

Fidelity Life Assurance Company Limited

Consolidated Financial Statements

for the year ended 30 June 2018

Fidelity Life Assurance Company Limited
Consolidated income statement
for the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
Continuing operations			
Revenue			
Insurance premium revenue	5	257,681	232,521
Insurance premium ceded to reinsurers	5	(116,415)	(109,569)
Net premium revenue		141,266	122,952
Investment income	6	7,516	6,250
Fee and commission income		3,847	3,953
Other income		6,816	7,340
Total revenue		159,445	140,495
Expenses			
Claims expense	7	106,883	103,751
Reinsurance recoveries	7	(72,406)	(77,414)
Net claims expense		34,477	26,337
Commission expenses	7	68,188	68,895
Operating expenses	7	55,665	64,750
Net change in life insurance contract assets	18	(22,612)	(29,184)
Net change in life investment contract liabilities	9, 19	-	(978)
Total expenses		135,718	129,820
Profit before tax from continuing operations		23,727	10,675
Income tax expense	8	9,388	5,362
Profit after tax from continuing operations		14,339	5,313
(Loss) after tax from discontinued operations	9	(221)	(123)
Profit for the year attributable to the owners of the Company	4	14,118	5,190
Basic and diluted earnings per share			
Continuing operations	28	\$8.18	\$3.69
Discontinued operations	28	(0.13)	(0.09)

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 2018

	Note	2018 \$'000	2017 \$'000
Profit for the year		14,118	5,190
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation movement, net of tax	15	1,676	731
Revaluation movement, net of tax (discontinued operations)	9, 15	859	785
Other comprehensive income for the year, net of tax		2,535	1,516
Total comprehensive income for the year attributable to the owners of the Company		16,653	6,706
Total comprehensive income for the year attributable to the owners of the Company arises from:			
Continuing operations		16,015	6,044
Discontinued operations	9	638	662
		16,653	6,706

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 2018

	Note	2018 \$'000	2017 \$'000
Assets			
Cash and cash equivalents	10	6,011	7,189
Restricted cash	11	10,087	-
Assets arising from reinsurance contracts	12	13,203	18,489
Financial assets held for sale	9,19	143,041	144,201
Financial assets at fair value through profit or loss	13	173,089	104,056
Derivative financial instruments	13	-	2,653
Life insurance contract assets	18	187,267	165,637
Loans and other receivables	14	22,724	28,306
Property, plant and equipment	15	26,887	24,279
Income tax assets	8	5,227	4,634
Deferred tax assets	8	32,098	32,267
Intangible assets	16	3,049	3,841
Total assets		622,683	535,552
Liabilities			
Payables and other financial liabilities	17	50,961	51,359
Financial liabilities held for sale	9,19	142,442	143,502
Current tax liabilities	8	20	5
Derivative financial instruments	13	42	-
Deferred tax liabilities	8	73,562	63,266
Life insurance contract liabilities ceded under reinsurance	18	31,268	34,743
Deferred income	20	3,417	4,100
Total liabilities		301,712	296,975
Net assets		320,971	238,577
Equity			
Share capital	21	81,586	14,123
Retained earnings		232,283	219,887
Revaluation reserve		7,102	4,567
Total equity		320,971	238,577

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

For and on behalf of the Board
11 September 2018


Brian Blake
Chair


Lindsay Smartt
Director



Fidelity Life Assurance Company Limited
Consolidated statement of changes in equity
for the year ended 30 June 2018

	Note	Share capital \$'000	Retained earnings \$'000	Revaluation reserve \$'000	Total equity \$'000
Balance at 1 July 2016		14,123	219,706	3,051	236,880
Profit for the year		-	5,190	-	5,190
Other comprehensive income		-	-	1,516	1,516
Total comprehensive income for the year		-	5,190	1,516	6,706
Transaction with owners					
Dividends	21	-	(5,009)	-	(5,009)
Total transactions with owners		-	(5,009)	-	(5,009)
Balance at 30 June 2017		14,123	219,887	4,567	238,577
Balance at 1 July 2017		14,123	219,887	4,567	238,577
Profit for the year		-	14,118	-	14,118
Other comprehensive income		-	-	2,535	2,535
Total comprehensive income for the year		-	14,118	2,535	16,653
Transactions with owners					
Issue of share capital net of transaction costs	21	67,463	-	-	67,463
Dividends	21	-	(1,722)	-	(1,722)
Total transactions with owners		67,463	(1,722)	-	65,741
Balance at 30 June 2018		81,586	232,283	7,102	320,971

