Fidelity Life Assurance Company Limited

Consolidated Financial Statements

for the year ended 30 June 2016

Fidelity Life Assurance Company Limited
Consolidated income statement
for the year ended 30 June 2016

	Note	2016 $'000	2015 $'000
Continuing operations			
Revenue			
Insurance premium revenue	5	**222,733**	200,566
Insurance premium ceded to reinsurers	5	**(112,898)**	(108,974)
Net premium revenue		**109,835**	91,592
Investment income	6	**19,265**	22,652
Fee and commission income	5	**3,777**	3,423
Other income	5	**12,844**	14,813
Total revenue		**145,721**	132,480
Expenses			
Claims expense	7	**102,066**	96,416
Reinsurance recoveries	7	**(74,380)**	(74,706)
Net claims expense		**27,686**	21,710
Commission and operating expenses	7	**98,985**	92,481
Net change in life insurance contract assets	18	**(22,963)**	(20,802)
Net change in life investment contract liabilities	19, 9	**1,268**	10,366
Total expenses		**104,976**	103,755
Profit before tax from continuing operations		**40,745**	28,725
Income tax expense	8	**13,122**	6,895
Profit after tax from continuing operations		**27,623**	21,830
Profit after tax for the year from discontinued operations	9	**6,399**	1,976
Profit for the year attributable to the owners of the Company	4	**34,022**	23,806
Basic and diluted earnings per share		**$**	$
From continuing operations	28	**19.19**	15.17
From discontinued operations	28	**4.45**	1.37

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

Fidelity Life Assurance Company Limited
Consolidated statement of comprehensive income
for the year ended 30 June 2016

	Note	2016 $'000	2015 $'000
Profit for the year		**34,022**	23,806
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation movement, net of tax		**497**	1,281
Employee share purchase scheme		**6**	25
Other comprehensive income for the year, net of tax		**503**	1,306
Total comprehensive income for the year attributable to the owners of the Company		**34,525**	25,112
Total comprehensive income for the year attributable to the owners of the Company arises from:			
Continuing operations		**28,126**	23,136
Discontinued operations	9	**6,399**	1,976
		34,525	25,112

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

Fidelity Life Assurance Company Limited
Consolidated statement of financial position
as at 30 June 2016

	Note	2016 $'000	2015 $'000
Assets			
Cash and cash equivalents	11	**8,319**	36,007
Assets arising from reinsurance contracts	12	**16,952**	18,910
Financial assets at fair value through profit or loss	13	**268,319**	651,334
Derivative financial instruments	13	**5,649**	5,782
Life insurance contract assets	18	**145,756**	108,382
Loans and other receivables	14	**31,319**	37,689
Property, plant and equipment	15	**22,918**	22,750
Income tax assets	8	**3,684**	5,555
Deferred tax assets	8	**28,656**	29,906
Intangible assets	16	**7,752**	5,752
Total assets		**539,324**	922,067
Liabilities			
Payables and other financial liabilities	17	**50,657**	54,539
Current tax liabilities	8	**3,856**	14
Derivative financial instruments	13	**17**	11,553
Deferred tax liabilities	8	**53,925**	44,750
Life insurance contract liabilities ceded under reinsurance	18	**43,349**	28,938
Life investment contract liabilities	19	**145,857**	569,891
Deferred income	20	**4,783**	5,467
Total liabilities		**302,444**	715,152
Net assets		**236,880**	206,915
Equity			
Share capital	21	**14,123**	13,913
Retained earnings		**219,706**	190,448
Revaluation reserve		**3,051**	2,554
Total equity		**236,880**	206,915

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

For and on behalf of the Board
8 September 2016

Ian Braddock
Chairman

Brian Blake
Director

Fidelity Life Assurance Company Limited
Consolidated statement of changes in equity
for the year ended 30 June 2016

	Note	Share capital $'000	Retained earnings $'000	Revaluation reserve $'000	Total equity $'000
Balance at 1 July 2014		13,512	171,176	1,273	185,961
Profit for the year		-	23,806	-	23,806
Other comprehensive income		25	-	1,281	1,306
Total comprehensive income for the year		25	23,806	1,281	25,112
Transaction with owners					
Share capital vested from employee share purchase scheme	10	376	-	-	376
Dividends	21	-	(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
Balance at 1 July 2015		**13,913**	**190,448**	**2,554**	**206,915**
Profit for the year		-	**34,022**	-	**34,022**
Other comprehensive income		**6**	-	**497**	**503**
Total comprehensive income		**6**	**34,022**	**497**	**34,525**
Transactions with owners					
Share capital vested from employee share purchase scheme	10	**204**	-	-	**204**
Dividends	21	-	**(4,764)**	-	**(4,764)**
Total transactions with owners		**204**	**(4,764)**	-	**(4,560)**
Balance at 30 June 2016		**14,123**	**219,706**	**3,051**	**236,880**

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

Fidelity Life Assurance Company Limited
Consolidated statement of cash flows
for the year ended 30 June 2016

	Note	2016 $'000	2015 $'000
Cash flows from operating activities			
Premiums from life insurance contracts		**221,822**	201,131
Deposits from life investment contracts		**104,494**	132,838
Reinsurance received		**78,311**	77,958
Interest received		**8,106**	9,768
Dividends and distributions received		**12,653**	15,683
Other investment income		**136**	2,791
Other income		**17,532**	19,624
Benefits paid under life insurance contracts		**(105,127)**	(94,412)
Benefits paid under life investment contracts		**(38,933)**	(50,314)
Reinsurance premiums paid		**(114,065)**	(107,413)
Commission paid		**(53,543)**	(53,986)
Payments to suppliers and employees		**(48,854)**	(48,073)
Income tax paid		**(3,590)**	(8,286)
Net cash inflows from operating activities		**78,942**	97,309
Cash flows used in investing activities			
Net proceeds from sales/(purchases) of financial assets		**(69,731)**	(80,942)
Purchase of intangible assets		**(4,155)**	(2,142)
Purchase of property, plant and equipment		**(649)**	(838)
Proceeds from sale of property, plant and equipment		**64**	75
Cash transferred with discontinued operations	9	**(36,895)**	-
Proceeds on sale of discontinued operations	9	**9,500**	-
Net cash (outflows) used in investing activities		**(101,866)**	(83,847)
Cash flows from financing activities			
Ordinary dividends paid		**(4,764)**	(4,534)
Net cash (outflows) used in financing activities		**(4,764)**	(4,534)
Net increase in cash and cash equivalents		**(27,688)**	8,928
Cash and cash equivalents at the beginning of the financial year		**36,007**	27,079
Cash and cash equivalents at the end of the financial year	11	**8,319**	36,007

Fidelity Life Assurance Company Limited
Consolidated statement of cash flows (continued)
for the year ended 30 June 2016

Reconciliation of net profit after taxation to cash flows from operating activities

	2016 $'000	2015 $'000
Net profit after taxation	**34,022**	23,806
Non cash items		
Gains on sale of property and equipment	**(5)**	(13)
Fair value (gains) on investments	**(1,714)**	(46,562)
Gain on sale of discontinued operations	**(10,726)**	-
Depreciation of property, plant and equipment	**1,112**	1,107
Equity compensation plans, equity settled expense	**6**	25
Amortisation of acquired value of in-force business and intangibles	**1,920**	1,642
Impairment of acquired value of in-force business and intangibles	**236**	894
Total non cash items	**(9,171)**	(42,907)
Changes in working capital		
Increase in life insurance and life investment contract assets and liabilities	**45,718**	113,072
Decrease / (increase) in other assets	**7,676**	(10,733)
Increase / (decrease) in income tax balances	**16,138**	(156)
Increase / (decrease) in other liabilities	**(4,568)**	6,560
(Increase) / decrease in derivatives	**(10,873)**	7,667
Total changes in working capital	**54,091**	116,410
Cash flows from operating activities	**78,942**	97,309

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') 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 8 September 2016. The directors do not have the power to amend the consolidated financial statements once issued.

2. Summary of significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, modified by the revaluation of certain assets and liabilities as stated.

The functional and presentational currency of the Group is New Zealand dollars. All values in the consolidated financial statements and notes are rounded to the nearest thousand ($000), except when otherwise indicated.

Statement of compliance

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 with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS'), as appropriate for profit oriented entities. The consolidated financial statements also comply with International Financial Reporting Standards ('IFRS').

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

Discontinued operations

As required by NZ IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' with the sale of part of the Company's operations the amounts related to the discontinued operations have been reclassified from their respective line items in the consolidated income statement for the current and prior periods to one net amount "Profit after tax for the year from discontinued operations". The consolidated cash flow statement continues to include cash flows from discontinued operations and is not restated. Refer to note 9 for full details of the sale and discontinued operations.

