FidelityLife

Protecting the New Zealand way of life – today and tomorrow.

ANNUAL REPORT 2015


What we do today,
we'll celebrate
tomorrow.

Contents

Looking forward

$813.7m
TOTAL ASSETS

10.5%
MARKET SHARE
IN-FORCE BUSINESS

$206.9m
EQUITY

$25.1m
2015 TOTAL COMPREHENSIVE
INCOME

$96.4m
TOTAL CLAIMS PAID

116,000
POLICYHOLDERS

418
NUMBER OF GROUP
RISK SCHEMES

280
NUMBER OF STAFF

Today's achievements. Tomorrow's goals.

Success is built on a foundation of values, expertise and experience.
And for us, it's about staying faithful to our belief – to protect the New Zealand way of life.

Staying true to your values can take you a long way; we're proof of that. From our pioneering start in 1973, Fidelity Life has celebrated over 40 years in business and earned the title of New Zealand's largest independently owned and operated life insurance company. We're enormously proud of our achievements and of the people who champion our belief to make Fidelity Life the company it is.

To our advisers, shareholders and policyholders – thank you.

Today, our 2015 Annual Report outlines our great performance over the past year. It also showcases what we've done differently to create more flexibility for our policyholders, better products for our advisers and their clients, and accomplishing more for our stakeholders as we stride towards tomorrow.


This is
the good life.

Chairman's review of the year

Ian Braddock, Chairman

The 2015 year saw another very strong financial result for the Company. Following on from the previous year's significant transactions, including the integration of the TOWER life business and the divestment of the Fidelity KiwiSaver Scheme, the 2015 year was focused on consolidating our position and strengthening our foundations for future growth. Full integration of a number of workstreams has now been completed, with pleasing results.

SUMMARY OF FINANCIAL RESULTS

On behalf of the Board of Directors, I am pleased to announce total comprehensive income of $25.1 million. While lower than the $35.3 million achieved in the previous year, after excluding $13.6 million of non-recurring items in 2014, the underlying profit for the year has increased 16%.

RECONCILIATION OF UNDERLYING PROFIT	2015 $'000	2014 $'000
Total comprehensive income	25,112	35,285
Less – net proceeds from the sale of the Fidelity KiwiSaver Scheme	-	(16,230)
Add – operating expenses related to non-recurring activities	-	3,012
Less – tax on above items	-	(402)
Underlying profit	25,112	21,665

PREMIUM, NEW BUSINESS AND INVESTMENT INCOME

Premium income as reported in the financial statements has increased 8% on 2014 and is now in excess of $200 million, a notable milestone. This comes only two years after we reached $100 million. Net premium income, after cessions to reinsurers, also increased 8% to $91.6 million.

At the end of the period we ranked third for total market share with over 10.5% of in-force premium, up slightly on a year earlier. For the first time in the company's history, net new annualised risk premium for the year was in excess of $20 million. Sales were particularly strong in the group risk sector where we were number one in the market for new business production during the twelve months to 30 June 2015.

During the year we expanded our policy retention team, with the aim of keeping as many policies as possible on our books. Largely due to their efforts, our net lapse experience on our retail risk portfolio has improved. This will remain a major focus in the year ahead.

Gross investment income for the period increased to $68.8 million, up 72% from 2014. The main contributing drivers to this growth were the favourable investment market conditions during the financial year and a significant increase in average funds under management, arising from the continued success of our remaining superannuation offer, a qualifying scheme for UK pension transfers.

Investment returns in the year benefited from increased liquidity in global markets, which arose from the quantitative easing in many economies around the world. This liquidity pushed bond yields down and as a result, the value of the existing bond holdings increased. Other factors contributing to the high investment returns included a fall in commodity prices, a weakening New Zealand dollar and increases in global equity markets as investors looked for higher returns as bond yields fell. However investment markets did drop in the June 2015 quarter, and have continued to do so at the start of the new financial year.

Overall, much of the investment return is attributable to policyholders and helps explain the $131.2 million increase in life investment contract liabilities. Shareholder investment income after tax of $3.9 million was marginally ahead of 2014 due to the conservative nature of shareholder investments.

CLAIMS, COMMISSIONS AND MANAGEMENT EXPENSES

Total claims paid in the year have increased 7% to $96.4 million. The 2015 claims ratio of 48% is lower than 2014, but still remains slightly higher than the industry average. We had better experience on the retail book with a 2015 claims ratio of 38% compared to 43% in 2014. This was offset by adverse claims experience on the legacy TOWER life business and the group risk portfolios in which we have lower retentions. Claims net of reinsurance, as a proportion of premiums net of reinsurance, were 24%. This is below the industry average and highlights the effectiveness of the reinsurance cover acquired by the Company.

Commission expenses increased 4% to $49.0 million. Although retail risk new business commissions were lower due to reduced sales in that area, this was offset by an increase in renewal commissions, due to the higher in-force book, and an increase in commissions on the superannuation transfers.

Management expenses reduced by 3% in the year. The reduction in expenses has been achieved despite the ongoing integration of the legacy TOWER life business, demonstrating management's focus on sustainable cost reductions across the business.

TAXATION

In prior years I have reported on the new set of tax rules for life insurance companies, which became operational from the beginning of 2011. The rules changed the taxation basis to be on a premiums less claims and expenses basis, with transitional rules over a five year period to provide relief from increased shareholder taxation. Effectively, the removal of these transitional tax concessions means that from 1 July 2015 the Company will be incurring a full corporate tax charge on shareholder profits before tax.

While we have benefited from the transitional rules to the new regime over the last five years, our shareholder tax charge has been steadily increasing. In 2015, the tax attributable to shareholders has increased $2.8 million, with the tax rate on underlying profit before shareholder taxation being 16%, compared to 9% a year earlier.

The increasing tax burden makes a direct comparison of year on year performance difficult. However, it is pleasing to see that our underlying profit before shareholder taxation has steadily increased over the last four years as follows:

RECONCILIATION OF UNDERLYING PROFIT BEFORE SHAREHOLDER TAXATION	2015 $'000	2014 $'000	2013 $'000	2012 $'000
Total comprehensive income	25,112	35,285	17,534	14,112
Less – net proceeds from the sale of the Fidelity KiwiSaver Scheme	-	(16,230)	-	-
Add back – operating expenses related to non-recurring activities	-	3,012	1,837	-
Less – tax on above items	-	(402)	(72)	-
Add back – shareholder taxation expense	4,943	2,150	(1,404)	(2,760)
Underlying profit before shareholder taxation	30,005	23,815	17,895	11,352

FINANCIAL STRENGTH

Total assets have grown by 23% to $813.7 million, including the significant fund in-flows to the superannuation scheme and as a result of improved investment valuations. Shareholders' funds have increased 11% to $206.9 million.

In light of the success of the integration of the TOWER life business, the Board has decided to reduce the target range for the solvency margin to between 120% and 130%, as we no longer need to maintain a buffer for unexpected over-runs on system integration projects. Our solvency margin of 122% is at the lower end of this range so the Board and management will continue to monitor closely the solvency position.

Off the back of the strong financial result, the Board has authorised a dividend of $3.31 per share, compared to $3.15 in 2014; however, consistent with 2014, we are unable to impute dividends this year and in the medium term. The Board continues to balance its desire to offer shareholders attractive returns but at the same time ensuring that the solvency margin remains within our prudent solvency target range.

In February 2015 A.M. Best reaffirmed our strong financial stability with our A- (Excellent) rating for a 19th consecutive year. A copy of the rating scale is on page 21.

CORPORATE GOVERNANCE

At the Annual General Meeting in November 2015, Colin Wise will be retiring from the Board. Colin joined the Board in 1992, a year in which we wrote $9.4 million of risk premium, had shareholders' funds of $1.1 million and paid a dividend of 7.69 cents per share. During his 23 years with Fidelity Life, which included a period as Chairman between 1998 and 2000, the Company has grown from a part player in the life insurance sector to third in the market. Colin's business acumen, including his sales and marketing expertise has been a great asset to the Board and much of the Company's success and standing in the market are a fitting legacy to him. On behalf of the Board and the Company, I would like to thank Colin for his significant contribution to the Company.

The Company continues to focus on achieving the highest standards of corporate governance. The Fidelity Life Board has been further strengthened by the appointment of the highly experienced and respected business figure, Brian Blake, in May 2015. His strong senior management and boardroom experience, as well as his focus on driving growth through sound strategy will be a valuable addition to the Board. We look forward to drawing on his wealth of experience as we take the Company into its next phase of growth.

LOOKING AHEAD

There continues to be intense competition in the life insurance industry, which added to the ever changing regulatory landscape, presents some interesting challenges. These changes also provide us with opportunities. Fidelity Life will continue to build and strengthen relationships with advisers. In addition, we recognise that our customers have a broad choice around their insurance decisions, making it essential for us to remain competitive on product, cost and service.

We know that by continuing to invest in our people we are able to deliver a first rate service and ongoing loyalty to Fidelity Life. This allows for prudent growth and long-term stability for our policyholders and shareholders.

ACKNOWLEDGEMENTS

I would like to acknowledge the hard work and commitment of our staff, management and my fellow Directors. It is their combined commitment to delivering industry leading products for our policyholders and shareholders that drives this Company.

Thank you also to our valued policyholders, advisers and shareholders for their commitment and ongoing support. We have cemented an enviable reputation in the New Zealand life insurance sector and are now positioned well for future growth and growing new partnerships and alliances.

As a Company we have celebrated a long history in New Zealand and now we look forward to an exciting and successful future.

IAN BRADDOCK

CHAIRMAN
Fidelity Life

Protecting our way of life.

CEO's review of the year

Milton Jennings, Chief Executive Officer

The 2015 year was positive on a number of fronts as we completed the integration of the TOWER life business and focused on opportunities for leadership in the New Zealand life sector. Compared to the prominent acquisitions of the prior year, the 2015 year's activities had a greater internal focus, ensuring the capability of our operational and technical platforms to accommodate future growth opportunities.

The key focus during the year was an in depth review of the strategic direction for the business and these evaluations have identified exciting prospects for the future. This involved significant consultation with external facilitators and staff across the business and the subsequent buy-in has been outstanding.

In March 2015 we launched a refreshed brand with new imagery and revised colour palette. As part of this we introduced a new corporate purpose and values. Fidelity Life has an established history of helping to "protect the New Zealand way of life" of all our customers. Supporting this by demonstrating our core values of listening and responding, fidelity, being first to care and offering certainty, makes the Fidelity Life brand all the more powerful.

PRODUCT CHANGES

During the year we continued our drive to continually innovate within the life insurance sector and bring new product options and innovations to our customers.

In February 2015 we launched a new trauma product as part of the 'Trauma Multi' range. The first of its kind in New Zealand, the new 'Trauma Multi – Standalone' product offers cover for up to five different and unrelated trauma events, each paying up to 20% of the total sum insured. It provides the policyholder confidence that separate pay-outs will be made in the event of multiple unrelated health traumas and the customer is paid out set portions of the total sum insured amount, giving greater certainty for future cover. Take up of the new cover has been positive in the months since the launch.

With the advent of the Financial Markets Conduct Act 2013 and increasing regulatory requirements, it is no longer economically viable to keep some of our legacy superannuation schemes open. As a result we have wound-up the Fidelity Super-Super Plan, the Fidelity Super-Super Plan No. 2 and the Fidelity Super Cache Plan. We are in the process of distributing fund balances to each of the members and expect this to be completed later this year.

We continue to keep our main investment offer open, the Fidelity Super-Super Plan No. 3, and it continues to benefit from the influx of UK pension transfers. At 30 June 2015 the scheme's funds under management were $414.5 million, up 49% on a year earlier, as a result of strong investment returns and deposits in the year in excess of $129 million. Management continues to ready the scheme for the future compliance requirements of the Financial Markets Conduct Act 2013.

A- (EXCELLENT)

FINANCIAL STRENGTH RATING*

ADVISER SUPPORT

As a Company we continue to receive tremendous support from loyal advisers. The industry is preparing for possible change and Fidelity Life will continue to give advisers support, focusing on improving on what we have done over the last 42 years. Advisers are the main distributors of our products and we continue to be grateful for their support.

In November 2014 we took our technical platform and support for advisers to a new level with the launch of the new AdviserMobile app. Designed specifically for advisers and available via the App Store and Google Play, the app offers advisers a range of on-the-spot calculations allowing details such as eligibility, premium levels and loadings to be provided as an indication to clients immediately. It also includes a mortgage repayment top up calculator for income protection as well as access to product sheets. Take up from advisers has been strong with in excess of 1,000 downloads at the end of June 2015.

GROUP RISK

The 2015 year has seen strong growth for our group risk business. We have had a renewed focus on this area and worked hard to access new opportunities. Fidelity Life is now the third largest provider of group risk products in New Zealand in terms of in-force premium and in the last twelve months has led the market in terms of new business written.

NIB STRATEGIC ALLIANCE

Fidelity Life's relationship with nib, the second largest health insurer in New Zealand, continues to strengthen with Business Development Managers now actively representing nib and their health products to advisers. In July 2014 the third party ratings agency 'QuoteMonster' made it possible for advisers to quote Fidelity Life and nib products together on one quote. The enhancement allows users to easily compare a health and risk quotation with other providers who may also offer a bundled health and life product range.

We remain focused on developing further partnership strategies in the future that provide a seamless customer framework for the sale of risk products.

PEOPLE

We recently undertook a review of people resources and capability throughout the organisation. This has resulted in staff changes in a number of teams, but particularly prevalent in the IT area which was downsized by 15 people, including permanent and contract staff. This was largely due to the successful conclusion of the TOWER integration project. We will continue to review resourcing needs across the business on a regular basis to ensure we have the right staffing and capability in place to meet the challenges and opportunities before us.

* Refer to full rating scale on page 21.