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 2018

	Note	2018 \$'000	2017 \$'000
Cash flows from operating activities			
Premiums from life insurance contracts		259,941	234,758
Deposits from life investment contracts		5,231	7,138
Reinsurance received		84,921	83,423
Interest received		3,516	4,629
Dividends and distributions received		10,868	6,627
Other investment (losses)		(32)	(54)
Other income		9,544	12,433
Benefits paid under life insurance contracts		(111,937)	(104,685)
Benefits paid under life investment contracts		(18,000)	(16,924)
Reinsurance premiums paid		(114,513)	(113,361)
Commission paid		(74,330)	(73,757)
Payments to suppliers and employees		(55,570)	(48,920)
Income tax paid		(1,273)	(6,286)
Net cash (outflows) from operating activities		(1,634)	(14,979)
Cash flows from investing activities			
Net proceeds from (purchases)/sales of financial assets		(56,578)	31,888
Purchase of intangible assets		(421)	(12,633)
Purchase of property, plant and equipment		(373)	(431)
Proceeds from sale of property, plant and equipment		149	34
Net cash (outflows)/inflows from investing activities		(57,223)	18,858
Cash flows from financing activities			
Proceeds from issue of ordinary shares, net of transaction costs	21	59,401	-
Ordinary dividends paid	21	(1,722)	(5,009)
Net cash inflows/(outflows) from financing activities		57,679	(5,009)
Net (decrease) in cash and cash equivalents		(1,178)	(1,130)
Cash and cash equivalents at the beginning of the year		7,189	8,319
Cash and cash equivalents at the end of the year	10	6,011	7,189
Continuing operations		(271)	663
Discontinued operations		(907)	(1,793)
Net (decrease) in cash and cash equivalents		(1,178)	(1,130)

Fidelity Life Assurance Company Limited
Consolidated statement of cash flows (continued)
for the year ended 30 June 2018

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

	2018 \$'000	2017 \$'000
Net profit after tax	14,118	5,190
Non-cash items		
Gains on sale of property, plant and equipment	(45)	(27)
Fair value gains on investments	(4,313)	(2,708)
Depreciation of property, plant and equipment	1,181	1,142
Amortisation of acquired value of in-force business	(683)	-
Amortisation of intangibles	1,070	1,954
Impairment of intangibles and other movements	143	14,591
Bad and doubtful debts	12	15
Total non-cash items	(2,635)	14,967
Changes in working capital		
Decrease / (increase) in life insurance and life investment contract assets	(23,790)	(31,684)
Decrease / (increase) in other assets	6,309	(1,408)
Increase in income tax balances	8,900	340
Increase / (decrease) in other liabilities	(2,888)	663
(Decrease) / increase in derivatives	(1,648)	(3,047)
Total changes in working capital	(13,117)	(35,136)
Cash flows from operating activities	(1,634)	(14,979)

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

Fidelity Life Assurance Company Limited

Notes to the consolidated financial statements

for the year ended 30 June 2018

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 for-profit 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 (the 'Board') on 11 September 2018. 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 presentation 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 consolidation financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice ('GAAP'). They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and authoritative notices that are applicable to entities that apply NZ IFRS. 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 planned 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 period from discontinued operations". The assets and liabilities planned for sale are also reclassified from their respective line items in the consolidated statement of financial position to separate lines "financial assets held for sale" or "financial liabilities held for sale" respectively in the period of occurrence. The consolidated statement of cash flows continues to include cash flows from discontinued operations. Refer to note 9 for full details of the planned sale and discontinued operations and the impact on the consolidated financial statements and cash flows.

Statutory fund

IPSA 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.

Fidelity Life Assurance Company Limited
Notes to the consolidated financial statements
for the year ended 30 June 2018

2. Summary of significant accounting policies (continued)

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.

Goods and Services Tax (GST)

The consolidated income statement and the consolidated statement of cash flows 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 that 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.

There have been no relevant new or amended accounting standards which have become mandatory for adoption by the Group since 1 July 2017.

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. These policyholder liabilities and assets 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 and assets are:

- The cost of providing benefits and administering these contracts;
- Mortality and morbidity experience on life insurance products;
- Persistency (or discontinuance) experience, which affects the Group's ability to recover the cost of acquiring new business over the lives of the contracts;
- Long term interest rates which affect 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 policyholder liabilities and assets calculated at the reporting date.

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

Fidelity Life Assurance Company Limited
Notes to the consolidated financial statements
for the year ended 30 June 2018

2. Summary of significant accounting policies (continued)

Critical accounting estimates and judgements (continued)

(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.

Fidelity Life Assurance Company Limited
Notes to the consolidated financial statements
for the year ended 30 June 2018

3. Actuarial methods and policies

The actuarial reports on the policy contract values and solvency calculations for the year ended 30 June 2018 and 30 June 2017 were prepared by the Valuation Actuary, Darren Fleming BSc(Hons), FNZSA, FIA and reviewed by the Appointed Actuary John Smith M.Sc. FNZSA, FIAA. Messrs Fleming and Smith are satisfied as to the accuracy of the data from which the amount of the policyholder liabilities and assets has been determined.