Statutory fund

ISPA requires that a life insurer keep at least one statutory fund in respect of its life insurance business. The Company has established one statutory fund 'Fidelity Life Statutory Fund Number 1' (the 'Statutory Fund'). The activities of the Statutory Fund are reported in aggregate with non-statutory fund amounts in these consolidated financial statements. For details of the Statutory Fund refer to note 30.

Principles of consolidation

Subsidiaries are all entities controlled by the Group. Control is achieved when the Group 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 Group. They are deconsolidated from the date that control ceases.

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

Foreign currency translation

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.

2. Summary of significant accounting policies (continued)

Goods and Services Tax (GST)
The consolidated income statement and the consolidated cash flow statement have been prepared so that the components are stated exclusive of GST. All items in the consolidated statement of financial position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

Accounting policies
Accounting policies that summarise the measurement basis used and are relevant to the understanding of the consolidated financial statements are provided throughout the accompanying notes.

The accounting policies adopted have been applied consistently throughout the periods presented in these consolidated financial statements. Certain comparative information has been reclassified to conform with the current year's presentation.

Critical accounting estimates and judgements
Preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates. Estimates and associated assumptions are based on historical experience and other factors, as appropriate to the particular circumstances. The Group reviews the estimates and assumptions on an ongoing basis.

Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are shown below:

(a) Life insurance and life investment contract assets and liabilities
Liabilities and assets arising from life insurance, and related reinsurance, and life investment contracts are calculated at each reporting date using mathematical and statistical models. The policyholder liabilities valuations are made by suitably qualified members 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 calculation 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;
- Long term interest rates which affects the rate at which cash flows are discounted; and
- Other factors such as regulation, competition, the performance of the capital markets and general economic conditions.

Actual experience will vary from the liability calculated at the reporting date.

Refer to note 3 for more detail on the valuation of the policyholder liabilities and the assumptions applied.

(b) Deferred tax
Significant judgement is required in determining the Group's deferred tax liabilities and tax assets. In arriving at the deferred tax amounts, 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.

Refer to note 8 for the deferred tax accounting policy.

3. Actuarial methods and policies

The actuarial reports on policyholder liabilities and solvency reserves for the years ended 30 June 2016 and 30 June 2015 were prepared by the Appointed Actuary, John Smith MSc FNZSA FIAA, and peer reviewed by Davies Financial and Actuarial Limited. They are satisfied as to the accuracy of the data from which the amount of the life insurance contract liabilities has been determined.

The value of the policyholder liabilities has been determined in accordance with Professional Standard 20 issued by the New Zealand Society of Actuaries and the requirements of NZ IFRS 4 Insurance Contracts.

The projection method is used to determine life insurance contract assets and liabilities. The projection method uses expected cash flows (premiums, investment income, surrenders or benefits payments, expenses) plus profit margins to be released in future periods, to calculate the present value of life insurance contract assets and liabilities.

The accumulation method to determine liabilities has been used for all life investment contracts. A prospective reserve is held for the potential shortfall if the market value of assets backing policies is insufficient to cover guaranteed maturity benefits.

The key assumptions used in determining life insurance contract assets and liabilities are:

Discount rates

Discount rates	**At 30 June 2016**	At 30 June 2015
Discounted cash flows on renewable risk plans and level premium risk plans based on 10 year NZ Government bond rate – gross interest rate	**2.34%**	3.62%
Non-participating assurances – net interest rate	**1.68%**	2.61%
Claim reserves and provisions for investment guarantees – gross interest rate	**2.34%**	3.62%
Annuities – net interest rate	**1.68%**	2.61%
Participating plans with reversionary bonuses. Derived from expected after-tax return on the assets backing the participating fund	**2.60%**	3.25%

Solvency reserves discount rates	**At 30 June 2016**	At 30 June 2015
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	**2.34%**	3.62%
Insurance risk capital requirement – after tax	**1.68%**	2.61%
Participating plans – risk free rate	**1.68%**	2.61%

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.

Profit carriers

Policies are divided into related product groups with profit carriers and profit margins as follows:

Product type	**Carrier**
Risk	Expected claims payments
Savings business	Funds under management/investment management expenses
All other policies	Bonuses

3. Actuarial methods and policies (continued)

Maintenance expenses

Future 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. Future inflation has been assumed to be 2.0% p.a. (2015: 2.0%) for determining future expenses and inflation linked increases in benefits and premiums.

Tax

The rates of tax enacted or substantially enacted at the date of the valuation are assumed to continue into the future. The corporate tax rate used is 28% (2015: 28%). Life insurance assets and liabilities are calculated gross of tax with a separate liability being held for tax.

Mortality rates

	At 30 June 2016	At 30 June 2015
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
Level Term and Acquired Policies[1.]	**90% of base mortality table**	100% of base mortality table
Smoker status Non-smoker Smoker	 **90% of base table** **220% of base table**	 90% of base table 180% of base table
Guaranteed acceptance plans	**550% of base table up to age 55, falling to 250% 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	**250% of the base table**	200% of the base table
Participating plans	**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

[1.] During 2014 life insurance policies were acquired from TOWER Health & Life Limited and TOWER Life (N.Z.) Limited.

Morbidity rates

	At 30 June 2016	At 30 June 2015
Trauma claims	**87.5% of current reinsurance rates**	100% of reinsurance rates
Capitalised value of Income Protection claims		
Acquired policies	**Adjusted CIDA85 tables**	Adjusted CIDA85 tables
All other policies	**85% of current reinsurance rates**	70% of reinsurance rates
Total and Permanent Disability rates	**82.5% current of reinsurance rates**	60% of reinsurance rates

3. Actuarial methods and policies (continued)

Rates of discontinuance

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

	2016			2015		
	Year 1 -2	**Year 3 - 7**	**Year 8 +**	Year 1 - 2	Year 3 - 7	Year 8 +
Yearly Renewable Term: Lump sum	**10% - 12%**	**10% - 16%**	**10% - 12%**	7.0%-9.0%	7.0%-12.5%	7.0%-10.0%
Yearly Renewable Term: Income Protection	**11.5% - 15%**	**14.5% - 18%**	**13% - 14%**	9.0%-12.0%	11.0%-15.5%	11.0%-12.0%
Whole of Life and Endowments including participating contracts	**3.0%**	**3.0%**	**3.0%**	3.0%	3.0%	3.0%
Level Term	**12.0%**	**5.5%**	**4.0%**	12.0%	5.0%	3.5%
Automatic acceptance with premiums limited to ten years	**20.0%**	**8.5%**	**1.0%**	20.0%	7.0%	0.0%
Automatic acceptance with level or reviewable premiums	**25.0%**	**12.5%**	**7.5%**	25.0%	10.0%	5.0%

A rate of 2% (2015: 2%) for each year over age 70 is assumed in addition to the above rates.

	2016			2015		
	Year 10 - 14	**Year 15**	**Year 16 +**	Year 10 -14	Year 15	Year 16 +
Premium Payback policies	**2.0%**	**12.0%**	**4.0%**	2.0%	12.0%	4.0%

In 2016 no shock lapse assumption was applied to assumed base lapse rates of acquired policies. In 2015 it was assumed that additional shock lapses of 2.0% would apply.

Surrender values

Surrender values are based on the provisions specified in the policy contracts and include a recovery of policy establishment and maintenance costs. It is assumed that the current surrender value bases will be maintained.

Participating business

Assumed future bonus rates per annum for the major classes of individual participating business were:

	At 30 June 2016	At 30 June 2015
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 plans with reversionary bonuses - supportable bonus rate	**0.49% of the sum assured and reversionary bonus.**	0.58% of the sum assured and reversionary bonus.
Participating plans with reversionary bonuses – current bonus declaration	**0.49%**	0.58%
Policyholder's share of the surplus in the participating pool	**83.3%**	83.3%

3. Actuarial methods and policies (continued)

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.

Changes to underlying assumptions

Assumptions used for measuring life insurance contract assets and 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.

The financial effect of a change in discount rates resulting from a change in market conditions is recognised in the year that the rates are changed. The financial effect of all other changes to assumptions is recognised in the consolidated income statement over the future years during which the services are provided to policy holders.

The impact of changes in actuarial assumptions made during the reporting period are:

	2016		2015	
Assumption change	**Effect on Future Profit Margins $'000**	**Effect on Life Insurance Contract Assets $'000**	Effect on Future Profit Margins $'000	Effect on Life Insurance Contract Assets $'000
Discontinuance rates	(39,746)	-	60,455	-
Premium rates	(8,439)	-	4,745	-
Mortality / Morbidity rates	2,063	-	(2,224)	-
Reinsurance rate increases	1,926	-	17,395	-
Other modelling changes	8,736	-	2,110	-
Discount rates	28,430	(5,931)	18,379	(2,877)

Assets backing life insurance and life investment business

Investment assets inside the Statutory Fund are divided into asset sectors and ownership is pooled across policyholders investing in a single sector portfolio, policyholders investing in multi-sector portfolio, participating policyholders and shareholders. Investment assets are administered in accordance with the Statement of Investment Policy & Objectives adopted by the Board and the Investment Policy & Procedures Manual adopted by the Investment Management Committee.