We are proud to continue our strong internal focus on culture across the business and this has been reinforced by the dissemination of the new brand, values and behaviours company-wide which encourages active discussion and input from all staff. In our quest to become a company with a high performance culture we have invested in broad training for our leaders, which enables us to consistently manage our people to get the best results, as well as stretch our current group of talented people to ensure they are getting satisfaction out of their work and performing at the highest level.

FINANCIAL STRENGTH

As the Chairman reported, we were thrilled to again be awarded an A- (Excellent) financial strength rating* from A.M. Best which we have now continued for nineteen consecutive years. A.M. Best's declaration of our long-term outlook being stable also provides continued confidence for our customers while reinforcing our adequate risk-based capitalisation, favourable liquidity position and consistent operating results.

EXTERNAL RECOGNITION

One of the biggest accolades a company can receive is external recognition and Fidelity Life was well placed in such awards during the year. In September 2014 we were named as a finalist in the Life Insurer of the Year category of the 2014 New Zealand Insurance Industry Awards. Run by ANZIIF, the awards publicly celebrate the highest standards of excellence, professionalism and performance of individuals and organisations.

Soon after, in November, Fidelity Life was announced as a finalist in the Company of the Year category in the Deloitte Top 200 Awards. This marked a significant achievement for the Company being named alongside the other two finalists and leading New Zealand companies, Air New Zealand and Briscoe Group. Impressively Fidelity Life was the only insurance-based company to be named as a finalist across the award categories.

This external recognition demonstrates to our peers and the greater industry that we hold a valuable place in the financial services industry, and that we're determined to continue our growth path.

COMMUNITY

With our heritage strongly rooted in New Zealand, we remain genuinely committed to contributing to the community and ensuring that all of our operations are undertaken in a socially responsible manner. We continue our long-term relationship with charity partners like Leukaemia & Blood Cancer New Zealand (LBC), with our staff actively participating in LBC fundraisers including Shave for a Cure, the Golf Marrowthon 100 Hole Challenge and the Corporate Sky Tower Stair Challenge. Fidelity Life this year secured one of the top corporate fundraising spots for Shave for a Cure, raising more than $21,000 for the cause. The Company also continued its contribution to Foundation for Youth Development through the provision of office space, and was once again the major sponsor of the Multiple Sclerosis Auckland Life Buoy for MS fundraising lunch.

* Refer to full rating scale on page 21.

ACKNOWLEDGEMENTS

The external recognition we've achieved throughout the year would not have been possible without the support and ability of our dedicated and highly motivated team of staff and advisers – indeed, our most important asset.

I would like to thank the Board, my senior management team, all staff, advisers and shareholders for the support they have shown to the Company over this period.

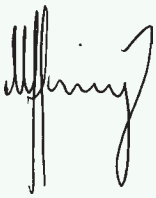
I would also like to acknowledge a loyal staff member, Ronnie Chetty, who passed away in July 2015. After 14 years with the Company, he is sadly missed.

LOOKING AHEAD

After a year of consolidation and a focus on our strategic plan, we are now looking to continue on our growth path, with a focus on advisers and our policyholders. We have some bold longer term production and profit targets, while retaining a focus on managing expenses.

We are focused on maintaining our strong foothold and leadership in the New Zealand life insurance market, and working to establish the partnerships that facilitate this. The coming year will deliver a challenging operating environment punctuated with significant levels of regulatory change, in particular the Financial Markets Conduct Act 2013 and the review of the Financial Advisers Act 2008.

Looking ahead, the future is bright for the New Zealand insurance industry and ourselves. There is little doubt that we face dynamic and challenging times ahead, but our foundations are strong and we are well placed to embrace future opportunities with optimism and confidence.



MILTON JENNINGS

CHIEF EXECUTIVE OFFICER
Fidelity Life


Changing
lives for
the better.

Financial summary

for the years ended 30 June

	2015	2014	2013	2012	2011
Ordinary risk premium ($'000)	200,566	185,037	104,134	95,048	86,746
Investment income ($'000)	68,823	40,120	39,407	3,391	45,128
Claims expense ($'000)	96,416	90,247	54,671	44,649	39,549
Net profit after taxation ($'000)	23,806	35,136	17,075	13,644	18,314
Ordinary dividend per share	$3.31	$3.15	$2.42	$2.20	$1.70
Special dividend per share	-	-	$0.58	-	$0.30
Earnings per share (year-end)	$16.54	$24.41	$11.86	$9.48	$12.73
Shareholders' equity ($'000)	206,915	185,961	154,712	140,401	129,089
Policyholder liabilities ($'000)	490,447	380,005	307,619	281,895	289,851
Total assets ($'000)	813,685	661,495	588,499	540,293	531,130
Shares on issue ('000)	1,439	1,439	1,439	1,439	1,439

Heeding advice pays off.

Like most people, Paul was aware that he should review his insurance cover on an annual basis.

He had spent his earlier years in the insurance industry and with a good financial knowledge, he managed most of the insurance needs for his family, seeking guidance when needed from his adviser.

At 63 years old, Paul owned a mortgage free property and enjoyed regular overseas travel. He and his wife had a number of insurance covers in place, including life, trauma, and income protection.

Paul believed the time had come to cut back his income protection and trauma insurance, freeing up more cash for international travel. It made sense, he thought. As a fit and active businessperson he figured he was in good health, he and his wife's debt levels were low and he was just a couple of years from retirement.

But the advice from his long-time adviser Rob surprised him. While Rob did support reducing the benefit period to two years on his income protection policy, he strongly advised Paul against changing his longstanding life and trauma cover at this stage in life. So Paul made some small recommended changes but left the key covers in place.

This decision would become one of the best Paul had ever made.

Just two weeks later, Paul was in a business meeting with customers when what felt like an electric charge pulsed through his body. Two days later it happened again – Paul later found out they were seizures. After several tests including an MRI, Paul was delivered devastating news. He had a brain tumour. He was advised to get his affairs in order, and prepare for the worst.

But despite the odds, twelve months later after surgery, radiation and chemotherapy, Paul is in good spirits, and good health. He still has regular scans but he has a new appreciation for life.

Looking back Paul says his adviser's recommendations were more valuable than he ever knew at the time as it meant that he had insurance cover in place, allowing him to focus on getting well.

"You just don't know what's around the corner. Without Rob's advice, I would have cancelled policies and cut back cover to only then face financial pressure."

"The months after my diagnosis were hell for my wife and I but we were focused on my treatment and recovery, not how we were going to live. Now the future is bright – and I'm indebted to Rob for the advice that literally changed our future."

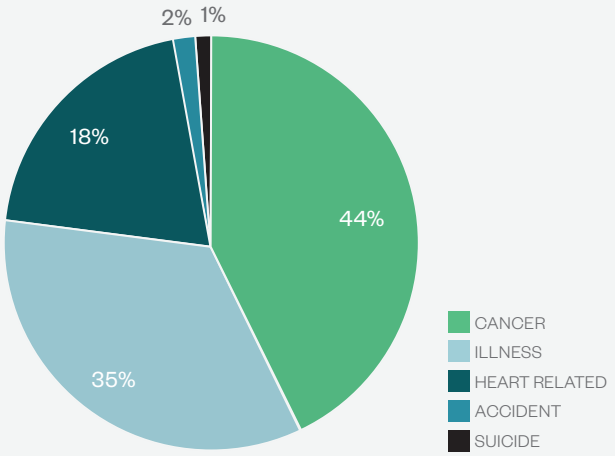
* This is a real life claim but names and personal information have been changed to protect privacy.

2015 Claim statistics

for the year ended 30 June 2015

Death and terminal illness claims by causes

In the past three years (2013-2015) Fidelity Life has paid a total of $127,673,000 in death and terminal illness claims. The details shown are for one year to 30 June 2015.



Insights

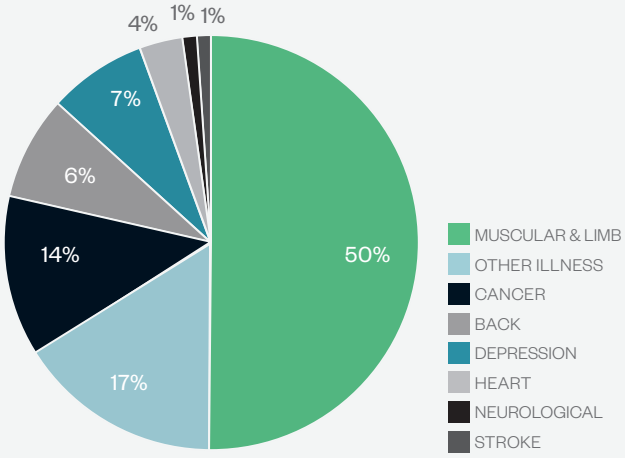
Youngest claimant: 22 – Oldest claimant: 96

Average age of claimant has increased from 60 last year to 67 this year.

22% of death claims for males were for heart issues.

Income protection claims by illness/ disability cause

In the past three years (2013-2015) Fidelity Life has paid a total of $49,942,000 in income protection claims. The details shown are for one year to 30 June 2015.

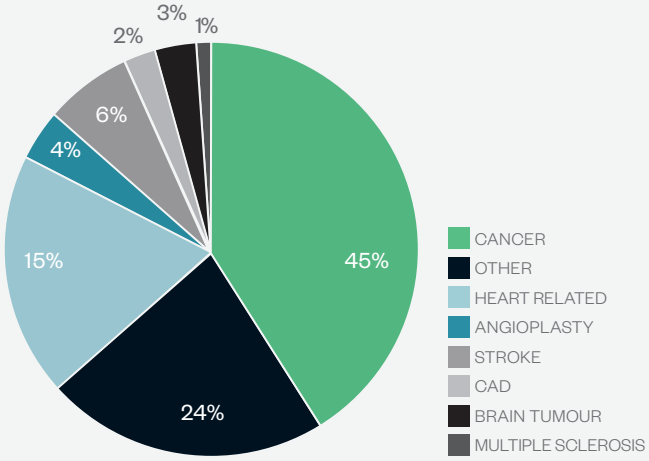


Insights

Half of all income protection claims are made due to muscular and limb injuries, including bone fractures, muscle strain, joint sprains, joint replacements, lacerations to the body, joint dislocations, and muscle ruptures/tears.

Trauma claims by event

In the past three years (2013-2015) Fidelity Life has paid a total of $62,597,000 in critical care claims. The details shown are for one year to 30 June 2015.



Insights

Youngest claimant : 10 – Oldest claimant : 74

Average age of claimant has decreased from 55 last year to 51 this year.

While the overall percentage of female trauma claims for cancer has decreased from 65% to 61%, the percentage of claims for breast cancer has increased from 37% to 44%.

Left: **CHAIRMAN** IAN BRADDOCK | **DIRECTOR** COLIN WISE | **DIRECTOR** ANNE BLACKBURN | **DIRECTOR** CAROLE DURBIN | **DIRECTOR** JEFF MELTZER | **DIRECTOR** BRIAN BLAKE | **CHIEF EXECUTIVE OFFICER** MILTON JENNINGS | **CHIEF FINANCIAL OFFICER** ED EADIE | **APPOINTED ACTUARY** JOHN SMITH

Statement of corporate governance

for the year ended 30 June 2015

ROLE OF THE BOARD

The Board of Directors oversees the business of Fidelity Life Assurance Company Limited ("Fidelity Life") and its subsidiary companies (collectively, "the Group") and is responsible for its corporate governance. The Board sets broad corporate policies, strategic direction and oversees management with the objective of enhancing the interests of shareholders and policyholders. The Board includes in its decision; making dividend payments, the raising of new capital and the approval of annual and semi-annual accounts. The Board is accountable for the performance of the Group and compliance by the Group with laws and applicable standards.

The Board has adopted the Financial Markets Authority's "Principles and Guidelines of Corporate Governance" as a framework against which it monitors and reviews its performance.

BOARD MEMBERSHIP

The Board is elected by the shareholders of the Company by ordinary resolution. As at 30 June 2015 the Board consisted of six non-executive Directors, including a non-executive Chairman.

The Nomination Committee has a formal process by which it assesses the overall skills and experience required on the Board. The Board is happy with the current number of Directors and the mix of Director skill sets.

The Company's Constitution provides for a minimum of two Directors and a maximum of eight Directors; with at least two being ordinarily resident in New Zealand. The Board may appoint Directors to fill casual vacancies that occur or add persons to the Board up to the maximum number prescribed by the Constitution.

At each annual meeting at least one third of Directors shall retire from office, although they can offer themselves for re-election.

On 7 May 2015, Brian Blake was appointed to the Board to fill a casual vacancy. In accordance with the Constitution, Brian Blake will retire at the Annual General Meeting to be held on 12 November 2015 and being eligible will offer himself for re-election.

In accordance with the Constitution, Ian Braddock and Anne Blackburn retire by rotation at the Annual General Meeting and being eligible offer themselves for re-election.

On 3 September 2015, Colin Wise retired from the Board of Directors, effective from the Annual General Meeting.

DELEGATION TO MANAGEMENT

The Board has formally delegated to the Chief Executive Officer the day-to-day management of the Group. Comprehensive formal delegations of financial authority to management are in place, as are agreed policy frameworks for the principal operational aspects of the Group.

The Chief Executive Officer recommends to the Board changes in the business, performance, goals, strategies and plans of the Group. Annual budgets and longer term strategic financial plans are agreed by the Board, which monitors management's performance relative to these goals and plans. Management is responsible for promoting risk management across the organisation and liaising with the Board about these matters.

To keep the Board informed about the Group's business, it is provided with regular operating and financial reports, together with access to senior management at Board and Committee meetings.

RISK MANAGEMENT

Risk management is an integral part of Fidelity Life's business. The Company has systems to identify, and minimise, the impact of financial and operational risk on its business. The Board 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 on a periodic basis.

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.