The values of the policyholder liabilities and assets have 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 individual life insurance contract liabilities and assets. 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 is used to determine life investment and group life contract liabilities and assets. 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 and life investment contract assets and liabilities are:

Discount rates

Policyholder liability discount rates

	At 30 June 2018	At 30 June 2017
Discounted cash flows on renewable risk plans and level premium risk plans based on 10 year NZ Government bond rate – gross interest rate	2.85%	2.97%
Non-participating assurances – net interest rate	2.05%	2.14%
Claim reserves and provisions for investment guarantees – gross interest rate	2.85%	2.97%
Annuities – net interest rate	2.05%	2.14%
Participating plans with reversionary bonuses. Derived from expected after-tax return on the assets backing the participating fund	2.50%	2.60%

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

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. (2017: 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% (2017: 28%). Life insurance assets and liabilities are calculated gross of tax with a separate liability being held for tax.

Fidelity Life Assurance Company Limited
Notes to the consolidated financial statements
for the year ended 30 June 2018

3. Actuarial methods and policies (continued)

Mortality rates

Mortality rates for risk products are based on a proportion of the NZ10 Insured lives mortality table. These rates are adjusted based on the recent experience of the various products. Allowance is made for the level of underwriting and the duration since underwriting, smoker status and type of product.

Participating plans are assumed to experience mortality in line with NZ97(5) select mortality table.

Annuity holders are assumed to experience mortality in line with the IMA92C20 / IFA92C20 tables with an additional age rating to allow for future mortality improvements.

The mortality assumption for Yearly Renewable Term ("YRT") policies has been reduced by 2.5% since 30 June 2017. The age rating for annuity mortality has been strengthened and changed from being an age related table to a fixed age reduction of 30 months for all annuity holders.

Morbidity rates

Future morbidity experience is based on proportions of reinsurance rate tables and standard industry tables.

The proportions are based on recent experience and industry trends. Adjustments have been made at 30 June 2018 to reflect the most recent experience against the latest reinsurance tables.

Rates of discontinuance

The range of rates of discontinuance assumed are shown in the table below:

	2018	2017
Yearly Renewable Term: Lump sum	10.0% - 20.0%	10.0% - 16.0%
Yearly Renewable Term: Income Protection	9.5% - 23.0%	9.0% - 17.0%
Whole of Life and Endowments including participating contracts	3.0%	3.0%
Level Term	4.0% - 20.0%	4.0% - 15.0%
Automatic acceptance with premiums limited to ten years	1.0% - 20.0%	1.0% - 20.0%
Automatic acceptance with level or reviewable premiums	3.5% - 40.0%	3.5% - 40.0%

A rate of 2% (2017: 2%) for each year over age 70 is assumed in addition to the above rates.

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 2018	At 30 June 2017
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. Cash bonus on premium paid has ceased.	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	0.741% of the sum assured and reversionary bonus.	0.66% of the sum assured and reversionary bonus.
Participating plans with reversionary bonuses – current bonus declaration	0.741%	0.66%
Policyholder's share of the surplus in the participating pool	83.3%	83.3%

Fidelity Life Assurance Company Limited
Notes to the consolidated financial statements
for the year ended 30 June 2018

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 policyholders.

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

	2018		2017	
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	(30,775)	-	(9,803)	-
Premium rates	17,975	-	(2,464)	-
Mortality / Morbidity rates	2,803	-	557	-
Reinsurance rate increases	(11,077)	-	(8,683)	-
Renewal expenses	2,186	-	-	-
Other modelling changes	(5,396)	79	5,970	-
Claims termination rates	-	(916)	-	-
Discount rates	2,505	(641)	(14,168)	3,775
Total	(21,779)	(1,478)	(28,591)	3,775

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 a 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 Asset and Liability Committee ('ALCO').

Fidelity Life Assurance Company Limited
Notes to the consolidated financial statements
for the year ended 30 June 2018

4. Sources of profit

	2018 \$'000	2017 \$'000
Profit for the year arose from		
Life insurance contracts		
Planned margins of revenues over expenses	19,081	20,245
Difference between actual and assumed experience	(7,826)	2,001
Effects of changes in underlying economic and financial assumptions	652	(3,892)
Interest on deferred acquisition costs	6,150	4,128
	18,057	22,482
Life investment contracts - liabilities held for sale		
Difference between actual and assumed experience	810	530
Effects of changes in underlying assumptions	(12)	116
	798	646
Investment earnings on assets in excess of policyholder liabilities	5,020	1,845
Impairment of intangible assets (note 16)	-	(14,591)
Shareholder tax	(9,460)	(5,093)
Non-statutory fund (before tax)	(297)	(99)
Profit after tax	14,118	5,190

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.