4. Sources of profit

	2016 $'000	2015 $'000
Profit after taxation arose from		
Life insurance contracts		
Planned margins of revenues over expenses	**19,727**	15,258
Difference between actual and assumed experience	**(2,814)**	1,257
Effects of changes in underlying assumptions	**6,120**	2,958
Investment earnings on assets in excess of life insurance contract	**5,323**	5,485
	28,356	24,958
Life investment contracts		
Difference between actual and assumed experience	**(669)**	376
Effects of changes in underlying assumptions	**(210)**	(79)
	(879)	297
Investment earnings on assets in excess of policyholder liabilities	**5,838**	3,948
Shareholder tax	**(9,592)**	(4,943)
Non-statutory fund (before tax)	**10,299**	(454)
Profit after taxation	**34,022**	23,806

5. Revenue

Accounting policies
Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group, and that the revenue and stage of completion of the transaction can be reliably measured.

Premium revenue

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

(ii) *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.

Outwards reinsurance
Premiums ceded to reinsurers under reinsurance contracts are recorded as an outwards reinsurance expense and recognised when they become due and payable in accordance with the terms and conditions of the reinsurance contracts. Where reinsurance is paid in advance the expense is recognised over the period of indemnity of the relevant 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.

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 fees, reinsurance treaty policy administration fee, and commission revenue is recognised when the service has been provided.

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

5. Revenue (continued)

	2016 $'000	2015 $'000
(a) Net premium revenue		
Insurance premium revenue	**222,733**	200,566
Insurance premium ceded to reinsurers	**(112,898)**	(108,974)
Total net premium revenue	**109,835**	91,592
(b) Fee and commission income		
Administration fees	**-**	10
Commission income	**3,777**	3,413
Total fee and commission income	**3,777**	3,423
(c) Other income		
Reinsurance treaty policy administration fee	**11,462**	13,751
Deferred income amortisation	**683**	683
Property income	**258**	261
Other income	**441**	118
Total other income	**12,844**	14,813

6. Investment income

Accounting policies
Interest income is recognised using the effective interest method.
Dividend and distribution income 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 on financial assets at fair value through profit or loss are recognised through the consolidated income statement.

	2016 $'000	2015 $'000
Dividends and distributions	**7,509**	6,148
Net realised and unrealised gains	**(760)**	15,544
Total unit trusts	**6,749**	21,692
Interest received	**4,194**	4,972
Net realised and unrealised gains	**3,822**	3,272
Total cash, loans and debt securities	**8,016**	8,244
Net realised and unrealised losses	**4,364**	(7,559)
Total derivatives	**4,364**	(7,559)
Other investment income	**136**	275
Total investment income	**19,265**	22,652

7. Expenses

(a) Insurance claims and related reinsurance

Accounting policies

Claims

Life insurance contract claims are recognised as an expense when a liability has been established. Claims under life investment contracts represent withdrawals of investment deposits and are recognised as a reduction in life investment contract liabilities.

Reinsurance recoveries

Reinsurance recoveries are recognised as revenue at the same time as the claim expense is recognised, if the underlying policy is reinsured.

Claim and reinsurance recoveries are as follows:	**2016** **$'000**	2015 $'000
Claims expense	**102,066**	96,416
Reinsurance recoveries	**(74,380)**	(74,706)
Total net claims expense	**27,686**	21,710

(b) Commission and operating expenses

Accounting policies

Commission and operating expenses are recognised in the consolidated income statement on an accruals basis, unless otherwise stated.

Expenses are categorised into acquisition, maintenance or investment management on the basis of a detailed functional analysis of activities carried out by the Group. Expenses are further categorised into life insurance and life investment expenses based on new business volumes (acquisition costs) and in-force volumes (maintenance and investment management costs).

(i) *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.

Where the overall product profitability of new life insurance 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 assets and amortised over the life of the policies written. Unamortised acquisition costs are a component of life insurance assets. Amortisation of acquisition costs is recognised in the consolidated income statement as a component of net change in life insurance contract assets at the same time as policy margins are released.

Commission that varies with and is directly related to securing new life investment 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 as part of net change in life investment contract assets.

(ii) *Maintenance costs*

Maintenance costs are the fixed and variable costs of administrating policies subsequent to sale. These include general growth and development costs.

(iii) *Investment management expenses*

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.

Operating 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.

7. Expenses (continued)

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:

	2016 $'000	2015 $'000
Life insurance contracts		
Acquisition costs		
Commissions	**27,753**	22,915
Other expenses	**23,794**	21,606
Maintenance costs		
Commissions	**17,813**	15,539
Other expenses	**22,218**	24,960
	91,578	85,020
Life investment contracts		
Acquisition costs		
Commissions	**95**	559
Movement in deferred acquisition cost	**-**	11
Other expenses	**1**	2
Maintenance costs		
Commissions	**533**	517
Other expenses	**1,056**	1,112
Investment management expenses	**608**	391
	2,293	2,592
Non Statutory Fund commission and operating expenses	**5,114**	4,869
Total commission and operating expenses	**98,985**	92,481

Included within commission and other operating expenses are the following:

	2016 $'000	2015 $'000
Commission expense	**48,947**	43,562
Wages and salaries and other employee costs	**27,731**	27,833
Remuneration of auditors (appointed auditor: PricewaterhouseCoopers)		
Audit of statutory financial statements	**335**	396
Audit of solvency return	**37**	37
Tax compliance services	**50**	67
Tax advisory services	**93**	-
Other services[1]	**25**	29
Directors' fees	**526**	761
Other professional fees	**1,175**	1,246
Bad and doubtful debts expense	**24**	42
Operating lease costs	**226**	198
Depreciation (note 15)	**1,112**	1,107
Amortisation (note 16)	**1,920**	1,642
Impairment of intangible assets (note 16)	**236**	894

[1] Other services include provision of an indicative valuation of shares and executive remuneration benchmarking. In addition to the above $13,500 was incurred for accounting advice provided in the sale of Fidelity Super Super Plan Number 3, included in discontinued operations (refer note 9).

8. Taxation

Accounting policies

Current and deferred income tax

Income tax expense comprises current and deferred tax, calculated using the tax rate enacted or substantially enacted at balance date and any adjustments to tax payable in respect of prior years. Income tax expense is recognised in the consolidated income statement except when it relates to items recognised directly in the statement of comprehensive income, in which case the tax expense is recognised in the statement of comprehensive income.

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 the policy holders.

Deferred tax expense is recognised in respect of temporary differences between the carrying amounts of assets and liabilities in the financial statements and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent it is probable that it will 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.

The taxation expense in the consolidated income statement is analysed as follows:

	2016	2015
	$'000	$'000
Profit before tax from continuing operations	**40,745**	28,725
Tax at the New Zealand income tax rate of 28% (2015: 28%)	**11,409**	7,874
Tax effect of non-taxable income	**(965)**	(7,015)
Tax effect of non-deductible expenses	**3,924**	6,250
Benefit of imputation credits received	**(409)**	(218)
Prior period adjustment	**(837)**	4
Income tax expense reported in the consolidated income statement	**13,122**	6,895
Comprising:		
Current tax	**2,890**	5,741
Deferred tax	**10,232**	1,154
	13,122	6,895
Tax expense attributed to policyholders	**3,611**	2,003
Tax expense attributed to shareholders	**9,511**	4,892
	13,122	6,895

8. Taxation (continued)

The taxation expense relating to components of other comprehensive income is as follows:

	2016 $'000 Before tax	**2016 $'000** Deferred Tax expense	**2016 $'000** After tax	2015 $'000 Before tax	2015 $'000 Deferred Tax expense	2015 $'000 After tax
Fair value gains on revaluation - land and building	**690**	**(193)**	**497**	1,779	(498)	1,281
Employee share purchase plan expense	**6**	**-**	**6**	25	-	25
	696	**(193)**	**503**	1,804	(498)	1,306

	2016 $'000	2015 $'000
Income tax assets		
Income tax prepaid[1]	**3,587**	3,881
Current tax asset	**-**	1,570
Tax benefit recognised on acquired policies	**97**	104
Total income tax assets	**3,684**	5,555

[1] The income tax prepaid amount 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 the amount and it will not be utilised in the next financial year.