DIRECTOR'S INSURANCE AND INDEMNITIES

In accordance with the Constitution, the Group has arranged Directors' & Officers' liability insurance, which together with a deed of indemnity, ensure that directors will incur no monetary loss, subject to certain exceptions which are normal in such indemnities, arising out of acts or omissions of Directors or employees in that capacity. The Directors certified that the premium was fair and reasonable.

BOARD ATTENDANCE

Attendance at the scheduled and unscheduled formal meetings of the Board and its committees for the period 1 July 2014 to 30 June 2015 was as follows:

	BOARD		AUDIT & RISK	NOMINATION		REMUNERATION
	Scheduled	Unscheduled	Scheduled	Scheduled	Unscheduled	Scheduled
Meetings	11	3	5	1	4	2
Ian Braddock	11	3	5	1	4	2
Anne Blackburn	11	3	5	1	4	2
Carole Durbin	10	3	4	1	4	n/a
Jeff Meltzer	11	3	5	1	4	n/a
Colin Wise*	10	3	n/a	1	4	2
Brian Blake**	2	n/a	n/a	n/a	n/a	n/a

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

* Colin Wise stepped down as a member of the Remuneration Committee on 2 July 2015

** Brian Blake was appointed to the Board on 7 May 2015. He attended the Board meetings in May 2015 and June 2015. He was appointed to the Remuneration Committee, as Chair, on 2 July 2015.

COMMITTEES

The Board has formally established the following committees to act for, and/or make recommendations to, the full Board.

1. Audit & Risk Committee
The Committee provides independent oversight of the effectiveness of the Group's financial reporting and accounting activities processes, acting as a link between the Board and external auditors. The Committee operates under a formal charter and is responsible for establishing and evaluating risk management policies and procedures for risk assessment. Committee membership is reviewed annually.

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

2. Remuneration Committee
The Committee is responsible for providing recommendations regarding the remuneration structures for the group's Chief Executive Officer and senior executives.

On 2 July 2015 Colin Wise resigned as Chair of the Committee and was replaced by Brian Blake.

Members: Brian Blake (Chair), Anne Blackburn and Ian Braddock (ex-officio).

3. Nomination Committee
The Committee is responsible for the planning of the Board's composition and the appointment of new Directors.

Members: all directors.

ETHICS

The Board has adopted the New Zealand Institute of Directors' "Code of Proper Practice for 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 the Group.

AVOIDING CONFLICTS OF INTEREST

The Board is conscious of its obligations to ensure that Directors avoid conflicts of interest between their duty to the Group and their own interests. Where potential conflicts of interest do exist a Director must disclose this interest so that other members of the Board can determine the most appropriate way of mitigating any actual or perceived conflicts of interest. Directors and staff are required to minimise any potential conflicts in line with the Company's Conflicts of Interest policy.

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.

DIRECTORS' REMUNERATION

The level of non-executive Directors' fees was last approved at the shareholders' meeting on 29 October 2014 as $74,701 per Director and $149,403 for the Chairman.

Subsequent to resolutions at the shareholders' meeting on 29 October 2014, the Company closed the Directors' superannuation scheme and no longer makes superannuation contributions for each of the Director's retirement. In accordance with the rules of the scheme, balances were distributed to the Directors on 7 November 2014.

No additional fees or extra benefits are paid for attendance at Board Committee or subsidiary company meetings.

DIRECTORS' SHAREHOLDINGS

At the shareholders' meeting on 29 October 2014 a resolution was passed to withdraw the requirement for Directors to hold at least 500 shares.

In the event that Directors and senior management wish to trade in the Company's shares they must refrain from doing so except for the periods from the announcement of the annual results to 30 November, and the announcement of the half year results to 30 April; and must refrain from trading at any time if they have sensitive market information.

	DIRECT SHAREHOL DINGS		INDIRECT BENEFICIAL SHAREHOLDINGS		REMUNERATION AND OTHER BENEFITS		
DIRECTOR	AS AT 30 JUNE 2015	INCREASE/ (DECREASE) DURING THE YEAR	AS AT 30 JUNE 2015	INCREASE/ (DECREASE) DURING THE YEAR	DIRECTORS' FEES PAID IN THE YEAR ($)	EX-GRATIA AMOUNTS PAID IN THE YEAR** ($)	TOTAL ($)
Ian Braddock	531	-	8,933	(1,000)	149,403	100,000	249,403
Anne Blackburn	500	-	-	-	74,701	50,000	124,701
Carole Durbin	3,750	-	-	-	74,701	50,000	124,701
Jeff Meltzer	517	-	8,462	(1,880)	74,701	50,000	124,701
Colin Wise	500	-	8,354	-	74,701	50,000	124,701
Brian Blake*	-	-	-	-	12,450	-	12,450

* Brian Blake was appointed to the Board on 7 May 2015.

** At the Annual General Meeting on 29 October 2014 shareholders approved the payment of ex-gratia amounts of $100,000 for the Chairman and $50,000 for the other Directors in office at the time. This payment was in recognition of the incremental workload performed by the Board in the 2013 financial year, as a result of the acquisition of the TOWER life business and the divestment of the Fidelity KiwiSaver Scheme.

OTHER INTERESTS IN FIDELITY LIFE SHARES

Jeff Meltzer is a trustee of the Fidelity Family Trust which holds 788,370 (2014: 788,370) shares in Fidelity Life.

Ian Braddock is a trustee of the Fidelity Life Employee Share Purchase Scheme which holds 3,655 (2014: 12,360) shares in Fidelity Life.

SUBSIDIARY COMPANY DIRECTORS

Fidelity Fund Management Limited
– Jeff Meltzer and Colin Wise

Fidelity Capital Guaranteed Bond Limited
– Ian Braddock, Jeff Meltzer and Colin Wise

Life and Advisory Services Limited
– Milton Jennings, John Smith and Ed Eadie

TriMax Assurance Services Limited
– Milton Jennings and John Smith

TriMax Assurance Services Limited and Fidelity Life Assurance Company Limited were amalgamated on 30 June 2015.

Building a solid future.

Other infomation

SHAREHOLDERS

The names and holdings of the ten largest shareholders of the Company as at 30 June 2015 was as follows:

SHAREHOLDERS	SHARES HELD
1. Whale MJ & Meltzer JP	788,370
2. Burgess GAJ & Burgess MS	285,367
3. Farmers' Mutual Group	166,185
4. Alison DJ & Alison KH	13,636
5. Hughes RR, Hughes CS & Nustrini L	10,152
6. Alison KH, Alison DJ & Webber JE	9,958
7. Hamilton YD, Vanderwee JC, Hamilton RB & Hamilton GR	9,501
8. Braddock IL & Braddock FM	8,933
9. Meltzer JP & Porus JL	8,462
10. Vallant Hooker Trustees Ltd & BM Trustee Company Ltd	8,354

AUDITORS

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

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 attached financial statements that has significantly affected the operations of Fidelity Life.

CREDIT RATING

The A.M. Best rating for the Company is A- (Excellent) with a stable outlook. See table below.

ANNUAL MEETING

The next annual meeting of Fidelity Life Assurance Company Limited will be held at Fidelity House, 81 Carlton Gore Road, Newmarket, Auckland on 12 November 2015, commencing at 2.00 p.m.

EMPLOYEE REMUNERATION

The number of employees or former employees of Fidelity Life (excluding non-executive Directors) whose remuneration and grossed-up benefits was within specified bands for the year ended 30 June 2015 is as follows:

REMUNERATION RANGES	NUMBER OF EMPLOYEES IN EACH BAND	
	2015	2014
$690,000 - $700,000	1	0
$660,000 - $670,000	0	1
$460,000 - $470,000	1	1
$450,000 - $460,000	0	1
$410,000 - $420,000	1	0
$370,000 - $380,000	1	0
$340,000 - $350,000	1	0
$330,000 - $340,000	2	0
$300,000 - $310,000	1	0
$290,000 - $300,000	1	3
$260,000 - $270,000	1	0
$250,000 - $260,000	1	1
$240,000 - $250,000	3	0
$230,000 - $240,000	3	5
$220,000 - $230,000	3	0
$210,000 - $220,000	4	3
$200,000 -$210,000	1	3
$190,000- $200,000	4	5
$180,000 - $190,000	4	2
$170,000 - $180,000	3	2
$160,000 - $170,000	3	8
$150,000 - $160,000	3	4
$140,000 - $150,000	7	4
$130,000 - $140,000	9	6
$120,000 - $130,000	17	5
$110,000 - $120,000	9	12
$100,000 - $110,000	14	20

A- (Excellent)

Fidelity Life has an A- (Excellent) financial strength rating given by A.M. Best.

SECURE

A++, A+ (Superior)
A, A- (Excellent)
B++, B+ (Good)

VULNERABLE

B, B- (Fair)
C++, C+ (Marginal)
C, C- (Weak)
D (Poor)
E (Under Regulatory Supervision)
F (In liquidation)
S (Suspended)

The A.M. Best financial strength rating relates to Fidelity Life's insurance and investment business. For the latest ratings, visit www.ambest.com. The rating should not be read as a recommendation.

Directory/ external services

BOARD OF DIRECTORS

Ian L Braddock
BCom CA CMInstD
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 Group Capital Limited, TSB Bank Limited, TSB Group Investments Limited, Fisher Funds Management Limited

Brian Blake
BCA FACA CMA CMInstD
Auckland
Chairman: Hynds Limited, Barworks Hospitality Group, New Zealand Leadership Institute

COMPANY OFFICERS

Chief Executive Officer
Milton Jennings *BCom CA AFA*

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

Appointed Actuary
John Smith *MSc FNZSA FIAA*

CONSULTING ACTUARY

Kate Dron *BSc FIA FNZSA*

SOLICITORS

DLA Piper
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

CURRENCY ADVISER

Bancorp Treasury Services Limited

INVESTMENT MANAGERS

AMP Capital Investors (New Zealand) Limited *(exited December 2014)*

Devon Funds Management Limited New Zealand

Grosvenor Financial Services Group Limited

PIMCO Australia Pty Limited

State Street Global Advisors, Australia, Limited

SuperLife Limited

Nikko Asset Management New Zealand Limited *(formerly Tyndall Investment Management New Zealand Limited)*

Vanguard Investments Australia Limited

REINSURERS

General Reinsurance Life Australia Limited

Hannover Life Re of Australasia Limited

John Hancock Life Insurance Company

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

HAMILTON OFFICE

1st Floor
John Sullivan House
62 Tristram Street
Hamilton 3240
Telephone 0800 34 33 54

TAURANGA OFFICE

Level 1/Unit 3
9 Devonport Road
Tauranga 3110
Telephone 0800 434 335

WELLINGTON OFFICE

Level 1
1 Market Grove
Hutt Central
Lower Hutt 5010
Telephone 04 920 7477

CHRISTCHURCH OFFICE

Level 1
205 Durham Street
Christchurch 8011
Telephone 03 377 2323

DUNEDIN OFFICE

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

fidelitylife.co.nz

SHARE REGISTRAR

Computershare Investor Services Limited
Private Bag 92119, Auckland 1142

159 Hurstmere Road
Takapuna, Auckland 0622

Managing your shareholding online:
To change your address, update your payment instructions and to view your investment portfolio, including transactions, please visit:
www.computershare.co.nz/investorcentre

General enquiries can be addressed to:
Enquiry@computershare.co.nz

Private Bag 92119, Auckland 1142

Telephone +64 9 488 8777
Facsimile +64 9 488 8787

Please assist our registrar by quoting your CSN or shareholder number.

FidelityLife

Today's results help us achieve tomorrow's growth.

Flip the book over to find out how.

FidelityLife

Today's results for tomorrow's growth.

FINANCIAL STATEMENTS 2015

Protecting the NZ way of life

NEW ZEALAND MADE

Financial statements

for the year ended 30 June 2015

Contents

CONSOLIDATED INCOME STATEMENT

for the year ended 30 June 2015

	NOTE	2015 $'000	2014 $'000
Insurance business			
Revenue			
Insurance premium revenue	7	200,566	185,037
Insurance premium ceded to reinsurers	7	(108,974)	(100,073)
Fee and commission income	7	5,525	5,032
Other income	7	14,813	15,493
Investment income	8	68,823	40,120
Total insurance revenue		180,753	145,609
Expenses			
Claims expense	9	96,416	90,247
Reinsurance recoveries	9	(74,706)	(71,084)
Commission and operating expenses	9	98,495	97,908
Net change in life insurance contract liabilities	21	(20,802)	(19,841)
Net change in life investment contract liabilities	22	48,720	20,042
Total insurance expenses		148,123	117,272
Profit before tax from continuing operations		32,630	28,337
Income tax expense	11	8,824	9,682
Profit after tax from continuing operations		23,806	18,655
Net discontinued operations income after tax	12	-	16,481
Profit for the year attributable to the owners of the Company	6	23,806	35,136
Basic and diluted earnings per share			
From continuing operations	27	16.54	12.96
From discontinued operations	27	-	11.45

The above consolidated income statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2015

	NOTE	2015 $'000	2014 $'000
Profit after tax for the year		23,806	35,136
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation movement, net of tax	25	1,281	104
Employee share purchase plan	24	25	45
Other comprehensive income for the year, net of tax		1,306	149
Total comprehensive income for the year attributable to the owners of the Company		25,112	35,285
Total comprehensive income for the year attributable to the owners of the Company arises from:			
Continuing operations		25,112	18,804
Discontinuing operations		-	16,481
		25,112	35,285