Fidelity Life Assurance Company Limited
Notes to the consolidated financial statements
for the year ended 30 June 2018

5. Revenue (continued)

	2018 \$'000	2017 \$'000
Net premium revenue		
Insurance premium revenue	257,681	232,521
Insurance premium ceded to reinsurers	(116,415)	(109,569)
Total net premium revenue	<u>141,266</u>	<u>122,952</u>

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.

	2018 \$'000	2017 \$'000
Dividends and distributions	3,193	2,652
Net realised and unrealised gains	<u>2,104</u>	<u>1,871</u>
Total unit trusts	<u>5,297</u>	<u>4,523</u>
Interest received	1,845	3,179
Net realised and unrealised gains/(losses)	<u>1,053</u>	<u>(1,620)</u>
Total cash, loans and debt securities	<u>2,898</u>	<u>1,559</u>
Net realised and unrealised (losses)/gains	<u>(647)</u>	<u>215</u>
Total derivatives	<u>(647)</u>	<u>215</u>
Other investment (losses)	<u>(32)</u>	<u>(47)</u>
Total investment income	<u>7,516</u>	<u>6,250</u>

Fidelity Life Assurance Company Limited
Notes to the consolidated financial statements
for the year ended 30 June 2018

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:

	2018	2017
	\$'000	\$'000
Death, disabilities and income protection claims	104,986	101,464
Maturities	128	213
Surrenders	612	1,018
Annuities	1,157	1,056
Total claims	106,883	103,751
Less: Reinsurance recoveries	(72,406)	(77,414)
Total net claims expense	34,477	26,337

(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 administering 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.

Fidelity Life Assurance Company Limited
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7. Expenses (continued)

The following table shows a summary of the commission and management expense apportionment between life insurance contracts and the Non Statutory Fund:

	2018 \$'000	2017 \$'000
Life insurance contracts		
Acquisition costs		
Commission expenses	40,346	45,151
Operating expenses	23,812	22,868
Maintenance costs		
Commission expenses	25,507	20,990
Operating expenses	28,872	38,734
	118,537	127,743
Non Statutory Fund		
Commission expenses	2,335	2,754
Operating expenses	2,981	3,148
Total commission and operating expenses	123,853	133,645

Included within other operating expenses are the following:

	2018 \$'000	2017 \$'000
Salaries and wages and other employee costs	29,865	27,838
Remuneration of auditor (appointed auditor: PricewaterhouseCoopers)		
Audit of statutory financial statements and half year review	398	430
Additional audit fees in relation to prior year	30	32
Audit of solvency return	40	37
Tax compliance services	39	56
Tax advisory services	29	99
Due diligence services ¹	197	604
Other services ²	207	75
Total remuneration of auditor	940	1,333
Directors' fees	641	622
Other professional fees	1,156	601
Bad and doubtful debts expense	12	15
Operating lease costs ³	278	217
Depreciation (note 15)	1,181	1,142
Amortisation (note 16)	1,070	1,954
Impairment of intangible assets (note 16)	-	14,591

¹ Due diligence services costs in relation to the issue of shares were deducted from share capital in the current financial year to the extent they were incremental costs directly attributable to the equity transaction in accordance with NZ IAS 32. These costs were also not expensed in the prior financial year, but rather were capitalised to prepayment as detailed in note 14, and then deducted from share capital in the current financial year.

² Other services include Robotic Process automation consulting and licence costs and workshop facilitation costs.

³ Operating lease costs include rental of commercial office space and office equipment and the lease of motor vehicles.

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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 consolidated statement of comprehensive income, in which case the tax expense is recognised in the consolidated 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 policyholders.

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 tax expense in the consolidated income statement is analysed as follows:

	2018 \$'000	2017 \$'000
Profit before tax from continuing operations	23,727	10,675
Tax at the New Zealand income tax rate of 28% (2017: 28%)	6,644	2,989
Tax effect of non-taxable income	(4,225)	(2,780)
Tax effect of non-deductible expenses	6,735	6,187
Benefit of imputation credits received	(38)	(114)
Prior period adjustment	272	(920)
Income tax expense reported in the consolidated income statement	9,388	5,362
Comprising:		
Current tax	(89)	224
Deferred tax	9,477	5,138
	9,388	5,362
Tax expense attributed to policyholders	465	1,289
Tax expense attributed to shareholders	8,923	4,073
	9,388	5,362

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

	2018 \$'000			2017 \$'000		
	Before tax	Deferred tax expense	After tax	Before tax	Deferred tax expense	After tax
Fair value gains on revaluation of land and building	3,521	(986)	2,535	2,106	(590)	1,516
	3,521	(986)	2,535	2,106	(590)	1,516

Income tax assets

	2018 \$'000	2017 \$'000
Income tax prepaid ¹	3,551	3,557
Current tax asset	1,608	988
Tax benefit recognised on acquired policies	68	89
Total income tax assets	5,227	4,634

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.