	2016 $'000	2015 $'000
Current tax liabilities		
Current tax liabilities	**(3,856)**	(14)
Total current tax liabilities	**(3,856)**	(14)

Deferred tax
The balance comprises temporary differences attributable to:

Deferred tax assets	**Payables and other financial liabilities $'000**	**Unused tax losses $'000**	**Total $'000**
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**
Movement through the consolidated income statement	**(49)**	**(1,201)**	**(1,250)**
Balance at 30 June 2016	**1,498**	**27,158**	**28,656**

	2016 $'000	2015 $'000
Deferred tax assets to be recovered:		
Within 12 months	**1,498**	1,547
Later than 12 months	**27,158**	28,359
	27,158	28,359

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8. Taxation (continued)

Deferred tax liabilities	Financial assets at fair value through profit or loss	Property, plant and equipment	Life insurance contract assets	Deferred acquisition costs[1]	Other[2]	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 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
Movement through the consolidated income statement	**(687)**	**(118)**	**119**	**8,207**	**1,461**	**8,982**
Movement through other comprehensive income	**-**	**193**	**-**	**-**	**-**	**193**
Balance at 30 June 2016	**364**	**1,126**	**785**	**49,050**	**2,600**	**53,925**

[1] Deferred acquisition costs are a component of life insurance contract assets.

[2] "Other" includes intangible assets and deferred income.

	2016	2015
	$'000	$'000
Deferred tax liabilities to be settled:		
Within 12 months	**364**	1,051
Later than 12 months	**53,561**	43,699
	53,925	43,699

Imputation credits

	2016	2015
	$'000	$'000
Imputation credits available for use in subsequent reporting periods based on a tax rate of 28%	**74**	228

9. Discontinued operations

On 1 April 2016, the Company completed the sale of the shares in Fidelity Fund Management Limited ('FFML') to Grosvenor Financial Services Group Limited ('GFSGL') so that GFSGL could assume the operation of the Fidelity Super Super Plan, Number 3 ('Scheme').

The financial performance and cash flow information relating to the discontinued operation are for the nine months ended 31 March 2016 and the year ended 30 June 2015.

	2016	2015
	$'000	$'000
Revenue		
Fee and commission income	1,692	2,102
Investment income	9,056	46,171
Total revenue	10,748	48,273
Expenses		
Commission and operating expenses	5,098	6,014
Net change in life investment contract liabilities	3,566	38,354
Total expenses	8,664	44,368
Profit before tax from discontinued operations	2,084	3,905
Income tax expense	6,411	1,929
Net discontinued operations income after tax	(4,327)	1,976
Gain on sale of the shares in FFML before income tax	10,726	-
Income tax expense	-	-
Gain on sale of the shares in FFML after income tax	10,726	-
Profit from discontinued operations	6,399	1,976
Cash flows from operating activities	85,007	109,092
Cash flows used in investing activities	(105,026)	(89,720)
Total cash (outflows) / inflows	(20,019)	19,372

Details of the sale of the shares in FFML, and assets and liabilities transferred.

	$'000
Consideration received or receivable	
Cash	9,500
Fair value of unsecured loan	1,863
Total disposal consideration	11,363
Carrying amount of assets and liabilities transferred	
Cash and cash equivalents	36,895
Financial assets at fair value through profit or loss	455,705
Loans and other receivables	652
Derivative financial instruments	(530)
Life investment contract liabilities	(492,715)
Net carrying amount of assets and liabilities transferred	7
Sale expenses	630
Gain on sale before income tax	10,726
Income tax	-
Gain on sale after income tax	10,726

9. Discontinued operations (continued)

As part of the consideration for the sale, the Company has loaned $2.0m to GFSGL. The loan is for a period of two years and has a fixed rate of interest of 2.5% per annum. The loan is unsecured.

The purchase price is subject to a claw back provision if revenue falls below agreed levels within the first two years of sale completion. The total claw back for the period cannot exceed $2.0m. At the date of the financial statements the Company does not believe that there will be any claw back under this provision.

Trustee fiduciary activities performed by the Group ceased on sale of the discontinued activities. The Group managed funds of $492,715,000 up to 31 March 2016 (2015: $417,045,000).

10. Share based compensation

Accounting Policy

Historically the Group operated an equity-settled share-based compensation scheme under 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 had 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.

The Fidelity Life Employee Share Purchase Scheme was established by the Company in 1988 to offer employees the right to purchase shares at a discount in return for employee services. The shares are held in trust for employees. No shares have been allocated since 2007 and the final shares were vested from the Scheme on 31 March 2016. The Scheme was wound up on 5 May 2016.

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

	2016 Number	2015 Number	**2016 $'000**	2015 $'000
Balance at 1 July	**3,655**	12,360	**204**	580
Shares vested from Scheme	**(3,655)**	(8,705)	**(204)**	(376)
Balance at 30 June	**-**	3,655	**-**	204

11. Cash and cash equivalents

Accounting policy

Cash and cash equivalents are held with banks and financial institutions. The assets are short term in nature and the carrying value is approximately equal to their fair value.

Cash flow

The following are the definitions of the terms used in the consolidated 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 investments.

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

Cash and cash equivalents comprise:	**2016 $'000**	2015 $'000
Bank balances	**8,319**	15,721
Deposits at call	**-**	20,286
Total cash and cash equivalents	**8,319**	36,007

12. Assets arising from reinsurance contracts

Accounting policy
Assets arising from reinsurance contracts are recognised initially at fair value and subsequently measured at amortised cost less any provision for impairment.

	2016 $'000	2015 $'000
Life insurance contracts reinsurance assets		
Balance at 1 July	**18,910**	21,540
Reinsurance claims made to reinsurers	**55,332**	49,882
Payments received from reinsurers	**(57,290)**	(52,512)
Balance at 30 June (expected to be recovered within 12 months)	**16,952**	18,910

13. Financial instruments

Accounting Policies

Basis of measurement and recognition
The Group classifies financial instruments into one of the following categories: at fair value through profit or loss; held for trading; loans and other receivables; financial liabilities at fair value through profit or loss; and financial liabilities at amortised cost. The classification depends on the purpose for which the financial instruments were acquired. All assets backing life insurance policies are designated at fair value through profit or loss. Management determines the classification of its financial instruments at initial recognition and re-evaluates this designation at each reporting date.

Some of these categories require measurement at fair value. 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. Where available, quoted market prices are used as a measure of fair value. Where quoted values do not exist, fair values are estimated using present values or other market accepted valuation techniques, using methods and assumptions that are based on market conditions and risks existing at balance date.

Financial instruments classified as at fair value through profit or loss are presented in the statement of consolidated financial position at their fair value. For all other financial instruments carrying value approximates fair value.

Financial assets at fair value through profit or loss
Investments held by the Group are recognised at fair value at inception through profit or loss because they back life insurance contract liabilities and life investment contract liabilities. Subsequent gains and losses from fair value remeasurement of the investments are recognised in investment income in the consolidated income statement.

Held for trading
Forward currency contracts are used to reduce the Group's exposure to currency movements affecting the market value of the Group's investments denominated in foreign currencies.

Derivatives used by the Group include interest rate swaps, forward currency contracts and foreign currency swaps.

Derivative financial instruments are recorded at fair value through profit or loss, based on market accepted valuation techniques using observable market inputs. Subsequent gains and losses arising from the fair value remeasurement of derivative financial instruments are recognised immediately in investment income in the consolidated income statement.

Purchases and sales of financial instruments are recognised on trade date, the date on which the Group commits to purchase or sell. For financial assets not carried at fair value through profit or loss, assets are initially recognised at fair value plus transaction costs.

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.

13. Financial instruments (continued)

Accounting Policies (continued)

Financial liabilities at fair value through profit or loss
The carrying value of life investment contract liabilities reasonably approximates their fair value. Refer to note 19 for further details on the basis of the valuation.

Offsetting financial assets and financial liabilities
The Group offsets financial assets and financial liabilities and reports the net balance in the statement of financial position where there is a legally enforceable right of set off, and there is the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial instruments by category

Financial assets	Assets at fair value through profit or loss and held for trading	Loans and other receivables	Total
	$'000	$'000	$'000
Year ended 30 June 2016			
Cash and cash equivalents	**-**	**8,319**	**8,319**
Assets arising from reinsurance contracts	**-**	**16,952**	**16,952**
Financial assets at fair value through profit or loss	**268,319**	**-**	**268,319**
Derivative financial instruments (held for trading)	**5,649**	**-**	**5,649**
Loans and other receivables	**-**	**27,291**	**27,291**
	273,968	**52,562**	**326,530**
Year ended 30 June 2015			
Cash and cash equivalents	-	36,007	36,007
Assets arising from reinsurance contracts	-	18,910	18,910
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
	657,116	86,776	743,892

Financial liabilities	Liabilities at fair value through profit or loss and held for trading	Liabilities at amortised cost	Total
	$'000	$'000	$'000
Year ended 30 June 2016			
Payables and other financial liabilities	**-**	**47,347**	**47,347**
Derivative financial instruments (held for trading)	**17**	**-**	**17**
Life investment contract liabilities	**145,857**	**-**	**145,857**
	145,874	**47,347**	**193,221**
Year ended 30 June 2015			
Payables and other financial liabilities	-	50,181	50,181
Derivative financial instruments (held for trading)	11,553	-	11,553
Life investment contract liabilities	569,891	-	569,891
	581,444	50,181	631,625