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2015

	NOTE	2015 $'000	2014 $'000
Assets			
Cash and cash equivalents	13	36,007	27,079
Assets arising from reinsurance contracts	14	18,910	21,540
Financial assets at fair value through profit or loss	15	651,334	518,174
Derivative financial instruments	15	5,782	2,106
Loans and other receivables	16	37,689	32,611
Property, plant and equipment	17	22,750	21,241
Income tax asset	11	5,555	7,923
Deferred tax assets	18	29,906	24,613
Intangible assets	19	5,752	6,208
Total assets		813,685	661,495
Liabilities			
Payables and other financial liabilities	20	54,539	48,363
Current tax liabilities		14	3,061
Derivative financial instruments	15	11,553	210
Deferred tax liabilities	18	44,750	37,745
Life insurance contract liabilities	21	(108,382)	(66,132)
Life insurance contract liabilities ceded under reinsurance	21	28,938	7,490
Life investment contract liabilities	22	569,891	438,647
Deferred income	23	5,467	6,150
Total liabilities		606,770	475,534
Net Assets		206,915	185,961
Equity			
Share capital	24	13,913	13,512
Retained earnings	25	190,448	171,176
Revaluation reserve	25	2,554	1,273
Total Equity		206,915	185,961

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

For and on behalf of the Board
3 September 2015

IAN BRADDOCK
Chairman

ANNE BLACKBURN
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2015

	NOTE	SHARE CAPITAL $'000	RETAINED EARNINGS $'000	RESERVES $'000	TOTAL $'000
Balance at 1 July 2013		13,186	140,357	1,169	154,712
Profit for the year		-	35,136	-	35,136
Other comprehensive income for the year					
Items that will not be reclassified to profit or loss:					
Revaluations, net of tax	25	-	-	104	104
Employee share purchase plan	24	45	-	-	45
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	24	24	-	-	24
Share capital vested from employee share purchase scheme	24	257	-	-	257
Dividends	26	-	(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
Balance at 1 July 2014		13,512	171,176	1,273	185,961
Profit for the year		-	23,806	-	23,806
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Revaluations, net of tax	25	-	-	1,281	1,281
Employee share purchase plan	24	25	-	-	25
Other comprehensive income for the year		25	-	1,281	1,306
Total comprehensive income for the year		25	23,806	1,281	25,112
Transactions with owners					
Share capital vested from employee share purchase scheme	24	376	-	-	376
Dividends	26	-	(4,534)	-	(4,534)
Total transactions with owners		376	(4,534)	-	(4,158)
Balance at 30 June 2015		13,913	190,448	2,554	206,915

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2015

	NOTE	2015 $'000	2014 $'000
Cash flows from operating activities			
Premiums from life insurance contracts		201,131	181,806
Deposits from life investment contracts		132,838	122,773
Reinsurance received		77,958	62,937
Receipts from major contracts[1]		-	68,748
Interest received		9,768	8,532
Dividends and distributions received		15,683	10,593
Other investment income		2,791	9,783
Other income		19,624	20,926
Benefits paid under life insurance contracts		(94,412)	(83,184)
Benefits paid under life investment contracts		(50,314)	(42,382)
Reinsurance premiums paid		(107,413)	(92,325)
Commission paid		(53,986)	(50,554)
Payments to suppliers and employees		(48,073)	(47,798)
Income tax paid		(8,286)	(4,392)
Net cash generated from operating activities	28	97,309	165,463
Cash flows from investing activities			
Purchases of intangible assets		(2,142)	(3,225)
Purchases of financial assets		(450,502)	(304,491)
Purchases of property, plant and equipment		(838)	(1,636)
Purchase of business combinations[2]		-	(71,746)
Proceeds from sale of financial assets		369,560	288,849
Payments to bond holders		-	(65,870)
Proceeds on sale of property, plant and equipment		75	47
Proceeds on sale of discontinued operations[3]		-	11,000
Net cash used in investing activities		(83,847)	(147,072)
Cash flows from financing activities			
Proceeds from issue of ordinary shares, net of transaction costs		-	24
Ordinary dividends paid		(4,534)	(4,320)
Net cash used in financing activities		(4,534)	(4,296)
Net increase in cash and cash equivalents		8,928	14,095
Cash and cash equivalents at 1 July		27,079	12,984
Cash and cash equivalents at 30 June	13	36,007	27,079

1. In 2014 initial commission was received from certain reinsurance treaties for the cessation of future cash flows, and funding for a proportionate share of working capital balances relating to the acquired policies.
2. Consideration for the purchase of life insurance policies from TOWER Health & Life Limited, the group risk business of TOWER Life (N.Z.) Limited (classed as 'acquired policies'), the shares in Life Operations Limited ('LOL') and Life and Advisory Services Limited ('LASL') and the working capital balances acquired at 1 August 2013 less a deposit of $2.0m.
3. Management Rights in the KiwiSaver Scheme sold to Grosvenor Investment Management Limited ('GIML') on 23 August 2013.

The above consolidated statement 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 81 Carlton Gore Road, Newmarket, Auckland, New Zealand.

These consolidated financial statements have been approved for issue by the Board of Directors on 3 September 2015. The Company's owners do not have the power to amend these consolidated financial statements after issue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated 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 consolidated 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').

Statutory base

The Company is registered under the Companies Act 1993 and licensed under the Insurance (Prudential Supervision) Act 2010 ('IPSA'). These consolidated financial statements have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013.

Historical cost convention

The consolidated 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.

(B) PRINCIPLES OF CONSOLIDATION

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2015.

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 and continue to be consolidated until the date when control ceases.

In preparing the group consolidated financial statements, all intra-group transactions, balances, income and expenses have been eliminated.

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 consolidated income statement.

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 financial statements are presented in New Zealand dollars, which is the functional and the presentation currency of the Group.

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 consolidated income statement.

(D) 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 recognised as revenue when due. Unpaid premiums on policies that have deemed to have lapsed at balance date are not recognised as revenue.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 life investment contracts.

(E) 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 consolidated income statement.

(F) FEE AND OTHER INCOME

Fee revenue on life 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 life investment contracts and amortised as the services are provided. Administration fee revenue is recognised when the service has been provided.

Commission revenue is recognised when the service is provided.

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

(G) 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 life investment contracts.

(H) 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 consolidated income statement 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 consolidated income statement when incurred. The deferred acquisition cost asset is subsequently amortised over the life of the contracts and is recognised in the consolidated income statement.

Unamortised acquisition costs are recorded in intangible assets on the consolidated statement 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 commission and operating costs other than acquisition and investment management costs.

Investment management expenses are the fixed and variable costs of managing life investment funds. Maintenance and investment management expenses are recognised in the consolidated income statement on an accrual basis.

(I) 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.

(J) 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)

(K) 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 consolidated statement of financial position and the net change in life insurance contract liabilities in the consolidated income statement have been calculated in accordance with the New Zealand Society of Actuaries Professional Standard No 20 - Determination of Life Insurance Policy Liabilities ('PS20') 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 consolidated income statement 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 consolidated income statement 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 is 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.

(L) PROPERTY, PLANT AND EQUIPMENT

Owner-occupied land and buildings are carried at fair value, based on annual valuations by external independent valuers, less any 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 consolidated income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the consolidated income statement and depreciation based on the asset's original cost is transferred from revaluation reserves to retained earnings.

All other items classed as property, plant and equipment within the consolidated statement 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.

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
- Plant & equipment 4-5 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, plant 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 consolidated income statement during the financial period in which they are incurred.

(M) INTANGIBLE ASSETS

(i) 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 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 consolidated income statement as incurred.

(ii) Acquired value of in-force business ('AVIF')

The present value of future profits on a portfolio of life insurance and life investment contracts, acquired either directly or through the purchase of a subsidiary, is recognised as an asset. This is classified as AVIF 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 consolidated income statement.

(N) 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).

(O) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Statements of cash flows

The following are the definitions of the terms used in the statement of cash flows:

(i) Operating activities include all transactions and other events that are not investing or financing activities.

(ii) Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of investments.

(iii) Financing activities are those activities relating to changes in the equity and debt structure of the Group.

(P) 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 consolidated income statement on a straight line basis over the period of the lease.

(Q) 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. All assets backing life insurance policies are designated at fair value through profit or loss. Management determines the classification of its financial assets 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. Financial 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 recognised 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) 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. The Group's loans and other receivables comprise receivables, cash and cash equivalents and assets arising from reinsurance contracts in the consolidated statement 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 consolidated income statement within other expenses. When a receivable is uncollectable, it is written off against the provision.

(iii) 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 are included in the consolidated income statement in the period in which they arise.

(iv) 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 measured at fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 consolidated income statement.

(R) PROVISIONS

A provision is recognised in the statement 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.

(S) 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 and long service 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.

(T) 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.

(U) 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.

(V) INCOME TAX

Income tax expense is the tax payable on taxable income for the current period based on the income tax rate enacted or substantively enacted at the reporting date and adjusted for changes in deferred tax assets and liabilities. The tax impact of income and expense items that are recognised directly in other comprehensive income or equity is also directly recognised in other comprehensive income or equity, respectively.

Income tax expense reflects tax imposed on both shareholders and policyholders. Tax on shareholders is imposed on cash flows (premiums less claims, less expenses plus shareholder investment income). Tax on policyholders is imposed on investment income allocated to policyholders.

Current tax is the expected tax payable on 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 assets and liabilities are recognised using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit.

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.

(W) 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 settled within 30 days of recognition.

(X) STANDARDS ADOPTED DURING THE YEAR

There have been no new standards adopted during the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(Y) NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET ADOPTED

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 consolidated financial statements:

- NZ IFRS 9 *Financial instruments* – The standard addresses the classification, measurement and recognition of financial assets and financial liabilities. NZ IFRS 9 is 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.
- 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. NZ IFRS 15 is mandatory for the Group's financial statements for the year beginning 1 July 2017.

The Group is assessing the impact of these new standards on the Group's results.

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

Policyholder 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 and reinsurance recoveries will vary from the liability estimated at the reporting date.

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

(B) DEFERRED TAX

Significant judgements relating to the calculation of policyholder liabilities (note 3(a)) also impact the Group's deferred tax assets and liabilities. The Group has 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.

(C) 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 15 – Fair values of financial assets and liabilities through profit or loss

Note 17 (a) – Owner-occupied property

4. ACTUARIAL METHODS AND POLICIES

The actuarial reports on policyholder liabilities and solvency reserves for the years ended 30 June 2014 and 30 June 2015 were prepared by the Appointed Actuary, John Smith MSc FNZSA FIAA, and peer reviewed by the Consulting Actuary, Kate Dron BSc FIA FNZSA, (2014: Peter Davies), of Davies Financial and Actuarial Limited.

The value of the policyholder liabilities has been determined in accordance with PS20 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 life 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 life 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 PS20. 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 2015	AT 30 JUNE 2014
10 year NZ Government bond rate – gross discount rate	3.62%	4.42%
Discounted cash flows on renewable risk plans and level premium risk plans	3.62%	4.42%
Non-participating assurances – net interest rate	2.61%	3.18%
Claim reserves and provisions for investment guarantees – gross interest rate	3.62%	4.42%
Annuities – net interest rate	2.61%	3.18%
FMLL participating plans. Derived from expected after-tax return on the assets backing the participating fund	3.25%	3.75%

SOLVENCY RESERVES DISCOUNT RATES	AT 30 JUNE 2015	AT 30 JUNE 2014
The solvency reserves are valued in accordance with the Solvency Standard for Life Insurance Business 2014 issued by the Reserve Bank of New Zealand ('RBNZ') in December 2014.		
Insurance risk capital requirement – before tax	3.62%	4.42%
Insurance risk capital requirement – after tax	2.61%	3.18%
Participating plans – risk free rate	2.61%	3.18%

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

Annuities, participating business and traditional assurances were valued on a net of tax basis.

4. ACTUARIAL METHODS AND POLICIES (CONTINUED)

	AT 30 JUNE 2015	AT 30 JUNE 2014
Rate of taxation	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.
Inflation rate	2.00%	2.00%
Profit carriers – where valued on the projection method		
Acquired policies	Claims net of original reinsurance	Claims net of original reinsurance
Traditional policies	Interest earnings	Interest earnings
All other policies	Claims gross of reinsurance	Claims gross of reinsurance

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.

MORTALITY RATES	AT 30 JUNE 2015	AT 30 JUNE 2014
Base mortality table	Based on the NZ10 Insured Lives mortality table. At ages 70 and over mortality rates from the NZ07 Insured Lives mortality table are used.	Based on the NZ10 Insured Lives mortality table. At ages 70 and over mortality rates from the NZ07 Insured Lives mortality table are used.
Underwritten business	35% of the base table in year 1 65% of the base table in year 2	35% of the base table in year 1 65% of the base table in year 2
Smoker status		
Non-smoker	90% of base table	90% of base table
Smoker	180% of base table	180% of base table
Guaranteed acceptance plans	500% of base table up to age 55, falling to 200% of base table at age 75	500% of base table up to age 55, falling to 200% of base table at age 75
Limited premium guaranteed acceptance plans	200% of the base table	200% of the base table
Former FMLL participating business	NZ97(5) select table	NZ97(5) select table
Annuitant mortality	IMA92C20 and IFA92C20 tables Reduction in the attained age of 5 years up to age 55 falling by 1 year for every 10 years of age to nil from age 95.	IMA92C20 and IFA92C20 tables Reduction in the attained age of 5 years up to age 55 falling by 1 year for every 10 years of age to nil from age 95.