Current tax liabilities

	2018 \$'000	2017 \$'000
Current tax liabilities	(20)	(5)
Total current tax liabilities	(20)	(5)

Fidelity Life Assurance Company Limited
Notes to the consolidated financial statements
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8. Taxation (continued)

Deferred tax assets

The balance comprises temporary differences attributable to:

	Intangible assets	Payables and other financial liabilities	Unused tax losses	Total
	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2016	-	1,498	27,158	28,656
Movement through the consolidated income statement	3,503	122	(14)	3,611
Balance at 30 June 2017	3,503	1,620	27,144	32,267
Movement through the consolidated income statement	(89)	(455)	375	(169)
Balance at 30 June 2018	3,414	1,165	27,519	32,098

2016 marked the end of the five-year transition period to the new tax rules for life insurance companies meaning the Company now incurs a full income tax charge on shareholder profits. As such, deferred tax in respect of unused tax losses is expected to continue to wind down over the next several years as tax losses are utilised subject to the requirements of the Income Tax Act being met, including shareholder continuity, although the utilisation of tax losses has been impacted in the current year by prior period adjustments.

As detailed in note 21, Guardians of New Zealand Superannuation as Manager and Administrator of the New Zealand Superannuation Fund ('NZ Super') took a 41.1% cornerstone interest in the Company on 5 January 2018. This resulted in a change in shareholder continuity below the threshold for the carry forward of tax losses. Accordingly, this has had no impact on deferred tax in respect of unused tax losses.

Deferred tax liabilities

The balance comprises temporary differences attributable to:

	Financial assets at fair value through profit or loss	Property, plant and equipment	Life insurance contract assets	Deferred acquisition costs ¹	Deferred income	Intangible assets ²	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2016	364	1,126	785	49,050	2,262	338	53,925
Movement through the consolidated income statement	(39)	(131)	311	8,603	345	(338)	8,751
Movement through other comprehensive income	-	590	-	-	-	-	590
Balance at 30 June 2017	325	1,585	1,096	57,653	2,607	-	63,266
Movement through the consolidated income statement	240	(162)	(181)	7,570	1,843	-	9,310
Movement through other comprehensive income	-	986	-	-	-	-	986
Balance at 30 June 2018	565	2,409	915	65,223	4,450	-	73,562

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

² As detailed in note 16, an impairment of intangible assets was recognised in the previous financial year. This has resulted in intangible assets giving rise to a deferred tax asset.

Imputation credits

	2018	2017
	\$'000	\$'000
Imputation credits available for use in subsequent reporting periods based on a tax rate of 28%	2	171

As detailed in note 21, NZ Super took a 41.1% cornerstone interest in the Company on 5 January 2018. This resulted in a change in shareholder continuity above the threshold for the carry forward of imputation credits. Accordingly, any imputation credits which arose on or before 5 January 2018 were forfeited.

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9. Discontinued operations

Remaining investment-linked business

In October 2016, the Company formalised its intention to divest the remainder of its investment linked business. An active programme was initiated to sell the remainder of its investment linked business including the risk policies that form part of this business.

Up until 2 July 2018, investment linked policyholders earned income from the property owned by the Group. On 2 July 2018, the policyholders' interest in the owner-occupied property was substituted for a holding in a PIE fund. The property is not held for sale.

The investment linked business was previously classified as held for sale or as a discontinued operation, although in the prior reporting period this excluded the risk policies that form part of this business as these only became part of the proposed divestment in the current reporting period. The assets and liabilities planned for sale, the "disposal group", are summarised as follows, and separately disclosed as held for sale in the consolidated statement of financial position.

	2018 \$'000
Life insurance contract assets	959
Financial assets at fair value through profit or loss	142,796
Derivative financial instruments	(714)
Total financial assets held for sale	<u>143,041</u>
Life investment contract liabilities	142,082
Life insurance contract liabilities ceded under reinsurance	360
Total financial liabilities held for sale	<u>142,442</u>

The financial performance and cash flow information relating to the discontinued operation for the planned sale for the year ended 30 June are as follows:

	2018 \$'000	2017 \$'000
Revenue		
Insurance premium revenue	1,731	1,945
Insurance premium ceded to reinsurers	(846)	(885)
Net premium revenue	<u>885</u>	<u>1,060</u>
Investment income & fees	13,074	10,152
Total revenue	<u>13,959</u>	<u>11,212</u>
Expenses		
Claims expense	939	517
Reinsurance recoveries	(786)	(354)
Net claims expense	<u>153</u>	<u>163</u>
Commission expense	587	606
Operating expenses	1,063	1,038
Net change in life investment contract liabilities	11,592	8,265
Total expenses	<u>13,395</u>	<u>10,072</u>
Profit before tax from discontinued operations	<u>564</u>	<u>1,140</u>
Income tax expense	785	1,263
(Loss) after tax from discontinued operations	<u>(221)</u>	<u>(123)</u>
Other comprehensive income		
Revaluations movement, net of tax ¹	859	785
Total comprehensive income for the year	<u>638</u>	<u>662</u>
Cash flows (outflows) from operating activities	(9,281)	(8,521)
Cash flows inflows from investing activities	8,374	6,728
Total cash inflows / (outflows)	<u>(907)</u>	<u>(1,793)</u>

¹While the underlying property is not held for sale, a portion of the change in valuation is attributed to life investment contract liabilities through the "net change in life investment contract liabilities".

Fidelity Life Assurance Company Limited
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for the year ended 30 June 2018

10. 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.

Statement of cash flows

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, intangible assets and investments.

Cash flows from the sale and purchase of financial assets in respect of investing activities have been reported on a net basis as they predominantly relate to funds held for the benefit of policyholders or reflect the purchase and sale of investments where turnover is quick, amounts are large and maturities are short.

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

Cash and cash equivalents comprise:	2018	2017
	\$'000	\$'000
Bank balances	6,011	7,189

11. Restricted Cash

	2018	2017
	\$'000	\$'000
Restricted cash	10,087	-

Restricted cash comprises \$10,000,000, plus accrued interest at 1.9% p.a. after fees, which is held in escrow to support warranties and indemnities until 5 July 2019 in a trust account maintained by Russell McVeagh as part of a Subscription Agreement with NZ Super. This balance is therefore not available for general use by entities within the Group (refer also to note 21).

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.

	2018	2017
	\$'000	\$'000
Life insurance contracts reinsurance assets		
Balance at 1 July	18,489	16,952
Reinsurance claims made to reinsurers	54,732	57,396
Payments received from reinsurers	(60,018)	(55,859)
Balance at 30 June (expected to be recovered within 12 months)	<u>13,203</u>	<u>18,489</u>

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.

Financial assets and liabilities at fair value through profit or loss comprise those that are either held for trading or which are classified on initial recognition at fair value through profit or loss. A financial asset is classified as such if it is acquired principally for the purpose of selling in the short-term or if management designates it as such because either:

- The classification eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities, or both, which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

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.

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.

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 consolidated 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.

Fidelity Life Assurance Company Limited
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13. Financial instruments (continued)
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
At 30 June 2018			
Cash and cash equivalents	-	6,011	6,011
Restricted cash	-	10,087	10,087
Assets arising from reinsurance contracts	-	13,203	13,203
Financial assets held for sale	142,082	-	142,082
Financial assets at fair value through profit or loss	173,089	-	173,089
Loans and other receivables	-	18,733	18,733
	315,171	48,034	363,205
At 30 June 2017			
Cash and cash equivalents	-	7,189	7,189
Assets arising from reinsurance contracts	-	18,489	18,489
Financial assets held for sale	143,359	-	143,359
Financial assets at fair value through profit or loss	104,056	-	104,056
Derivative financial instruments (held for trading)	2,653	-	2,653
Loans and other receivables	-	22,278	22,278
	250,068	47,956	298,024

Financial liabilities	Liabilities at fair value through profit or loss and held for trading	Liabilities at amortised cost	Total
	\$'000	\$'000	\$'000
At 30 June 2018			
Payables and other financial liabilities	-	47,521	47,521
Derivative financial instruments (held for trading)	42	-	42
Financial liabilities held for sale	142,082	-	142,082
	142,124	47,521	189,645
At 30 June 2017			
Payables and other financial liabilities	-	47,791	47,791
Financial liabilities held for sale	143,359	-	143,359
	143,359	47,791	191,150

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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	Level 2	Level 3	Total fair value
	\$'000	\$'000	\$'000	\$'000
At 30 June 2018				
Assets				
Financial assets at fair value through profit or loss				
Debt securities - Unitised funds	-	171,223	-	171,223
Equity securities - Unitised funds	-	1,866	-	1,866
Financial assets at fair value through profit or loss	-	173,089	-	173,089
Financial assets held for sale	-	142,082	-	142,082
Total financial assets at fair value	-	315,171	-	315,171
Liabilities				
Derivative financial instruments				
Forward currency contracts	-	42	-	42
Financial liabilities held for sale	-	-	142,082	142,082
Total financial liabilities at fair value	-	42	142,082	142,124
At 30 June 2017				
Assets				
Financial assets at fair value through profit or loss				
Debt securities				
Local Authority	-	1,719	-	1,719
New Zealand Government	-	6,320	-	6,320
Corporate - New Zealand	-	23,935	-	23,935
Unitised funds	-	65,311	-	65,311
Total debt securities	-	97,285	-	97,285
Equity securities - Unitised funds	-	6,771	-	6,771
Total equity securities	-	6,771	-	6,771
Financial assets at fair value through profit or loss	-	104,056	-	104,056
Derivative financial instruments				
Forward currency contracts	-	154	-	154
Interest rate swaps	-	2,499	-	2,499
Total derivative financial instruments	-	2,653	-	2,653
Financial assets held for sale		143,359		143,359
Total financial assets at fair value	-	250,068	-	250,068
Liabilities				
Financial liabilities held for sale	-	-	143,359	143,359
Total financial liabilities at fair value	-	-	143,359	143,359