13. Financial instruments (continued)

Fair values of financial instruments

The following table shows the Group's financial assets and liabilities at fair value through profit or loss categorised by fair value measurement hierarchy levels. The levels are as follows:
Level 1:
Fair values are determined using quoted market prices where an active market exists.
Level 2:
Where quoted market prices are not available or markets are considered inactive, fair values have been estimated using present value or other techniques based on market conditions existing at balance date. The valuation techniques rely on market observable inputs.
Level 3:
Fair values are estimated using inputs that are not based on observable market data.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total fair value $'000
As at 30 June 2016				
Assets				
Financial assets at fair value through profit or loss				
Debt securities				
Local Authority	-	3,400	-	3,400
New Zealand Government	-	10,389	-	10,389
Corporate - New Zealand	-	48,122	-	48,122
Unitised funds	-	148,468	-	148,468
Total debt securities	-	210,379	-	210,379
Equity securities				
Corporate - New Zealand	-	-	5,565	5,565
Unitised funds	-	52,375	-	52,375
Total equity securities	-	52,375	5,565	57,940
Financial assets at fair value through profit or loss	-	262,754	5,565	268,319
Derivative financial instruments				
Forward currency contracts	-	1,837	-	1,837
Interest rate swaps	-	3,812	-	3,812
Total derivative financial instruments	-	5,649	-	5,649
Total financial assets at fair value	-	268,403	5,565	273,968
Liabilities				
Derivative financial instruments				
Forward currency contracts	-	17	-	17
Total derivative financial instruments	-	17	-	17
Life investment contract liabilities	-	-	145,857	145,857
Total financial liabilities at fair value	-	17	145,857	145,874

13. Financial instruments (continued)

Fair values of financial instruments (continued)

	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	-	11,912	-	11,912
New Zealand Government	-	24,627	-	24,627
Corporate - New Zealand	-	109,159	-	109,159
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 contracts	-	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 contracts	-	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

The notional principal amounts of outstanding derivatives at 30 June 2016 were:

- forward currency contracts $51,904,000 (2015: $220,516,000)
- foreign currency swaps nil (2015: $21,650,000)
- interest rate swaps $25,000,000 (2015: $25,000,000)

13. Financial instruments (continued)

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
2016					
Assets classified as level 3					
Equity securities	**5,565**	-	-	-	**5,565**
Liabilities classified as level 3					
Life investment contract liabilities	**569,891**	**4,834**	**102,780**	**(531,648)**	**145,857**
2015					
Assets classified as level 3					
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**

At 30 June 2016, Level 3 equity securities includes shares in GFSGL valued at $5,565,000 (2015: $5,565,000). GFSGL is an unlisted entity. The Group believes the most appropriate proxy for fair value is the value evidenced by share trades made during the financial year. The current value of the price per share at 30 June 2016 is $3.40 (2015: $3.40).

14. Loans and other receivables

Accounting policy
Loans and other receivables are recognised initially at fair value and subsequently measured at amortised cost less any provision for impairment. A provision for impairment is established when there is evidence that the Group will not be able to collect all amounts due. When a receivable is uncollectable, it is written off against the provision.

	2016 $'000	**2015** $'000
Mortgage and loan balances	**15,886**	18,074
Less provision for impairment	**(697)**	(619)
Net loans receivable	**15,189**	17,455
Other receivables		
Outstanding premiums	**4,696**	3,848
Prepayments	**4,028**	5,830
Reinsurance receivable	**6,321**	8,713
Sundry receivables	**1,085**	1,843
Total other receivables	**16,130**	20,234
Total loans and other receivables	**31,319**	37,689
Expected maturity		
Within 12 months	**15,931**	26,523
Later than 12 months	**15,387**	11,166
	31,319	37,689

15. Property, plant and equipment

Accounting Policies

Property, plant and equipment

Land and buildings are carried at fair value based on annual valuation by an external independent valuer, less any subsequent depreciation for buildings.
All other property, plant and equipment is stated at cost less accumulated depreciation and impairment. The cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation

Depreciation is calculated using the straight-line method to allocate an asset's cost or revalued amount, net of any residual value, over the asset's estimated useful life. The rates are as follows:

Property building component	50 years
Building fit out	8 years
Leasehold improvements	8 years
Plant and equipment	3-5 years

Impairment of assets

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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.

Property, plant and equipment can be analysed as follows:

	Owner-occupied property measured at fair value $'000	Building fit out and improvements $'000	Plant and equipment $'000	Total $'000
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 1 July 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

15. Property, plant and equipment (continued)

	Owner-occupied property measured at fair value $'000	Building fit out and improvements $'000	Plant and equipment $'000	Total $'000
Year ended 30 June 2016				
Opening net book amount	21,000	154	1,596	22,750
Additions	-	33	615	648
Transfer in	-	-	-	-
Revaluation	690	-	-	690
Depreciation	(410)	(31)	(670)	(1,111)
Disposals	-	-	(59)	(59)
Closing net book amount	21,280	156	1,482	22,918
At 30 June 2016				
Cost/Valuation	21,280	1,154	5,386	27,820
Accumulated depreciation	-	(998)	(3,904)	(4,902)
Net book amount	21,280	156	1,482	22,918

Revaluation of property
The owner-occupied property is a commercial office building located in Auckland.

The valuation of the property is measured at fair value at each reporting date. The methodology used to value the property includes significant unobservable inputs (level 3 of the fair value hierarchy).

The property was valued on 30 June 2016 at $21.28m (2015: $21.0m), by P R Amesbury (ANZIV, SPINZ) an independent registered valuer in the firm of Barratt-Boyes Jefferies Lawton Limited. The open market value was used as the basis for the valuation.

Primary assumptions used in valuing the property

	2016	2015
Capitalisation rate[1]	**6.50%**	6.25%
Discount rate[1]	**8.00%**	8.50%

[1] The fair value of the property would increase if the capitalisation rate or the discount rate were to decrease and vice versa.

Revalued property historic cost
If the property was stated on the historical cost basis, the amounts would be as follows:

	2016 $'000	2015 $'000
Cost	**17,986**	17,985
Accumulated depreciation	**(2,295)**	(1,883)
Net book amount	**15,691**	16,102

16. Intangible assets

Accounting Policies

Software

Costs associated with developing identifiable and unique software controlled by the Group, including employee and contractor costs, are capitalised and treated as intangible assets when the products will generate probable future economic benefits. Acquired software licences are capitalised on the basis that they are costs incurred to acquire and use specific software. Internally developed software includes the costs of both implemented projects and any work in progress at the end of the year. Amortisation commences once the software is put into use.

Software costs are amortised over the useful life of 3 to 7 years on a straight-line basis.

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

The present value of future profits on a portfolio of life insurance and life investment contracts acquired as part of a business combination is recognised as an asset, AVIF.

AVIF costs are amortised over the useful life of the related contracts. The rate of amortisation is determined by considering the profit of the additional value of the in-force business acquired and the expected depletion in its value.

Impairment

Intangible assets are reviewed for impairment annually to identify events or changes in circumstances that indicate that the carrying amount may not be recoverable. If an asset's carrying amount is greater than its estimated recoverable amount, the carrying amount is written down to it's recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and the asset's value in use. Any impairment loss is recognised immediately in the consolidated income statement.

Intangible assets can be analysed as follows:

	Software	Internally developed software	AVIF	Total
	$'000	$'000	$'000	$'000
At 1 July 2014				
Cost	1,877	5,943	6,071	13,891
Accumulated amortisation	(1,269)	(1,589)	(4,825)	(7,683)
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	-	(894)	-	(894)
Closing net book amount	514	4,466	772	5,752
At 1 July 2015				
Cost	2,105	7,199	6,065	15,369
Accumulated amortisation	(1,591)	(2,733)	(5,293)	(9,617)
Net book amount	514	4,466	772	5,752
Year ended 30 June 2016				
Opening net book amount	**514**	**4,466**	**772**	**5,752**
Additions	**31**	**4,125**	**-**	**4,156**
Amortisation	**(354)**	**(1,103)**	**(463)**	**(1,920)**
Impairment	**(6)**	**(230)**	**-**	**(236)**
Closing net book amount	**185**	**7,258**	**309**	**7,752**
As at 30 June 2016				
Cost	**2,042**	**10,536**	**6,054**	**18,632**
Accumulated amortisation	**(1,857)**	**(3,278)**	**(5,745)**	**(10,880)**
Net book amount	**185**	**7,258**	**309**	**7,752**

17. Payables and other financial liabilities

Accounting Policies

Payables

Payables are liabilities for goods and services provided to the Group which are unpaid at reporting date. The carrying value of payables is considered to approximate fair value as amounts are unsecured and are usually paid within a month of recognition.