4. ACTUARIAL METHODS AND POLICIES (CONTINUED)

MORBIDITY	AT 30 JUNE 2015	AT 30 JUNE 2014
Trauma claims	100% of reinsurance rates	90% of reinsurance rates
Capitalised value of Income Protection claims		
Acquired policies	Adjusted CIDA85 tables	Adjusted CIDA85 tables
All other policies	70% of reinsurance rates	85% of reinsurance rates
Total and Permanent Disability rates	60% of reinsurance rates	60% of reinsurance rates

Rates of discontinuance:

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

	2015			2014		
	YEAR 1-2	YEAR 3-7	YEARS 8+	YEAR 1	YEAR 2- 5	YEARS 6+
Yearly Renewal Term: Life and Accelerated Critical Care/Total Permanent Disability	9.0%	12.0%	9.0%	7.0%	11.0-12.0%	11.5%
Yearly Renewal Term: Free-standing Critical Care/Total Permanent Disability	9.0%	12.5%	10.0%	7.5%	13.0-14.5%	13.5%
Talisman (lump sum)	9.0%	12.5%	10.0.%	7.0%	11.0-12.0%	11.5%
Yearly Renewal Term: Income Protection	9.0%	14.5%	12.0%	8.5%	13.5-16.0%	15.5%
Talisman (income protection)	12.0%	15.5%	12.0%	8.5%	13.5-16.0%	15.5%
NIMS (lump sum)	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
NIMS (income protection)	11.0%	11.0%	11.0%	8.5%	13.5-16.0%	15.5%
Whole of Life and Endowments including participating contracts	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Level Term	12.0%	5.0%	3.5%	7.0%	7.5-12.0%	4.0%
Direct Mail	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Automatic acceptance with premiums limited to ten years	20.0%	7.0%	0.0%	20.0%	0-10.0%	0.0%
Automatic acceptance with level or reviewable premiums	25.0%	10.0%	5.0%	25.0%	5-15.0%	5.0%

A rate of 2% (2014: 2%) for each year over age 70 is assumed in addition to the above rates.

	2015			2014		
	YEAR 10-14	YEAR 15	YEARS 16+	YEAR 10-14	YEAR 15	YEARS 16+
Premium Payback policies (NIMS)	2.0%	12.0%	4.0%	2.0%	12.0%	4.0%

In 2015 it is assumed that an additional shock lapse of 2.0% will apply to the legacy policies on the Talisman administration system in the 2016 financial year. In 2014 it was assumed that additional shock lapses would be 2.5% and 1.0% in the 2015 and 2016 financial years respectively.

4. ACTUARIAL METHODS AND POLICIES (CONTINUED)

SURRENDER VALUES	AT 30 JUNE 2015	AT 30 JUNE 2014
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.
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%.
Exit charge on bonds and power saver	Nil	Nil
Exit charge on Gold Medal	5.0%, reducing by 1.0% each year from the policy anniversary four years preceding maturity. 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. Policies issued after July 2009 do not have an exit charge.

BONUS POLICY	AT 30 JUNE 2015	AT 30 JUNE 2014
Participating business – policies 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	0.58% of the sum assured and reversionary bonus.	0.60% of the sum assured and reversionary bonus.
Participating business – FMLL plans – Current bonus declaration	0.58%	0.60%
Policyholder's share of the surplus on the participating pool	83.3%	83.3%

The policyholder's share of surplus on the participating pool matches the value of supportable assets at the date of transfer from Farmers Mutual Group Limited to Fidelity Life.

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.

4. ACTUARIAL METHODS AND POLICIES (CONTINUED)

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:

	2015		2014	
ASSUMPTION CHANGE	EFFECT ON FUTURE PROFIT MARGINS $'000	EFFECT ON LIFE INSURANCE CONTRACT LIABILITIES $'000	EFFECT ON FUTURE PROFIT MARGINS $'000	EFFECT ON LIFE INSURANCE CONTRACT LIABILITIES $'000
Discontinuance rates	60,455	-	9,207	-
Premium rates	4,745	-	15,511	-
Renewal expenses	-	-	3,525	-
Mortality/Morbidity rates	(2,224)	-	12,170	-
Reinsurance rate increases	17,395	-	(25,767)	-
Other modelling changes	2,110	-	7,944	-
Discount rate	18,379	(2,877)	(3,301)	707

Sensitivity analysis of life investment contracts

The value of future profit, policy liabilities and profit of life investment contracts are not sensitive to any changes in assumptions.

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 fair valued by external wholesale fund managers that primarily invest in investment grade listed securities.

Directly held investments comprise property, mortgages and equity securities. Property is valued annually by an independent registered valuer. Mortgages are valued at outstanding balance less provision for bad debts. Equity securities are valued at their fair values.

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

	LIFE INVESTMENT		LIFE INSURANCE	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Loans	14,386	19,947	3,069	3,187
Debt securities	111,381	79,580	35,604	26,240
Equity securities	220,427	153,779	6,390	2,167
Other investments	189,112	154,489	58,567	81,221
Property, plant and equipment	17,781	17,234	4,969	4,007
Cash and cash equivalents	16,804	13,618	16,937	10,506
Other receivables	-	-	18,486	7,166
Assets arising from reinsurance recoveries	-	-	18,910	21,540
Income tax asset	-	-	1,669	4,042
Deferred tax assets	-	-	28,014	23,020
Intangible assets	-	-	5,615	5,979
Total assets backing	569,891	438,647	198,230	189,075

5. RISK MANAGEMENT

Risk management framework

The Board of Directors (the 'Board') has responsibility for establishing a system of risk management, internal controls and compliance and for monitoring and reviewing its effectiveness. It also has the responsibility for approving the risk appetite of the Group and the risk related policies to support that appetite.

While the Board is ultimately responsible for the risk management of the Group, specific responsibility for the monitoring and evaluation of the effectiveness of risk management is delegated to the Audit & Risk Committee who review the reports of management on the effectiveness of the Group's financial reporting and risk management processes.

The Group has a formalised risk management programme which 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 Group ensures that effective risk management is real and reflected in the operational activities of the Group. 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 it continues to effectively manage the Group's risks.

The Group has established a number of management committees, each with charters that include specific responsibilities in relation to risk management. The committees covered by these charters are:

i. Leadership Risk Committee – established to ensure effective awareness, debate and resolution of all significant risk issues impacting the Group at a senior management level.

ii. Product and Pricing Committee – established to assess new products, review existing products and to assist with the effective risk management over the product management process.

iii. Investment Committee – established to oversee the investments in line with the Statement of Investment Policy and Objectives ('SIPO') that is approved by the Board.

iv. Strategy Implementation Steering Committee – established to support the roll out of initiatives identified during the strategic planning process. The Committee ensures that appropriate risk management processes are in place, escalating issues as appropriate to the Leadership Risk Committee and the Audit & Risk Committee.

Financial risk management

The Group's activities expose it to various financial risks including:

- Market risk
- Insurance risk
- Liquidity risk
- Credit risk

(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 Group 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 life 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 for life investment contracts.

There is a maturity guarantee provided under the Gold Medal range of policies. The Group 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.

5. RISK MANAGEMENT (CONTINUED)

(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 Group 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 to 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. Refer to note 15 for details of foreign currency contracts held.

Concentrations

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

	2015 NZ $'000	2014 NZ $'000
AUD	244,507	165,158
GBP	29,923	14,409
Total assets in foreign currency	274,430	179,567
Percentage of total assets	33.7%	27.1%

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:

	+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	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000	2015 $'000	2014 $'000	2015 $'000	2014 $'000
AUD	27	53	27	53	(22)	(43)	(22)	(43)
GBP	17	21	17	21	(14)	(18)	(14)	(18)
USD	10	2	10	2	(8)	(2)	(8)	(2)
	54	76	54	76	(44)	(63)	(44)	(63)

(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 Group. Concentrations of specific holdings are also managed and monitored by the Group's fund managers.

Most price risk is borne by policyholders of life investment contracts 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.

5. RISK MANAGEMENT (CONTINUED)

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.

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:

	+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	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Change in the Market Value of:								
New Zealand and Australian Shares	70	143	70	143	(70)	(143)	(70)	(143)
International Shares	56	64	56	64	(56)	(64)	(56)	(64)
New Zealand Property	264	301	264	301	(264)	(301)	(264)	(301)
Bond Options (Derivatives)	83	66	83	66	(83)	(66)	(83)	(66)
	473	574	473	574	(473)	(574)	(473)	(574)

(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 manages interest rate risk by using interest rate swaps which swap interest rates between floating and fixed.

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

Most interest rate risk is borne by policyholders of life investment contracts 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 after tax.

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)

Sensitivity analysis

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

	+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	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Cash and Cash Equivalents	122	95	122	95	(122)	(95)	(122)	(95)
Loans	22	23	22	23	(22)	(23)	(22)	(23)
NZ Debt Securities	(3,019)	(2,823)	(3,019)	(2,823)	2,486	2,351	2,486	2,351
International Debt Securities	(1)	(31)	(1)	(31)	1	26	1	26
	(2,876)	(2,736)	(2,876)	(2,736)	2,343	2,259	2,343	2,259

(B) INSURANCE RISK

Insurance exists to provide peace of mind to people who will be compensated for an event that occurs relatively infrequently, 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. Claim expenses are covered by 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 Group to variation in the incidences 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 also holds a catastrophe reinsurance treaty to limit large losses arising from concentrations of risk due to geographical exposure or single events.

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

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 undertaken on a regular basis.

5. RISK MANAGEMENT (CONTINUED)

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:

		2015		
		FUTURE MARGINS $'000	POLICY LIABILITY $'000	PROFIT $'000
Discount rate/inflation rate	Increase by 0.25%	(6,571)	910	(910)
	Decrease by 0.25%	6,873	(909)	909
Mortality/Morbidity	Increase by 10%	(27,658)	115	(115)
	Decrease by 10%	28,031	(105)	105
Cancellations	Increase by 10%	(47,545)	(222)	222
	Decrease by 10%	57,580	232	(232)
Expenses	Increase by 10%	(34,543)	5	(5)
	Decrease by 10%	34,554	(5)	5

		2014		
		FUTURE MARGINS $'000	POLICY LIABILITY $'000	PROFIT $'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
Cancellations	Increase by 10%	(30,961)	(252)	252
	Decrease by 10%	37,516	263	(263)
Expenses	Increase by 10%	(24,180)	5	(5)
	Decrease by 10%	24,178	(5)	5

5. RISK MANAGEMENT (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.
Cancellation risk	The impact of the cancellation rate assumption depends on a range of factors including the type of contract, the surrender value basis (where applicable) and the duration in force.
Expense risk	An increase in the level or inflationary growth of expenses over assumed levels will decrease profit and shareholders' equity.

(C) LIQUIDITY RISK

Management of liquidity risk is designed to ensure that the Group has the ability to meet its financial obligations as they fall due.

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'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. Policyholder liabilities – insurance contracts cash flows are in relation to maturity values payable on traditional products.

5. RISK MANAGEMENT (CONTINUED)

	2015					
	LESS THAN 1 YEAR $'000	BETWEEN 1 & 2 YEARS $'000	BETWEEN 2 & 5 YEARS $'000	OVER 5 YEARS $'000	TOTAL $'000	CARRYING AMOUNT $'000
Financial assets:						
Cash and cash equivalents	36,007	-	-	-	36,007	36,007
Loans and other receivables	27,533	2,943	3,665	11,929	46,070	31,859
Financial assets at fair value through profit or loss	517,435	26,569	96,194	39,296	679,494	651,334
Derivative financial instruments	4,016	-	-	1,766	5,782	5,782
Assets arising from reinsurance contracts	18,910	-	-	-	18,910	18,910
	603,901	29,512	99,859	52,991	786,263	743,892
Financial liabilities:						
Policyholder liabilities – investment (non-participating) contracts	378,041	15,488	36,263	140,099	569,891	569,891
Payables and other financial liabilities	50,181	-	-	-	50,181	50,181
Derivative financial instruments	11,553	-	-	-	11,553	11,553
	439,775	15,488	36,263	140,099	631,625	631,625
Policyholder liabilities – insurance contracts	656	868	2,575	7,154	11,253	(79,444)

	2014					
	LESS THAN 1 YEAR $'000	BETWEEN 1 & 2 YEARS $'000	BETWEEN 2 & 5 YEARS $'000	OVER 5 YEARS $'000	TOTAL $'000	CARRYING AMOUNT $'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)

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.

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.

2015					
	AAA TO AA- $'000	BBB+ TO BBB- $'000	BB+ TO B- $'000	UNRATED $'000	TOTAL $'000
Cash and cash equivalents	36,007	-	-	-	36,007
Assets arising from reinsurance contracts	18,910	-	-	-	18,910
Debt securities	100,792	40,621	770	3,515	145,698
Derivatives	5,782	-	-	-	5,782
Loans	-	-	-	18,074	18,074
	161,491	40,621	770	21,589	224,471

2014					
	AAA TO AA- $'000	BBB+ TO BBB- $'000	BB+ TO B- $'000	UNRATED $'000	TOTAL $'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

Included in the consolidated statement of financial position are unitised funds of $273,255,000 (2014: $250,909,000) which are unrated. Unitised products are invested within the guidelines of the Group's SIPO. The SIPO requires investments to be well diversified, sets exposure limits for each class of asset and credit rating.

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.

Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(i) Derivative financial assets and liabilities

Certain derivative assets and liabilities are subject to legally enforceable set-off arrangements. If these netting arrangements were applied to the derivative portfolio, the derivative assets of $5,782,000 (2014: $2,106,000) would be decreased to the net amount of $4,604,000 (2014: $2,100,000) and the derivative liabilities of $11,553,000 (2014: $210,000) would be decreased to the net amount of $10,375,000 (2014: $204,000).

5. RISK MANAGEMENT (CONTINUED)

(ii) Financial assets and liabilities

Certain financial assets and liabilities are subject to legally enforceable set-off arrangements, offsetting balances sitting in loans and other receivables and payables and other financial liabilities. If these netting arrangements were applied to these categories, the loans and other receivables of $37,689,000 (2014: $32,611,000) would be decreased to the net amount of $29,303,000 (2014: decrease to $30,722,000) and the payables and other financial liabilities of $54,359,000 (2014: $48,363,000) would be decreased to the net amount of $45,973,000 (2014: decrease to $46,474,000).