In March 2018, \$42,790,440 of debt securities were exchanged for units in a PIE fund invested in New Zealand corporate bonds. The exchange was settled by way of an in specie transfer, therefore the transfer is not reflected in the consolidated statement of cash flows.

The notional principal amounts of outstanding derivatives at 30 June 2018 were:

- forward currency contracts \$65,412,164 (2017: \$61,377,722)
- interest rate swaps nil (2017: \$25,000,000)

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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/ disposals \$'000	Balance at the end of the year \$'000
2018					
Liabilities classified as level 3					
Life investment contract liabilities	143,359	11,114	5,428	(17,819)	142,082
2017					
Assets classified as level 3					
Equity securities ¹	5,565	-	-	(5,565)	-
Liabilities classified as level 3					
Life investment contract liabilities	145,857	7,362	7,138	(16,998)	143,359

¹On 17 November 2016, the Group provided notice to Booster Financial Services Limited (formally Grosvenor Financial Services Group Limited) under the agreement to buy back Fidelity Life's shares in Booster. The total price for all 1,636,905 share of \$5,967,978 was fully settled on 28 February 2017.

14. Loans and other receivables

Accounting policy

Loans and other receivables are recognised initially at fair value plus transaction costs 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.

	2018 \$'000	2017 \$'000
Mortgage and advisers loans		
Mortgage and loan balances	8,733	11,164
Less provision for impairment	(344)	(700)
Net loans receivable	<u>8,389</u>	<u>10,464</u>
Trade and Other receivables		
Prepayments ¹	3,991	6,028
Sundry receivables	490	1,332
Outstanding premiums	5,262	4,833
Swiss Re receivable	4,592	5,649
Total Trade and Other receivables	<u>14,335</u>	<u>17,842</u>
Total loans and other receivables	<u><u>22,724</u></u>	<u><u>28,306</u></u>
Due:		
Within 12 months	19,201	18,440
Later than 12 months	3,523	9,866
	<u><u>22,724</u></u>	<u><u>28,306</u></u>

¹ In 2017, \$1,938,000 of due diligence costs were included in prepayments. These have been fully transferred to the transaction costs for the new share issue in the current financial year.

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15. Property, plant and equipment

Accounting Policies

Property, plant and equipment

Land and buildings are carried at fair value based on an 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 2016				
Cost or fair Value	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
Year ended 30 June 2017				
Opening net book amount	21,280	156	1,482	22,918
Additions	27	-	404	431
Revaluation	2,105	-	-	2,105
Depreciation	(412)	(32)	(698)	(1,142)
Disposals	-	-	(33)	(33)
Closing net book amount	23,000	124	1,155	24,279
At 1 July 2017				
Cost or fair value	23,000	1,154	5,587	29,741
Accumulated depreciation	-	(1,030)	(4,432)	(5,462)
Net book amount	23,000	124	1,155	24,279
Year ended 30 June 2018				
Opening net book amount	23,000	124	1,155	24,279
Additions	-	20	368	388
Revaluation	3,521	-	-	3,521
Depreciation	(621)	(35)	(525)	(1,181)
Disposals	-	-	(120)	(120)
Closing net book amount	25,900	109	878	26,887
At 30 June 2018				
Cost or fair value	25,900	1,174	5,514	32,588
Accumulated depreciation	-	(1,065)	(4,636)	(5,701)
Net book amount	25,900	109	878	26,887

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15. Property, plant and equipment (continued)

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 2018 at \$25,900,000 (2017: \$23,000,000), 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

	2018	2017
Capitalisation rate ¹	5.33%	6.00%
Discount rate ¹	6.00%	8.00%

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:

	2018 \$'000	2017 \$'000
Cost	18,013	18,013
Accumulated depreciation	(3,122)	(2,708)
Net book amount	<u>14,891</u>	<u>15,305</u>

16. Intangible assets

Accounting Policies

Software

Acquired software licences are capitalised on the basis that they are costs incurred to acquire and use specific software.

Internally developed 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. Amortisation commences once the software is available for use.