Refer to the accounting policy on Revenue (note 5), and Expenses (note 7) for further details.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

	Note	**2016** **$'000**	2015 $'000
Creditors and accruals		**7,100**	8,036
Claims notified		**17,861**	20,922
Income in advance		**461**	614
Reinsurance liabilities		**22,386**	21,223
Employee entitlements		**2,849**	3,540
Employee share purchase plan provision	10	-	204
Total payables and other financial liabilities		**50,657**	54,539
Expected maturity			
Within 12 months		**50,471**	54,248
Later than 12 months		**186**	291
		50,657	54,539

18. Life insurance contract assets and liabilities

Accounting Policies
Life insurance contracts are those contracts that transfer significant insurance risk. Contracts that contain a discretionary participation feature are also classified as life insurance contracts. A participating contract is eligible for a share of the value of future planned shareholder profit margins and an allowance for future supportable bonuses.
The methodology used to determine the value of life insurance contract assets and liabilities is referred to as Margin on Services ('MoS'), as set out in New Zealand Society of Actuaries Professional Standard No 20: Determination of Life Insurance Policyholder Liabilities ('PS20').
MoS is designed to recognise profits on life insurance policies as services are provided to policyholders and income is received. Under MoS, the planned profit margins of premium received less expenses is deferred and amortised over the life of the contract, whereas losses are recognised immediately.
Life insurance contract assets and 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.
The movement in life insurance contract assets and liabilities is recognised in the consolidated income statement.

	2016	2015
	$'000	$'000
Opening balance at 1 July	**(108,382)**	(66,132)
Premiums received	**218,711**	195,451
Liabilities released for payments on death, surrender and other terminations in the year	**(102,066)**	(96,416)
Commission and other expenses	**(91,578)**	(85,020)
Other movements	**(62,441)**	(56,265)
Closing balance at 30 June	**(145,756)**	(108,382)
Life insurance contract liabilities ceded under reinsurance		
Opening balance at 1 July	**28,938**	7,490
Movement in consolidated income statement	**14,411**	21,448
Closing balance at 30 June	**43,349**	28,938
Net of reinsurance life insurance contract assets	**(102,407)**	(79,444)
Expected maturity		
Within 12 months	**888**	663
Later than 12 months	**(103,295)**	(80,107)
	(102,407)	(79,444)
Life insurance contracts with a discretionary participation feature that have a guaranteed element	**35,130**	34,045
Life insurance contract assets contain the following components		
Future policy benefits	**1,093,131**	1,008,475
Future expenses	**427,174**	388,643
Reinsurance policy liability	**43,349**	28,938
Planned margins of revenues over expenses	**260,193**	262,735
Future revenues	**(1,926,254)**	(1,768,235)
	(102,407)	(79,444)

19. Life investment contract liabilities

Accounting Policies

Life investment contracts are those contracts with no significant insurance risk, but which give rise to a financial liability. Life investment contracts issued by the Group are unit-linked and are measured at fair value. The fair value of a unit-linked contract is determined by using the current unit values that reflect the fair values of the financial assets backing the contract, multiplied by the number of units attributed to the contract holder.

	2016	2015
	$'000	$'000
Movement in life investment contract liabilities:		
Opening balance at 1 July	**569,891**	438,647
Contributions received	**106,802**	137,953
Fees deducted from account balances	**(4,022)**	(5,115)
Liabilities released for payments on death, surrender and other terminations in the year	**(38,933)**	(50,314)
Investment return credited to policyholders	**4,988**	49,430
Liability transferred with discontinued operations (note 9)	**(492,715)**	-
Other movements	**(154)**	(710)
Closing balance at 30 June	**145,857**	569,891
Life investment contracts with a guaranteed element	**106,589**	212,689
Expected maturity		
Within 12 months	**51,691**	378,041
Later than 12 months	**94,166**	191,850
	145,857	569,891

20. Deferred income

	2016	2015
	$'000	$'000
Balance at 1 July	**5,467**	6,150
Amortisation	**(684)**	(683)
Balance at 30 June	**4,783**	5,467

The deferred income arose from the reinsurance treaties entered into during the 2014 financial year. This deferred income is being amortised over 10 years.

21. Share capital and dividends

Accounting policies

Share capital

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

Dividends

Ordinary dividends are recognised as a movement in equity in the year within which they are paid.
Where a dividend is declared after balance date, but prior to the issue of the financial statements, disclosure of the declaration is made but no liability is recognised for the amount.

Share capital

	2016	2015	**2016**	2015
	Shares	Shares	**$'000**	$'000
Share capital at the beginning of the year	**1,439,267**	1,439,267	**13,913**	13,512
Employee share purchase scheme fully vested shares (note 10)	-	-	**204**	376
Employee share purchase scheme expense	-	-	**6**	25
Closing balance	**1,439,267**	1,439,267	14,123	13,913

All shares are fully paid and have no par value. All ordinary shares rank equally and shareholders are entitled to receive one vote per share.

Dividends paid

	2016	2015	**2016**	2015
	Per share	Per share	**$'000**	$'000
Ordinary shares				
Final dividend	**3.31**	3.15	**4,764**	4,534
Total dividend paid	**3.31**	3.15	**4,764**	4,534

On 8 September 2016 the Board declared a final dividend of $3.48 (gross of tax) per ordinary share issued amounting to $5,008,649 (gross of tax). The dividends are not imputed. This dividend is not recognised in the financial statements as it is a post balance date event.

22. Capital management

The objectives of the Group with regard to capital management are to:
(i) Maintain a level of target surplus which creates a buffer over minimum regulatory capital while still allowing for efficient use of capital;
(ii) Maintain a strong capital base to cover the inherent risks of the business; and
(iii) Support the future development and growth of the business to maximise shareholder value.

The Board has the ultimate responsibility for managing capital and compliance with the Solvency Standard for Life Insurance Business 2014 issued by RBNZ. The Board approves the capital policy and minimum capital levels and limits. Minimum capital levels are set based on maintaining a target surplus in excess of solvency margin requirements under the Solvency Standard. The Company has two life funds, the Statutory Fund and the Non Statutory Fund. Under its licence, it is a requirement that actual solvency capital must at all times exceed the higher of $5 million or the minimum solvency capital. The solvency margin in each life fund must be at least $0.

During the years ended 30 June 2016 and 30 June 2015, the Company complied with all capital licensing requirements.

The Board Audit and Risk Committee oversees the capital computations and maintains the optimal capital structure by advising the Board on dividend payments and share issues. In addition, the Company manages its required level of capital through analysis and optimisation of the Company's product and asset mix, reinsurance programme, insurance risk exposure and investment strategy.

22. Capital management (continued)

The solvency position of the Company is as follows:

	2016			2015		
	Statutory Fund	**Non Statutory Fund**	**Total**	Statutory Fund	Non Statutory Fund	Total
	$'000	$'000	**$'000**	$'000	$'000	$'000
Actual solvency capital	**166,744**	**26,354**	**193,098**	145,010	17,073	162,083
Minimum solvency capital	**152,552**	**4,401**	**156,953**	130,615	2,751	133,366
Solvency margin	**14,192**	**21,953**	**36,145**	14,395	14,322	28,717
Solvency ratio	**109%**	**599%**	**123%**	111%	621%	122%

23. Disaggregated information

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

Disaggregated information for the Company's Statutory Fund is presented below.

2016	**Investment linked $'000**	**Non investment linked $'000**	**Total Statutory Fund $'000**
Investment assets	**128,269**	**109,136**	**237,405**
Other assets	**17,588**	**96,090**	**113,678**
Policy liabilities	**145,857**	**(102,407)**	**43,450**
Liabilities other than policy liabilities	**-**	**107,872**	**107,872**
Shareholders' retained earnings	**-**	**199,761**	**199,761**
Premium revenue and contributions received	**102,780**	**222,733**	**325,513**
Investment revenue	**13,226**	**14,485**	**27,711**
Claims expense and investment contracts payments	**38,933**	**102,066**	**140,999**
Other operating expenses	**7,393**	**91,578**	**98,971**
Investment revenues paid or allocated to policyholders	**4,988**	**-**	**4,988**
Operating profit before tax	**9,062**	**34,193**	**43,256**
Operating profit / (loss) after tax	**(879)**	**24,353**	**23,474**
Capital receipts / (distributions)	**-**	**(2,674)**	**(2,674)**
2015			
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
Capital receipts / (distributions)	-	(5,211)	(5,211)

24. Risk Management

Risk management framework

The Board of Directors (the 'Board') has responsibility for the establishment and oversight of the Group's risk framework. It also has the responsibility for approving the risk appetite of the Group and the risk related policies.

While the Board has ultimately responsible for risk management, specific responsibility for the monitoring and evaluation of the effectiveness of risk management is delegated to the Audit and Risk Committee who ensure that management have identified, measured and managed the Group's risks in accordance with the Group's policies and risk objectives.