Asset quality

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

	2015 $'000	2014 $'000
Current	13,453	17,389
Less than three months	2,173	3,498
Between three and six months	616	797
Greater than six months past due	852	1,165
Impaired	980	1,000
Total due	18,074	23,849

As at 30 June 2015 $2,900,000 (2014: $2,000,000) of loans receivable would have been past due at balance date, however their terms were re-negotiated.

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 86% of the loan portfolio (2014: 83%), the Group 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 2015 or 2014.

PROVISION FOR IMPAIRMENT OF RECEIVABLES	2015 $'000	2014 $'000
Carrying amount at the beginning of the year	702	923
Provisions recognised during the year	309	508
Balances written off during the year	(274)	(510)
Unused amounts reversed	(118)	(219)
Carrying amount at the end of the year	619	702

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 (2014: nil).

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

5. RISK MANAGEMENT (CONTINUED)

Capital management

Capital risk management is managed by the Board with reference to the Financial Condition Report ('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 the items that may have a bearing on future solvency or maintenance of the Company's credit rating.

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.

The Company operates under a licence issued by the RBNZ, under the provisions of IPSA.

Ongoing licensing requires compliance with the Solvency Standard for Life Insurance Business 2014 issued by RBNZ in December 2014 (the 'Solvency Standard'). It is a requirement that the actual solvency capital must at all times exceed the higher of $5 million or the minimum solvency capital.

During the year ended 30 June 2015, the Company complied with all capital 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 & Risk Committee reviews the annual and interim financial statements and receives an actuarial review by the independent consulting actuary.

The Appointed Actuary submits an annual FCR to the Board that encompasses the items specified in section 6.3 of the Solvency Standard 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.

The Company manages its capital by considering the return on capital reported under NZ IFRS and projections of solvency margin prescribed by the RBNZ. 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:

	2015			2014		
	STATUTORY FUND $'000	NON-STATUTORY FUND $'000	TOTAL $'000	STATUTORY FUND $'000	NON-STATUTORY FUND $'000	TOTAL $'000
Actual Solvency Capital	145,010	17,073	162,083	131,175	16,594	147,769
Minimum solvency capital	130,615	2,751	133,366	116,019	2,898	118,917
Solvency margin	14,395	14,322	28,717	15,156	13,696	28,852

For further details on the Company's statutory fund refer note 36.

6. PROFIT AFTER TAXATION

	2015 $'000	2014 $'000
Profit after taxation arose from		
Life insurance contracts		
Planned margins of revenues over expenses	15,258	12,236
Difference between actual and assumed experience	(3,955)	1,719
Effects of changes in underlying assumptions	2,958	(403)
Investment earnings on assets in excess of life insurance liabilities	5,485	3,987
	19,746	17,539
Life investment contracts		
Difference between actual and assumed experience	376	184
Effects of changes in underlying assumptions	(79)	21
	297	205
Investment earnings on assets in excess of policy liabilities	3,948	3,855
Non-statutory fund (net of tax)	(185)	13,537
Profit after taxation	23,806	35,136

7. REVENUE

	2015 $'000	2014 $'000
(a) Net insurance premiums		
Insurance premium revenue	200,566	185,037
Insurance premium ceded to reinsurers[1]	(108,974)	(100,073)
Total net insurance premiums	91,592	84,964
(b) Fee and commission income		
Administration fees	2,112	2,391
Commission income	3,413	2,641
Total fee and commission income	5,525	5,032
(c) Other income		
Reinsurance treaty policy administration fee	13,751	14,223
Deferred income amortisation (note 23)	683	626
Property income	261	571
Other income	118	73
Total other income	14,813	15,493

1. During the 2015 financial year the Company continued to hold reinsurance contracts with the following reinsurers: 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.).

8. INVESTMENT INCOME

	2015			
	INTEREST AND SIMILAR INCOME $'000	DIVIDENDS AND DISTRIBUTIONS $'000	NET FAIR VALUE GAINS / LOSSES $'000	TOTAL $'000
Cash and debt securities	9,591	-	8,318	17,909
Unit trusts	-	15,578	47,224	62,802
Loans	1,397	-	-	1,397
Derivatives	-	-	(13,560)	(13,560)
Other	13	109	153	275
Total	11,001	15,687	42,135	68,823

	2014			
	INTEREST AND SIMILAR INCOME $'000	DIVIDENDS AND DISTRIBUTIONS $'000	NET FAIR VALUE GAINS / LOSSES $'000	TOTAL $'000
Cash and debt securities	7,043	26	(2,515)	4,554
Unit trusts	-	10,548	11,654	22,202
Loans	1,532	-	-	1,532
Derivatives	-	-	11,825	11,825
Other	2	19	(14)	7
Total	8,577	10,593	20,950	40,120

9. EXPENSES

	2015 $'000	2014 $'000
(a) Insurance claims and related reinsurance		
Claims expense	96,416	90,247
Reinsurance recoveries	(74,706)	(71,084)
Total claims expense	21,710	19,163
(b) Commission and operating expenses		
Commission expense	48,999	46,891
Employee benefit expense		
Wages and salaries and other short term benefits	24,381	22,617
Employee share purchase scheme (note 24)	25	45
Other employee costs	3,527	3,090
Remuneration of auditors (appointed auditor: PricewaterhouseCoopers)		
Audit of statutory financial statements	396	324
Audit of solvency return	37	7
Tax compliance services	67	32
Tax advisory services	-	23
Other services[1]	29	30
Other professional fees		
Directors' fees	761	461
Other	1,246	3,517
Information technology and communication fees	3,329	4,272
Advertising and marketing	1,304	1,220
Adviser costs	3,430	3,626
Bad and doubtful debts expense	42	101
Direct rental property expenses	310	565
Operating lease costs	198	633
Depreciation (note 17)	1,107	870
Amortisation		
Acquired in-force business (note 19)	474	469
Software (note 19)	1,168	848
Impairment		
Internally developed software (note 19)	894	-
Other expenses	6,771	8,267
Total commission and operating expenses	98,495	97,908

1. Other services include indicative valuation of shares and executive remuneration benchmarking.

During the normal course of business, management has written off receivables from advisers' commission accounts where the agencies have been terminated. In addition, as disclosed under note 16, the Company has decreased its provision for impairment of the mortgages and loans portfolio, and advisers' commission accounts by $83,000 (2014: decrease of $221,000). These amounts are included in bad and doubtful debts expense.

10. OPERATING EXPENSE APPORTIONMENT

The following table shows a summary of the commission and management expense apportionment between life insurance contracts, life investment contracts and the non-statutory fund:

	2015 $'000	2014 $'000
Life insurance contracts		
Acquisition costs		
Commissions	22,915	25,116
Other expenses	21,606	20,060
Maintenance costs		
Commissions	15,539	13,166
Other expenses	24,960	23,514
Corporate financing activities[1]	-	3,012
	85,020	84,868
Life investment contracts		
Acquisition costs		
Commissions	4,750	2,813
Movement in deferred acquisition cost	11	(5)
Other expenses	4	3
Maintenance costs		
Commissions	2,763	2,426
Other expenses	265	155
Investment management expenses	813	826
	8,606	6,218
Non-statutory fund commission and operating expenses	4,869	6,822
Total commission and operating expenses	98,495	97,908

1. During the 2014 year the Company completed corporate financing activites in respect of the purchase of policies from TOWER Health & Life Limited and TOWER Life (N.Z.) Limited and the acquisition of the remaining shares in TriMax Assurance Services Limited.

11. INCOME TAX EXPENSE

	2015 $'000	2014 $'000
(a) Income tax expense		
Current tax	7,619	9,587
Deferred tax	1,230	152
Adjustment to prior period deferred tax	(25)	(57)
	8,824	9,682
Tax expense attributed to policyholders	3,881	7,532
Tax expense attributed to shareholders	4,943	2,150
Total tax expense	8,824	9,682
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Net profit before income tax expense from continuing operations	32,630	28,337
Tax at the New Zealand tax rate of 28% (2014: 28%)	9,136	7,934
Tax effect of non-taxable income	(16,675)	(5,795)
Tax effect of non-deductible expenses	16,989	7,850
Benefit of imputation credits received	(630)	(294)
Prior period adjustment	4	(13)
Income tax expense	8,824	9,682

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

(c) Imputation credit account

	2015 $'000	2014 $'000
Imputation credits available for use in subsequent reporting periods	228	173

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

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

	2015			2014		
	EFORE TAX $'000	DEFERRED TAX CHARGE $'000	AFTER TAX $'000	BEFORE TAX $'000	DEFERRED TAX CHARGE $'000	AFTER TAX $'000
Fair value gains on revaluation – land and building	1,779	(498)	1,281	144	(40)	104
Employee share purchase plan expense	25	-	25	45	-	45
	1,804	(498)	1,306	189	(40)	149

11. INCOME TAX EXPENSE (CONTINUED)

(e) Income tax asset

	2015 $'000	2014 $'000
Income tax prepaid[1]	3,881	3,881
Current tax asset	1,570	-
Tax benefit recognised on acquired policies[2]	104	4,042
	5,555	7,923

1. Income tax prepaid of $3,881,000 (2014: $3,881,000) is recognised in the consolidated statement of financial position. 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.
2. The tax benefit of $104,000 reflects the benefit accruing to the Company as a result of the tax concessions for life insurance policies written prior to 30 June 2010 on the acquired policies.

12. CHANGES IN THE COMPOSITION OF THE GROUP

There were no acquistions or divestments during the financial year ended 30 June 2015.

On 30 June 2015 TriMax Assurance Services Limited and the Parent amalgamated.

During the year ended 30 June 2014 the following operations were divested or discontinued:

(a) On 23 August 2013, the Company sold the Management Rights in the Fidelity KiwiSaver Scheme to GIML and Grosvenor Financial Services Group Limited ('GFSGL') for consideration of $16.5m comprising $11.0m cash and $5.5m shares in GFSGL.

The revenue and expenses relating to the management rights are disclosed in the consolidated income statement as a discontinued operation and are made up as follows:

	2014 $'000
(Loss) after tax on operations	(19)
Gain on sale of management rights	16,500
Net discontinued operations income after tax	16,481

(b) The activities of Fidelity Capital Guaranteed Bond Limited were discontinued following the maturity of the Capital Guaranteed Bond on 15 July 2013.

During the year ended 30 June 2014 the following were acquired:

(a) The life insurance policies from TOWER Health & Life Limited and the group risk business of TOWER Life (N.Z.) Limited on 1 August 2013.

(b) On 4 December 2013, the Company acquired the remaining shares of TriMax Assurance Services Limited.

13. CASH AND CASH EQUIVALENTS

	2015 $'000	2014 $'000
Cash at bank and in hand		
Bank balances	15,721	18,270
Deposits at call	20,286	8,809
Total cash and cash equivalents	36,007	27,079

14. ASSETS ARISING FROM REINSURANCE CONTRACTS

	2015 $'000	2014 $'000
Life insurance contracts reinsurance assets		
Carrying amount at 1 July	21,540	12,091
Reinsurance claims on opening acquired policies	-	3,017
Reinsurance claims made to reinsurers	49,882	43,967
Payments received from reinsurers	(52,512)	(37,535)
Carrying amount at 30 June (expected to mature within 12 months)	18,910	21,540

15. FAIR VALUES OF FINANCIAL INSTRUMENTS

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 statement 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:

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

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (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 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 assets and liabilities

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, foreign exchange forward contracts and foreign currency swaps.

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 are estimated on the basis of the quoted market prices for similar instruments in an active market or quoted prices for identical or similar instruments in inactive markets.

(iv) 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.

(v) Financial assets and liabilities at fair value through profit or loss and held for trading

The Group's assets and liabilities measured at 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 asset or liabilities' fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement.

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 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.

Where observable inputs are not available, the instrument is included in level 3.

15. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table shows the Group's financial assets and liabilities through profit or loss categorised by fair value measurement hierarchy levels:

	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000	TOTAL FAIR VALUE $'000
As at 30 June 2015				
Assets				
Financial assets at fair value through profit or loss				
Debt securities				
Local Authority	-	10,332	-	10,332
New Zealand Government	-	19,090	-	19,090
Corporate – New Zealand	-	116,276	-	116,276
Unitised funds	-	273,255	-	273,255
Total debt securities	-	418,953	-	418,953
Equity securities				
Corporate – New Zealand	-	-	5,565	5,565
Unitised funds	-	226,816	-	226,816
Total equity securities	-	226,816	5,565	232,381
Financial assets at fair value through profit or loss	-	645,769	5,565	651,334
Derivative financial instruments				
Forward currency	-	1,104	-	1,104
Foreign currency swaps	-	2,912	-	2,912
Interest rate swaps	-	1,766	-	1,766
Total derivative financial instruments	-	5,782	-	5,782
Total financial assets at fair value	-	651,551	5,565	657,116
Liabilities				
Derivative financial instruments				
Forward currency	-	11,479	-	11,479
Foreign currency swaps	-	74	-	74
Total derivative financial instruments	-	11,553	-	11,553
Life investment contract liabilities	-	-	569,891	569,891
Total financial liabilities at fair value	-	11,553	569,891	581,444

15. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000	TOTAL FAIR VALUE $'000
As at 30 June 2014				
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
Total financial assets at fair value	804	511,870	5,500	518,174
Derivative financial instruments				
Forward currency	-	2,057	-	2,057
Interest rate swaps	-	49	-	49
Total derivative financial instruments	-	2,106	-	2,106
Total financial assets at fair value	804	513,976	5,500	520,280
Liabilities				
Derivative financial instruments				
Forward currency	-	5	-	5
Put options	-	205	-	205
Total derivative financial instruments	-	210	-	210
Life investment contract liabilities	-	-	438,647	438,647
Total financial liabilities at fair value	-	210	438,647	438,857

The notional principal amounts of outstanding derivatives at 30 June 2015 were:

- foreign exchange contracts $220,516,000 (2014: $141,001,000)
- foreign exchange swaps $21,650,000 (2014: $8,836,000)
- interest rate swaps $25,000,000 (2014: $25,000,000)

15. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table shows movements in the fair value of financial instruments categorised as level 3:

	BALANCE AT THE BEGINNING OF THE YEAR $'000	NET FAIR VALUE GAINS $'000	PURCHASES/ DEPOSITS $'000	WITHDRAWALS $'000	BALANCE AT THE END OF THE YEAR $'000
2015					
Assets classified as level 3[1]					
Equity securities	5,500	65	-	-	5,565
Liabilities classified as level 3					
Life investment contract liabilities	438,647	48,720	132,838	(50,314)	569,891
2014					
Assets classified as level 3[1]					
Equity securities	-	-	5,500	-	5,500
Liabilities classified as level 3					
Life investment contract liabilities	338,214	20,042	122,773	(42,382)	438,647

1. At 30 June 2015, Level 3 equity securities includes shares in Grosvenor Financial Services Group Limited ('GFSGL') valued at $5,565,000 (2014: $5,500,000). GFSGL is an unlisted entity.

