 308 9953, **Website** www.fidelitylife.co.nz