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 and compliance business plan** forms part of the annual strategic and business planning documents, identifying the key risk management initiatives that need to be planned and budgeted for.

iv. The **risk register** allows Board, Audit & Risk Committee and Leadership Group 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 regularly reviewed to ensure it continues to effectively manage the Group's risks.

The Group's activities expose it to the following financial risks:

A. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, price risk and interest rate risk.

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. The Investment Committee oversees the selection of wholesale managers, construction of wholesale mandates and asset allocation within the permitted guidelines of the Statement of Investment Policy and Objectives ('SIPO').

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates.

Foreign currency risk arises as the Group has assets invested in foreign currencies. As at 30 June 2016 foreign currency denominated assets amounted to 12.1% (2015 33.7%) of total assets. The market value of these assets is therefore affected by movements in the New Zealand dollar relative to the currency in which the asset is denominated.

The Group uses foreign currency forward contracts to mitigate its exposure to currency risk from foreign denominated assets.

24. Risk Management (continued)

(ii) Price risk
Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices (other than those arising from interest rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer, or by factors affecting all similar financial instruments traded in the market.

The risk is managed by ensuring a diverse range of investments, limits on counterparty exposure and restrictions on types of instruments.

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. However, the Group derives fee income based on the value of the underlying funds: hence revenues are sensitive to changes in market value. For assets which are not contractually linked to policy liabilities, the Group is exposed to equity price risk.

(iii) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to:

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.

Mortgages and policy loans held by the Group are also subject to cash flow interest rate risk.

The Group manages its interest rate risk by using interest rate swaps which swap interest rates between floating and fixed.

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.

Sensitivity to market risk
The following table shows the change in profit after tax and the effect on equity if there was a change in market risk assumptions with all other variables assumed unchanged.

		2016		2015	
		$'000		$'000	
Market risks		**Impact on post tax profit**	**Impact on equity**	Impact on post tax profit	Impact on equity
Currency rates	Favourable by 10%	**174**	**174**	54	54
	Unfavourable by 10%	**(142)**	**(142)**	(44)	(44)
Equity prices	Favourable by 10%	**1,084**	**1,084**	473	473
	Favourable by 10%	**(1,084)**	**(1,084)**	(473)	(473)
Interest rates	Favourable by 10%	**(3,447)**	**(3,447)**	(2,876)	(2,876)
	Favourable by 10%	**3,036**	**3,036**	2,343	2,343

24. Risk Management (continued)

B. Insurance Risk

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

The Group's objectives in managing risks arising from its insurance business are:

- To ensure that an appropriate return on capital is made in return for accepting insurance risk.
- To ensure that internal controls are in place within the business to mitigate underwriting risk.
- To ensure that internal and external solvency and capital requirements are met.
- To use reinsurance as a component of insurance risk management strategy.

Controls implemented to manage insurance risk include:

Premium rates are set 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.

Underwriting decisions are made in accordance with the procedures detailed in the Group's underwriting manual.

Claim management procedures are in place to assist in the timely and correct payment of claims in accordance with policy conditions.

Reinsurance that caps the total amount payable on each claim to a predefined amount of risk is used to control the exposure of the Group to variation in the incidences of claims and concentration of risk. The Group also holds catastrophe reinsurance treaties 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.

24. Risk Management (continued)

Terms and conditions of insurance contracts

The nature of the terms of insurance contracts written is such that certain variables can be identified on which related cash flow payments depend. The table below provides an overview of these:

Type of contract	Detail of contract terms and conditions	Nature of compensation for claims	Key variables that affect the timing and uncertainty of future cash flows
Non-participating life insurance contracts with fixed and guaranteed terms	Benefits paid on death, ill health, disability or maturity that are fixed and guaranteed and not at the discretion of the insurer. Premiums may be guaranteed through the life of the contract, guaranteed for a specific term or variable at the insurer's discretion.	Benefits, defined by the life insurance contract, are determined by the contract and are not directly affected by the performance of underlying assets or the performance of contracts as a whole.	- Mortality - Morbidity - Discontinuance rates
Life insurance contracts with discretionary participating benefits	These policies include a clearly defined initial guaranteed sum assured which is payable on death. The guaranteed amount is a multiple of the amount that is increased throughout the duration of the policy by the addition of regular bonuses annually which once added, are not removed. Regular bonuses are added retrospectively.	Benefits arising from the discretionary participation feature are based on the performance of a specified pool of contracts or a specified type of contract.	- Mortality - Morbidity - Market risk - Discontinuance rates - Market returns on underlying assets
Life annuity contracts	These policies provide regular payments to the life assured.	The amount of the payment is set at inception of the policy.	- Longevity - Market returns on underlying assets

24. 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), policyholder liability (including future profit margins) and profit (post tax) at 30 June if actuarial assumptions change as follows:

2016		**Future Margins**	**Policyholder Liability**	**Impact on post tax profit**
		$'000	**$'000**	**$'000**
Discount rate / inflation rate	Increase by 0.25%	**(6,713)**	**935**	**(935)**
	Decrease by 0.25%	**7,027**	**(929)**	**929**
Mortality / Morbidity	Increase by 10%	**(31,872)**	**12**	**(12)**
	Decrease by 10%	**32,331**	**10**	**(10)**
Discontinuance	Increase by 10%	**(56,775)**	**(178)**	**178**
	Decrease by 10%	**70,145**	**186**	**(186)**
Expenses	Increase by 10%	**(38,537)**	**5**	**(5)**
	Decrease by 10%	**38,553**	**(5)**	**5**

2015		**Future Margins**	**Policyholder Liability**	**Impact on post tax profit**
		$'000	**$'000**	**$'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
Discontinuance	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

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 health-related claims 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.
Discontinuance risk	The impact of the discontinuance rate assumption depends on a range of factors including the type of contract, the surrender value basis (where applicable) and the duration in-force.

C. Liquidity risk

Management of liquidity risk is designed to ensure that the Group 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.

24. Risk Management (continued)

Investment durations are matched with the expected time frames 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. Life insurance contract liability cash flows are in relation to maturity values payable.

2016	Less than 1 year	Between 1 & 2 years	Between 2 & 5 years	Over 5 years	Total	Carrying amount
	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets:						
Cash and cash equivalents	8,319	-	-	-	8,319	8,319
Assets arising from reinsurance contracts	16,952	-	-	-	16,952	16,952
Financial assets at fair value through profit or loss	211,177	9,042	38,812	21,466	280,497	268,319
Derivative financial instruments	1,834	-	-	3,815	5,649	5,649
Loans and other receivables	16,749	7,779	4,283	9,981	38,792	27,291
	255,031	16,821	43,095	35,262	350,209	326,530
Financial liabilities:						
Payables and other financial liabilities	47,347	-	-	-	47,347	47,347
Derivative financial instruments	17	-	-	-	17	17
Life investment contract liabilities	51,691	8,777	19,651	65,738	145,857	145,857
	99,055	8,777	19,651	65,738	193,221	193,221
Life insurance contract liabilities net of reinsurance	887	651	2,810	6,462	10,810	(102,407)

2015	Less than 1 year	Between 1 & 2 years	Between 2 & 5 years	Over 5 years	Total	Carrying amount
	$'000	$'000	$'000	$'000	$'000	$'000
Financial assets:						
Cash and cash equivalents	36,007	-	-	-	36,007	36,007
Assets arising from reinsurance contracts	18,910	-	-	-	18,910	18,910
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
Loans and other receivables	27,533	2,943	3,665	11,929	46,070	31,859
	603,901	29,512	99,859	52,991	786,263	743,891
Financial liabilities:						
Payables and other financial liabilities	50,181	-	-	-	50,181	50,181
Derivative financial instruments	11,553	-	-	-	11,553	11,553
Life investment contract liabilities	378,041	15,488	36,263	140,099	569,891	569,891
	439,775	15,488	36,263	140,099	631,625	631,625
Life insurance contract liabilities net of reinsurance	656	868	2,575	7,154	11,253	(79,444)

D. Credit risk

Credit risk is the risk of loss arising from failure of a counterparty to meet its contractual obligations.

Credit risk principally arises within the Group from investments in financial instruments and reinsurer payment obligations.

24. Risk Management (continued)

The Group manages its exposure to credit risk by investing and transacting with high credit quality financial institutions. The Group continuously monitors the credit quality of the institutions that it invests and transacts with and further minimises its credit exposure by limiting the amount of funds placed or invested with any one institution at any time. Credit risk with respect to reinsurance programmes is minimised by placement of cover with a number of reinsurers with strong credit ratings.

The following table provides information regarding the aggregated credit risk exposure. Other financial asset categories are unrated.