Throughout the year GFSGL shares were traded in the open market, at a price ranging from $3.35 to $3.50 per share, the majority of which were at $3.40 per share including a single significant parcel shares.

At the time of acquiring the shares in GFSGL, the Company entered into a put option to sell the shares back to GFSGL for a fixed price of $3.36 per share within ten days of 23 August 2015. Subsequent to balance date the Company has entered into an agreement to extend the option for an additional twelve months, at a revised price of $3.60 per share.

At 30 June 2015 the Company believes the most appropriate proxy for fair value is the current market value as evidenced by the share trades made during the financial year. Th e current value of the price per share at 30 June 2015 is $3.40 (2014: $3.36).

16. LOANS AND OTHER RECEIVABLES

	2015 $'000	2014 $'000
Mortgage and advisers' loans	17,329	22,557
Policy loans	90	94
Other loans	655	1,198
Total loans	18,074	23,849
Less provision for impairment on loans[1]	(619)	(702)
Net loans receivable	17,455	23,147
Other receivables		
Proceeds due from sale of investments	54	50
Outstanding premiums	3,848	4,180
Prepayments	5,830	2,773
Interest due on loans	260	239
Other interest due	1,233	-
Reinsurance receivable	8,713	1,889
Sundry receivables	296	333
Total other receivables	20,234	9,464
Total loans and other receivables	37,689	32,611
Expected maturity		
Within 12 months	26,523	16,498
Later than 12 months	11,166	16,113
	37,689	32,611

1. The provisions are 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 (2014: nil).

The creation and release of the provision for impaired receivables has been included in other expenses in the consolidated income statement. 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.

17. PROPERTY, PLANT AND EQUIPMENT

	OWNER-OCCUPIED PROPERTY MEASURED AT FAIR VALUE $'000	BUILDING FIT OUT AND IMPROVEMENTS $'000	PLANT & EQUIPMENT $'000	TOTAL $'000
At 1 July 2013				
Cost/Valuation	9,047	1,057	3,235	13,339
Accumulated depreciation	-	(911)	(2,307)	(3,218)
Net book amount	9,047	146	928	10,121
Year ended 30 June 2014				
Opening net book amount	9,047	146	928	10,121
Additions	210	90	1,257	1,557
Transfer from investment property	10,335	-	-	10,335
Revaluation	144	-	-	144
Depreciation	(236)	(76)	(558)	(870)
Disposals	-	-	(46)	(46)
Closing net book amount	19,500	160	1,581	21,241
At 1 July 2014				
Cost/Valuation	19,500	1,147	4,362	25,009
Accumulated depreciation	-	(987)	(2,781)	(3,768)
Net book amount	19,500	160	1,581	21,241
Year ended 30 June 2015				
Opening net book amount	19,500	160	1,581	21,241
Additions	127	44	667	838
Transfer in	-	-	62	62
Revaluation	1,779	-	-	1,779
Depreciation	(406)	(29)	(672)	(1,107)
Disposals	-	(21)	(42)	(63)
Closing net book amount	21,000	154	1,596	22,750
At 30 June 2015				
Cost/Valuation	21,000	1,121	4,937	27,058
Accumulated depreciation	-	(967)	(3,341)	(4,308)
Net book amount	21,000	154	1,596	22,750

17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(a) Owner-occupied property fair value

The property comprises a commercial office building located in Auckland.

The movements in the property were:

	2015 $'000	2014 $'000
Opening balance	19,500	19,250
Additions	127	294
Unrealised gains recognised in consolidated income statement	-	48
Unrealised gains recognised in consolidated statement of comprehensive income	1,779	144
Depreciation	(406)	(236)
Closing balance	21,000	19,500

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 valuer uses the open market value as the basis for the valuation.

The property was valued on 30 June 2015 at $21.0m (2014: $19.5m), by P R Amesbury (ANZIV, SPINZ) an independent registered valuer in the firm of Barratt-Boyes Jefferies Lawton Limited.

	2015	2014
Primary assumptions used in valuing the property		
Capitalisation rate[1]	6.25%	6.75%
Discount rate[2]	8.50%	8.50%

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.

(b) If the property was stated on the historical cost basis, the amounts would be as follows:

	2015 $'000	2014 $'000
Cost	17,985	17,858
Accumulated depreciation	(1,883)	(1,477)
Net book amount	16,102	16,381

18. DEFERRED TAX

The balance comprises temporary differences attributable to:

DEFERRED TAX ASSETS	PAYABLES AND OTHER FINANCIAL LIABILITIES $'000	UNUSED TAX LOSSES $'000	TOTAL $'000
Group			
Balance at 30 June 2013	1,475	15,513	16,988
Movement through the consolidated income statement	(180)	7,369	7,189
Deferred tax on business combination	116	-	116
Balance at 30 June 2014	1,411	22,882	24,293
Movement through the consolidated income statement	136	5,477	5,613
Balance at 30 June 2015	1,547	28,359	29,906

	2015 $'000	2014 $'000
Deferred tax assets to be recovered:		
Later than 12 months	28,359	22,882
Within 12 months	1,547	1,411
	29,906	24,293

18. DEFERRED TAX (CONTINUED)

DEFERRED TAX LIABILITIES	FINANCIAL ASSETS VALUED THROUGH PROFIT OR LOSS $'000	PROPERTY, PLANT AND EQUIPMENT $'000	POLICYHOLDER LIABILITIES $'000	DEFERRED ACQUISITION COSTS $'000	OTHER[1] $'000	TOTAL $'000
Balance at 30 June 2013	-	594	1,245	24,948	(25)	26,762
Movement through the consolidated income statement	842	(3)	355	6,116	(25)	7,285
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	842	631	1,594	34,408	(50)	37,425
Movement through the consolidated income statement	209	(78)	(928)	6,435	1,189	6,827
Movement through other comprehensive income	-	498	-	-	-	498
Balance at 30 June 2015	1,051	1,051	666	40,843	1,139	44,750

1. "Other" includes intangible assets and deferred income.

	2015 $'000	2014 $'000
Deferred tax liabilities to be settled:		
Later than 12 months	43,699	36,583
Within 12 months	1,051	842
	44,750	37,425

19. INTANGIBLE ASSETS

	SOFTWARE $'000	INTERNALLY DEVELOPED SOFTWARE $'000	OTHER INTANGIBLES[1] $'000	TOTAL $'000
At 1 July 2013				
Cost	1,301	3,294	6,927	11,522
Accumulated amortisation	(1,012)	(998)	(5,223)	(7,233)
Net book amount	289	2,296	1,704	4,289
Year ended 30 June 2014				
Opening net book amount	289	2,296	1,704	4,289
Additions	576	2,649	11	3,236
Amortisation	(257)	(591)	(469)	(1,317)
Closing net book amount	608	4,354	1,246	6,208
At 1 July 2014				
Cost	1,877	5,943	6,938	14,758
Accumulated amortisation	(1,269)	(1,589)	(5,692)	(8,550)
Net book amount	608	4,354	1,246	6,208
Year ended 30 June 2015				
Opening net book amount	608	4,354	1,246	6,208
Additions	298	1,844	-	2,142
Amortisation	(330)	(838)	(474)	(1,642)
Transfer out	(62)	-	-	(62)
Impairment charge	-	(894)	-	(894)
Closing net book amount	514	4,466	772	5,752
As at 30 June 2015				
Cost	2,105	7,199	6,054	15,358
Accumulated amortisation	(1,591)	(2,733)	(5,282)	(9,606)
Net book amount	514	4,466	772	5,752

1. Other intangibles comprise acquired value of in-force business ('AVIF') and deferred acquisition costs (investment contracts).

Internally developed software

Software includes internally developed software. This relates to the development of significant, identifiable and unique software utilised by the 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 each six months to determine if any impairment has occurred on the outstanding unamortised amount. Impairment charges have been recognised in the 2015 financial year of $894,000 (2014: nil).

The impairment loss of $894,000 represents the write down of internally developed software projects due to project and methodology changes.

AVIF

The AVIF from the acquisition of FMLL has been determined by an actuarial valuation and relates to the future anticipated profits emerging from the life insurance contracts.

An impairment review is undertaken each six months to determine if any impairment has occurred on the outstanding unamortised amount. No impairment charge has been recognised in the 2015 financial year (2014: nil).

20. PAYABLES AND OTHER FINANCIAL LIABILITIES

	NOTE	2015 $'000	2014 $'000
Creditors and accruals		8,036	6,881
Claims notified		20,922	18,918
Income in advance		153	245
Premiums in advance		461	231
Reinsurance liabilities		21,223	17,754
Employee entitlements		3,540	3,754
Employee share purchase plan provision	39	204	580
		54,539	48,363
Expected maturity			
Within 12 months		54,248	47,802
Later than 12 months		291	561
Total payables and other financial liabilities		54,539	48,363

21. LIFE INSURANCE CONTRACT LIABILITIES/(ASSET)

	2015 $'000	2014 $'000
Opening balance at 1 July	(66,132)	16,622
Asset acquired as part of business combination	-	(76,405)
Premiums received	195,451	185,037
Liabilities released for payments on death, surrender and other terminations in the year	(96,416)	(90,254)
Non-investment commission	(38,454)	(38,229)
Expenses other than commission	(46,566)	(47,363)
Other movements	(56,265)	(15,540)
Closing balance at 30 June	(108,382)	(66,132)
Life insurance contract liabilities ceded under reinsurance		
Opening balance at 1 July	7,490	(47,217)
Movement in consolidated income statement	21,448	54,707
Closing balance at 30 June	28,938	7,490
Net of reinsurance life insurance contract liabilities	(79,444)	(58,642)
Expected maturity		
Within 12 months	663	899
Later than 12 months	(80,107)	(59,541)
	(79,444)	(58,642)
Life insurance contracts with a discretionary participation feature that have a guaranteed element	34,045	32,291
Life insurance contract liabilities contain the following components		
Future policy benefits	1,008,475	755,510
Future expenses	388,643	277,835
Reinsurance policy liability	28,938	7,490
Planned margins of revenues over expenses	262,735	151,344
Future revenues	(1,768,235)	(1,250,821)
	(79,444)	(58,642)

22. LIFE INVESTMENT CONTRACT LIABILITIES

	2015 $'000	2014 $'000
Participating contracts — guaranteed element	212,689	199,920
Non-participating contracts designated at fair value	357,202	238,727
	569,891	438,647
Movement in life investment contract liabilities		
Opening balance at 1 July	438,647	338,214
Contributions received	137,953	127,150
Fees deducted from account balances	(5,115)	(4,377)
Liabilities released for payments on death, surrender and other terminations in the year	(50,314)	(42,382)
Investment return credited to policyholders	49,430	23,602
Other movements	(710)	(3,560)
Closing balance at 30 June	569,891	438,647
Expected maturity		
Within 12 months	378,041	255,499
Later than 12 months	191,850	183,148
	569,891	438,647

23. DEFERRED INCOME

	2015 $'000	2014 $'000
Balance at 1 July	6,150	-
Income deferred during the year	-	6,776
Amortisation	(683)	(626)
Balance at 30 June	5,467	6,150

The deferred income has arisen as part of the reinsurance treaties entered into during the 2014 financial year. This income is being recognised over 10 years.

24. SHARE CAPITAL

	2015 SHARES	2014 SHARES	2015 $'000	2014 $'000
(a) Authorised share capital				
Ordinary shares – fully paid. No par value	1,439,267	1,439,267	13,913	13,512
(b) Movements				
Opening balance of ordinary shares issued	1,439,267	1,439,082	13,512	13,186
Issues of ordinary shares during the year	-	185	-	24
Employee share purchase plan fully vested shares (note 39)	-	-	376	257
Employee share purchase plan expense	-	-	25	45
Closing balance of ordinary shares issued	1,439,267	1,439,267	13,913	13,512
Held:				
Directly	1,435,612	1,426,907		
Employee share purchase plan trust	3,655	12,360		
Total balance of ordinary shares held	1,439,267	1,439,267		

(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.

25. RETAINED EARNINGS AND RESERVES

(a) Retained earnings

Movements in retained earnings were as follows:

	2015 $'000	2014 $'000
Balance at 1 July	171,176	140,357
Profit for the year	23,806	35,136
Dividends (note 26)	(4,534)	(4,317)
Balance at 30 June	190,448	171,176

(b) Revaluation reserve

Movements in the revaluation reserve were as follows:

	2015 $'000	2014 $'000
Balance at 1 July	1,273	1,169
Owner occupied land and buildings revaluation, net of tax	1,281	104
Balance at 30 June	2,554	1,273

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

26. DIVIDENDS

	2015 PER SHARE	2014 PER SHARE	2015 $'000	2014 $'000
Ordinary shares				
Final dividend	3.15	3.00	4,534	4,317
Total dividend paid	3.15	3.00	4,534	4,317

On 3 September 2015 the Company declared an ordinary dividend of $3.31 (gross of tax) per share issued amounting to $4,763,974 (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 2015.

27. 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.

	2015 '000	2014 '000
Profit attributable to equity holders of the Company	$23,806	$18,655
Profit from discontinued operations attributable to equity holders of the Company	-	$16,481
Weighted average number of ordinary shares in issue	1,439	1,439

	2015 $	2014 $
Basic earnings per share		
From continuing operations	16.54	12.96
From discontinued operations	-	11.45

(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.

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

	2015 $'000	2014 $'000
Net profit after taxation	23,806	35,136
Non cash items		
(Gains) on sale of property and equipment	(13)	(18)
Profit on sale of operations	-	(16,384)
Fair value (gains) on investment property	-	(48)
Fair value (gains) on investments	(46,562)	(8,187)
Depreciation of property and equipment	1,107	870
Equity compensation plans, equity settled expense	25	45
Amortisation of acquired value of in-force business and intangibles	1,642	838
Impairment of acquired value of in-force business and intangibles	894	463
Realisation adjustment to Senior Bonds	-	87
	(19,101)	12,802
Changes in working capital		
Decrease/(increase) in reinsurance assets	2,630	(9,449)
Increase in life insurance liabilities and life investment contracts	110,442	80,495
Receipts from major contracts[1]	-	68,748
(Increase)/decrease in other assets	(10,733)	58,743
(Decrease)/increase in income tax balances	(156)	5,447
Increase/(decrease) in other liabilities	6,560	(47,727)
Decrease/(increase) in derivatives	7,667	(3,596)
Cash flows from operating activities	97,309	165,463

1. Initial commission received from the reinsurance treaties for the cessation of future cash flows, and funding for a proportionate share of working capital balances relating to the acquired policies.

29. 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.

2015			
	INVESTMENT LINKED $'000	NON-INVESTMENT LINKED $'000	TOTAL STATUTORY FUND $'000
Investment assets	520,920	106,332	627,252
Other assets	48,971	103,451	152,422
Policy liabilities	569,891	(79,444)	490,447
Liabilities other than policy liabilities	-	110,063	110,063
Shareholders' retained earnings	-	179,164	179,164
Premium revenue and contributions received	132,838	200,566	333,404
Investment revenue	62,492	5,485	67,977
Claims expense and investment contracts payments	50,314	96,416	146,730
Other operating expenses	8,606	85,020	93,626
Investment revenues paid or allocated to policyholders	(49,430)	-	(49,430)
Operating profit before tax	4,178	28,906	33,084
Operating profit after tax	297	23,694	23,991

2014			
	INVESTMENT LINKED $'000	NON-INVESTMENT LINKED $'000	TOTAL STATUTORY FUND $'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

30. FINANCIAL INSTRUMENTS BY CATEGORY

Assets as per the consolidated statement of financial position

	ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND HELD FOR TRADING $'000	LOANS AND OTHER RECEIVABLES $'000	TOTAL $'000
Year ended 30 June 2015			
Financial assets at fair value through profit or loss	651,334	-	651,334
Derivative financial instruments (held for trading)	5,782	-	5,782
Loans and other receivables	-	31,859	31,859
Cash and cash equivalents	-	36,007	36,007
Assets arising from reinsurance contracts	-	18,910	18,910
	657,116	86,776	743,892
Year ended 30 June 2014			
Financial assets at fair value through profit or loss	518,174	-	518,174
Derivative financial instruments (held for trading)	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

Liabilities as per the consolidated statement of financial position

	LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS AND HELD FOR TRADING $'000	MEASURED AT AMORTISED COST $'000	TOTAL $'000
Year ended 30 June 2015			
Life investment contract liabilities	569,891	-	569,891
Derivative financial instruments (held for trading)	11,553	-	11,553
Payables and other financial liabilities	-	50,181	50,181
	581,444	50,181	631,625
Year ended 30 June 2014			
Life investment contract liabilities	438,647	-	438,647
Derivative financial instruments (held for trading)	210	-	210
Payables and other financial liabilities	-	43,553	43,553
	438,857	43,553	482,410

31. INVESTMENT IN SUBSIDIARIES

The Parent holds the following interests in subsidiaries

COMPANY	NATURE OF ACTIVITIES	CLASS OF SHARES	OWNERSHIP 2015	OWNERSHIP 2014
Fidelity Capital Guaranteed Bond Limited	Non-trading Investment Company	Ordinary	100%	100%
Fidelity Fund Management Limited	Non-trading Trustee Company	Ordinary	100%	100%
Life and Advisory Services Limited	Investment Services	Ordinary	100%	100%
TriMax Assurance Services Limited[1]	Insurance Broker	Ordinary	N/A	100%

1. On 30 June 2015 TriMax Assurance Services Limited and the Company amalgamated to become Fidelity Life Assurance Company Limited under Part XIII of the Companies Act 1993.

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

32. RELATED PARTY TRANSACTIONS

(a) Parent entity

The ultimate parent entity of 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; Brian Blake.

(c) Key management personnel compensation

Key management personnel compensation for the year ended 30 June 2015 and the year ended 30 June 2014 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.

	2015 $'000	2014 $'000
Short term benefits	4,429	3,759
Total	4,429	3,759

(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.

	2015 $'000	2014 $'000
Loans to key management personnel, or entities related to them, comprise:		
Secured loans:		
Secured loans at 1 July	777	1,273
Secured loans advanced during the year	-	102
Loan repayments received - secured loans	(4)	(598)
Secured loans at 30 June	773	777
Interest revenue from secured loans	51	45

All transactions are at arm's length.

32. RELATED PARTY TRANSACTIONS (CONTINUED)

(e) Transactions with related parties

The following transactions occurred with related parties:

	2015 $'000	2014 $'000
Loans to shareholders comprise:		
Secured loans:		
Secured loans at 1 July	2,351	2,433
Secured loans advanced during the year	4	357
Loan repayments received – secured loans	(1,168)	(439)
Secured loans at 30 June	1,187	2,351
Interest revenue from secured loans	139	144

All transactions are at arm's length.

	2015 $'000	2014 $'000
Commission paid to related parties comprise:		
Shareholders as at 30 June who held agency agreements with the Company	5,434	3,711
	5,434	3,711

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:

	2015 $'000	2014 $'000
Loans made to shareholders	1,187	2,351
Adviser accounts with shareholders		
Due to shareholder	(95)	(27)

32. RELATED PARTY TRANSACTIONS (CONTINUED)

(g) Terms and conditions

Secured loans

The secured loans are for periods of up to 25 years repayable in cash, at interest rates of 6.5% per annum (2014: 5.7% per annum), and are secured by first mortgages over individuals' residences or investment properties.

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.

Loans made to shareholders

Loans secured by mortgages over properties or other assets are made to shareholders during the normal course of business and are at arm's length. In the year the average annual interest rate was 6.5% (2014: 5.7%) on a mixture of fixed and floating rates. The loans are for periods of up to 25 years.

33. GUARANTEES

Fidelity KiwiSaver Scheme – Capital Guaranteed Kiwi Fund

The Company provided a guarantee to the Trustee (Public Trust) for the benefit of members who held Units in the Capital Guaranteed Kiwi Fund ('CGK Fund') of the Fidelity KiwiSaver Scheme ('Scheme'). Under the guarantee the Company guaranteed that on 31 March 2015 the Unit Value of the CGK Fund would be not less than it was on 31 March 2014, which was $2.5696.

The Company was 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 had to be authorised investments for the CGK Fund and were valued in accordance with the valuation methodology set out in the Scheme's Trust Deed.

The guarantee expired on 7 April 2015 with no cost to the Company.

Fidelity KiwiSaver Scheme

The Company provided a death benefit to members of the Scheme. If a member died while they were a member of the Scheme, on application by the member's personal representatives, the Company would "top up" the death payment to $10,000 if the member was eligible.

The Company's obligations to provide the death benefit ceased on 19 November 2014 when GIML merged the Fidelity KiwiSaver scheme into the Grosvenor KiwiSaver scheme. During the period of the guarantee there was no cost to the Company as each of GIML and GFSGL had agreed to indemnify the Company for any losses arising in respect of the death benefit.

34. CONTINGENCIES

The Group had no contingent liabilities or assets as at 30 June 2015 (2014: nil).

35. COMMITMENTS

(a) Capital commitments

There were no material capital commitments at balance date other than those disclosed elsewhere in the financial statements (2014: nil).

(b) Operating lease commitments:

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

	2015 $'000	2014 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	265	122
Later than one year but not later than five years	761	309
Later than five years	50	6
	1,076	437

During the year the Group entered into lease agreements for the Wellington and Christchurch commercial office spaces and a photocopier rental.

(c) Operating leases: Group as lessor

Leases are for commercial office space in Auckland.

	2015 $'000	2014 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are receivable as follows:		
Within one year	172	263
Later than one year but not later than five years	-	175
	172	438

36. RESTRICTIONS ON ASSETS

Fidelity Life operates under IPSA which requires that its life business is conducted within statutory funds.

Investments held in the life statutory fund can only be used in accordance with the relevant regulatory restrictions imposed under IPSA and associated rules and regulations. The main restrictions are that the assets in a life statutory fund can only be used to meet the liabilities and expenses of the life statutory fund, to acquire investments to further the business of the life statutory fund or as distributions provided solvency, capital adequacy and other regulatory requirements are met.

36. RESTRICTIONS ON ASSETS (CONTINUED)

The following table shows a summary of the consolidated balances of the Company's statutory fund, Fidelity Life Statutory Fund Number 1:

	2015 $'000	2014 $'000
Income Statement		
Insurance premium revenue	200,566	185,037
Insurance premium ceded to reinsurers	(108,974)	(100,073)
Fee and commission income	2,055	2,291
Investment income	67,977	39,728
Other income	14,714	15,471
Claims expense	(96,416)	(90,247)
Reinsurance recoveries	74,706	71,084
Commission and management expenses	(93,626)	(91,086)
Net change in life insurance contract liabilities	20,802	19,841
Net change in life investment contract liabilities	(48,720)	(20,042)
Income tax expense	(9,093)	(10,405)
Net income after tax attributable to shareholder equity (non-participating)	23,991	21,599
Assets		
Cash and cash equivalents	33,741	24,123
Assets arising from reinsurance contracts	18,910	21,540
Financial assets at fair value through profit or loss	627,252	497,187
Derivative financial instruments	5,782	2,106
Loans and other receivables	35,941	30,589
Property, plant and equipment	22,750	21,241
Deferred tax assets	28,014	23,020
Intangible assets	5,615	5,968
Other assets	1,669	1,948
Total assets	779,674	627,722
Liabilities		
Payables and other financial liabilities	48,293	41,425
Current tax liabilities	-	3,056
Derivative financial instruments	11,553	210
Deferred tax liabilities	44,750	37,773
Life insurance contract liabilities	(108,382)	(66,132)
Life insurance contract liabilities ceded under reinsurance	28,938	7,490
Life investment contract liabilities	569,891	438,647
Deferred income	5,467	6,150
Total liabilities	600,510	468,619
Net Assets	179,164	159,103

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

37. FIDUCIARY ACTIVITIES

Fidelity Fund Management Limited, a wholly owned subsidiary, acts as a trustee for a number of superannuation funds. The Company manages $417,045,000 (2014: $290,477,000) on behalf of this subsidiary.

During the 2015 financial year three of the four superannuation schemes were wound up.

38. EVENTS OCCURRING AFTER BALANCE DATE

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

- On 3 September 2015 the Company declared an ordinary dividend of $3.31 per share (refer note 26 for further details).

39. 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. Shares were issued to the Scheme at an issue price based on the fair value of the shares at the date of issue. 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.

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 remaining shares will be vested from the Trust on 31 March 2016.

The Scheme entitled employees to purchase shares in Fidelity Life Assurance Company Limited at a discount. This discount is recorded by the Group as an employee benefit expense. Refer to note 9 for the expense incurred by the Group for the year.

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

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.

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

	2015 NUMBER	2014 NUMBER	2015 $'000	2014 $'000
Held by Trust at 1 July	12,360	20,900	580	837
Shares vested from Trust	(8,705)	(8,540)	(376)	(257)
Balance at 30 June	3,655	12,360	204	580

At 30 June 2015, 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	2007	3,655	83.75	55.84

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 1 to 61, which comprise the consolidated statement of financial position as at 30 June 2015, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement 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 the Group. The Group comprises the Company and the entities it controlled at 30 June 2015 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards 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's preparation and fair presentation of the financial statements 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'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 are independent of the Group. Our firm carries out other services for the Group in the areas of other assurance related, tax advisory and other advisory services. In addition, certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group. These matters have not impaired our independence as auditor of the Group.

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Independent Auditors' Report

Fidelity Life Assurance Company Limited

Opinion

In our opinion, the financial statements on pages F2 to F61 present fairly, in all material respects, the financial position of the Group as at 30 June 2015, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Restriction on Use of our Report

This report is made solely to the Company's shareholders, as a body, in accordance with the Companies Act 1993. Our audit work has been undertaken so that we might state 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
3 September 2015

APPOINTED ACTUARY'S REVIEW OF FIDELITY LIFE ASSURANCE COMPANY LIMITED

at 30 June 2015

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 group financial statements is reviewed by the appointed actuary.

In relation to Financial Statements for Fidelity Life Assurance Company Limited for the year ended 30 June 2015 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 2014 (RBNZ, December 2014).

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 2,750 shares in Fidelity Life Assurance Company Limited (2014: 2,700).

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 group financial statements at and in the year to 30 June 2015 has been appropriately included in those statements;

(ii) the actuarial information used in the preparation of the group financial statements at and in the year to 30 June 2015 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 SMITH
Appointed Actuary

3 September 2015

Fidelity Life

We're protecting the New Zealand way of life – today and tomorrow.

Flip the book over to find out how.