2016	**AAA+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	**8,319**	**-**	**-**	**-**	**8,319**
Assets arising from reinsurance contracts	**16,952**	**-**	**-**	**-**	**16,952**
Debt securities	**45,112**	**15,728**	**-**	**1,071**	**61,911**
Derivatives	**5,649**	**-**	**-**	**-**	**5,649**
Loans	**-**	**-**	**-**	**15,886**	**15,886**
	76,032	**15,728**	**-**	**16,957**	**108,717**

2015	**AAA+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'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

Included in the consolidated statement of financial position are unitised funds of $148,468,000 (2015: $273,255,000) 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. No amounts are available to offset this year, but if these netting arrangements were applied in the 2015 year the derivative assets for $5,782,000 would be decreased to the net amount of $4,604,000 and the derivative liabilities of $11,553,000 would be decreased to the net amount of $10,375,000.

(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 $31,319,000 (2015: $37,689,000) would be decreased to the net amount of $24,998,000 (2015: decrease to $29,303,000) and the payables and other financial liabilities of $50,657,000 (2015: $54,359,000) would be decreased to the net amount of $44,246,000 (2015: decrease to $45,973,000).

25. Related parties

Subsidiaries

Fidelity Life Assurance Company Limited is the ultimate parent of the Group. The Company holds the following interests in subsidiaries:

Company	Nature of activities	Class of Shares	Ownership 2016	2015
Fidelity Capital Guaranteed Bond Limited	Non-trading Investment Company	Ordinary	**100%**	100%
Fidelity Fund Management Limited[1]	Non-trading Trustee Company	Ordinary	**0%**	100%
Life and Advisory Services Limited	Investment Services	Ordinary	**100%**	100%

[1] The shares in Fidelity Fund Management Limited were sold to Grosvenor Financial Services Group Limited on 1 April 2016 (Refer note 9).
All subsidiaries are incorporated in New Zealand and have a balance date of 30 June.

Related party transactions

(a) Key management personnel compensation
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.

	2016 $'000	2015 $'000
Short term benefits	**4,430**	4,429
Total	**4,430**	4,429

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

	2016 $'000	2015 $'000
Loans to related parties		
Balance as at 1 July	**773**	777
Loan repayments received - secured loans	**(4)**	(4)
Balance as at 30 June	**769**	773
Interest revenue from secured loans	**47**	51

All transactions are at arm's length.

(c) Transactions with related parties
The following transactions occurred with related parties:

	2016 $'000	2015 $'000
Secured loans to shareholders comprise:		
Balance as at 1 July	**1,187**	2,351
Loans advanced during the year	**-**	4
Loan repayments received - secured loans	**(19)**	(1,168)
Balance as at 30 June	**1,168**	1,187
Interest revenue from secured loans	**72**	139
Commission paid to related parties		
Shareholders as at 30 June who held agency agreements with the Group	**5,729**	5,434
	5,729	5,434

All transactions are at arm's length.

25. Related party transactions (continued)

(d) Outstanding balances

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

	2016 $'000	2015 $'000
Loans receivable from shareholders	**1,168**	1,187
Advisor accounts payable to shareholders	**(100)**	(95)

(e) Terms and conditions

Commissions paid to shareholders

Commissions paid to shareholders who hold agency agreements with the Group 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. The average annual interest rate was 5.8% (2015: 6.5%) on a mixture of fixed and floating rates. The loans are for periods of up to 25 years.

26. Contingent liabilities and commitments

There are no material contractual capital commitments at balance date for the acquisition of property, plant and equipment or intangible assets. (2015: nil).

There are no contingent liabilities as at 30 June 2016 (2015: nil).

The Group has the following non-cancellable operating lease commitments payable for rental of commercial office space, software licences, and office equipment.

	2016 $'000	2015 $'000
Within one year	**1,255**	265
Later than one year but not later than five years	**4,545**	761
Later than five years	**1,511**	50
	7,311	1,076

The Group has the following non-cancellable operating lease commitments receivable for the rental of commercial office space in Auckland.

	2016 $'000	2015 $'000
Within one year	**258**	172
Later than one year but not later than five years	**429**	-
	687	172

27. Events occurring after balance date

On 8 September 2016 the Company declared an ordinary dividend of $3.48 per share issued amounting to $5,008,649 (gross of tax). Dividends are not imputed.
There were no other events requiring adjustment to or disclosure in the consolidated financial statements.

28. Earnings per share

(i) Basic earnings per share
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.

	2016	2015
	$'000	$'000
Profit from continuing operations attributable to equity holders of the Company	**27,623**	21,830
Profit from discontinued operations attributable to equity holders of the Company	**6,399**	1,976
Total profit for the year attributable to equity holders of the Company	**34,022**	23,806
	'000	'000
Weighted average number of ordinary shares on issue	**1,439**	1,439
Basic earnings per share	**$**	$
From continuing operations	19.19	15.17
From discontinued operations	4.45	1.37
	23.64	16.54

(ii) Diluted earnings per share
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.

29. New accounting standards

New standards first applied in the year

There are no standards or amendments adopted since 1 July 2015 that have a significant impact on the Group.

New standards, amendments and interpretations issued that are not yet effective

The following relevant standards, amendments and interpretations to existing standards have been issued but are not expected to be adopted until their effective dates:

- *NZ IRFS 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 consolidated financial statements for the year beginning 1 July 2018. It replaces the parts of NZ IAS 39 that relate to the classification and measurement of financial instruments and hedge accounting.*
- NZ IFRS 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 consolidated financial statements for the year beginning 1 July 2018.
- *NZ IFRS 16 Leases – The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to the contract. NZ IFRS 16 is mandatory for the Group's consolidated financial statements for the year beginning 1 July 2019. It replaces the previous leases standard, NZ IAS 17 Leases.*

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

30. Statutory Fund

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.

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

	2016	2015
Income statement	**$'000**	$'000
Insurance premium revenue	222,733	200,566
Insurance premium ceded to reinsurers	(112,898)	(108,974)
Fee and commission income	-	10
Investment income	18,397	21,806
Other income	12,802	14,657
Claims expense	(102,066)	(96,416)
Reinsurance recoveries	74,380	74,706
Commission and management expenses	(93,871)	(87,612)
Net change in life insurance contract liabilities	(1,268)	20,802
Net change in life investment contract liabilities	22,963	(10,366)
Income tax expense	(13,371)	(7,164)
Profit after tax for the year from discontinued operations	(4,327)	1,976
Net income after tax attributable to shareholder equity (non participating)	23,474	23,991
Assets		
Cash and cash equivalents	7,450	33,741
Assets arising from reinsurance contracts	16,952	18,910
Financial assets at fair value through profit or loss	237,405	627,252
Derivative financial instruments	5,649	5,782
Life insurance contract assets	145,756	108,382
Loans and other receivables	26,371	35,941
Property, plant and equipment	22,918	22,750
Deferred tax assets	26,538	28,014
Intangible assets	7,702	5,615
Other assets	97	1,669
Total assets	496,838	888,056
Liabilities		
Payables and other financial liabilities	45,301	48,293
Current tax liabilities	3,845	-
Derivative financial instruments	17	11,553
Deferred tax liabilities	53,925	44,750
Life insurance contract liabilities ceded under reinsurance	43,349	28,938
Life investment contract liabilities	145,857	569,891
Deferred income	4,783	5,467
Total liabilities	297,077	708,892
Net assets	199,761	179,164

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

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Independent auditor's report

To the shareholders of Fidelity Life Assurance Company Limited

Our opinion

In our opinion the consolidated financial statements of Fidelity Life Assurance Company Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2016, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

What we have audited

Fidelity Life Assurance Company Limited consolidated financial statements comprise:

- the statement of financial position as at 30 June 2016;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

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

Our firm carries out other services for the Group in the areas of other assurance related, tax compliance, tax advisory and other advisory services. The provision of these other services has not impaired our independence as auditors of the Group.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not and will not express any form of assurance conclusion on the other information.

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

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Responsibilities of the Directors for the consolidated financial statements
The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:
https://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page7.aspx

This description forms part of our auditor's report.

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
8 September 2016

Auckland

Appointed Actuary's review of Fidelity Life Assurance Company Limited at 30 June 2016

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

In relation to Financial Statements for Fidelity Life Assurance Company Limited for both the insurer and group for the year ended 30 June 2016 and as that date, I confirm the following:

Appointed Actuary:	John Laurence Smith
Work undertaken:	The review of the actuarial information contained in, or used in the preparation of, financial statements of the insurer and group was conducted in accordance with the Solvency Standard for Life Insurance Business (RBNZ, 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 (2015: 2,750).
Information:	I obtained all information and explanations that I required.

Actuarial Opinion:

In my actuarial opinion and from an actuarial perspective:

(i) the actuarial information contained in the insurer and group financial statements at and in the year to 30 June 2016 has been appropriately included in those statements;

(ii) the actuarial information used in the preparation of the insurer and group financial statements at and in the year to 30 June 2016 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

John Smith
Appointed Actuary
8 September 2016