Software under development

Costs that are directly associated with the development of software are recognised as intangible assets where the following criteria are met:

It is technically feasible to complete the software so that it will be available for use; there is an ability to use the software; it can be demonstrated how the software will generate probable future economic benefits; the expenditure attributable to the software during its development can be reliably measured.

Software development costs that meet the above criteria are capitalised. Other development expenditure that does not meet the above criteria is recognised as an expense as incurred.

Software costs are amortised over the useful life of 3 to 10 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 its 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.

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16. Intangible assets (continued)

Intangible assets can be analysed as follows:

	Software \$'000	Internally developed software \$'000	Software under development \$'000	AVIF \$'000	Total \$'000
At 1 July 2016					
Cost	2,042	6,249	4,287	6,054	18,632
Accumulated amortisation	(1,857)	(3,278)	-	(5,745)	(10,880)
Net book amount	185	2,971	4,287	309	7,752
Year ended 30 June 2017					
Opening net book amount	185	2,971	4,287	309	7,752
Additions	22	-	12,612	-	12,634
Transfer in/out	-	8,638	(8,638)	-	-
Amortisation	(142)	(1,503)	-	(309)	(1,954)
Impairment ¹	-	(7,169)	(7,422)	-	(14,591)
Closing net book amount	65	2,937	839	-	3,841
At 1 July 2017					
Cost	2,064	14,887	8,261	6,054	31,266
Accumulated amortisation/impairment	(1,999)	(11,950)	(7,422)	(6,054)	(27,425)
Net book amount	65	2,937	839	-	3,841
Year ended 30 June 2018					
Opening net book amount	65	2,937	839	-	3,841
Additions	32	-	389	-	421
Transfer in/out	24	867	(891)	-	-
Amortisation	(61)	(1,009)	-	-	(1,070)
Other movements	-	-	(143)	-	(143)
Closing net book amount	60	2,795	194	-	3,049
At 30 June 2018					
Cost	2,119	15,754	7,616	-	25,489
Accumulated amortisation/impairment	(2,059)	(12,959)	(7,422)	-	(22,440)
Net book amount	60	2,795	194	-	3,049

¹ The carrying amount of the internally developed software has been reduced to its recoverable amount through recognition of an impairment loss. This loss is included in the impairment costs in the consolidated income statement.

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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.

	2018	2017
	\$'000	\$'000
Creditors and accruals	5,673	7,581
Claims notified	15,822	17,445
Income in advance	1,551	706
Reinsurance liabilities	26,026	22,765
Employee entitlements	1,889	2,862
Total payables and other financial liabilities	50,961	51,359
Due:		
Within 12 months	47,722	51,125
Later than 12 months	3,239	234
	50,961	51,359

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 are 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.

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18. Life insurance contract assets and liabilities (Continued)

	2018 \$'000	2017 \$'000
Movement in life insurance contract liabilities / (assets)		
Opening balance at 1 July	(165,637)	(144,990)
Premiums received	257,392	232,208
Liabilities released for payments on death, surrender and other terminations in the year	(106,883)	(103,752)
Commission and other expenses	(115,035)	(126,099)
Other movements	(54,611)	(23,004)
Reclassification - Family Income Benefits annuities	(2,493)	-
Closing balance at 30 June	(187,267)	(165,637)
Life insurance contract liabilities ceded under reinsurance		
Opening balance at 1 July	34,743	43,280
Movement in consolidated income statement	(3,475)	(8,537)
Closing balance at 30 June	31,268	34,743
Net of reinsurance life insurance contract liabilities / (assets)	(155,999)	(130,894)
Due:		
Within 12 months	1,200	682
Later than 12 months	(157,199)	(131,576)
	(155,999)	(130,894)
Life insurance contract assets contain the following components		
Future policy benefits	1,212,857	1,141,125
Future expenses	483,321	454,522
Reinsurance policy liability	31,268	34,744
Planned margins of revenues over expenses	237,502	241,467
Future revenues	(2,120,947)	(2,002,752)
	(155,999)	(130,894)
Life insurance contracts with a discretionary participation feature that have a guaranteed element	36,176	35,064

19. Financial liabilities held for sale (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.

	2018 \$'000	2017 \$'000
Movement in life investment contract liabilities		
Opening balance at 1 July	143,359	145,857
Contributions received	5,718	7,451
Fees deducted from account balances	(290)	(313)
Liabilities released for payments on death, surrender and other terminations in the year	(17,819)	(16,998)
Investment return credited to policyholders	11,831	9,024
Other movements	(717)	(1,662)
Closing balance at 30 June	142,082	143,359
Due:		
Within 12 months	49,173	50,303
Later than 12 months	92,909	93,056
	142,082	143,359
Life investment contracts with a guaranteed element	107,391	107,207

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20. Deferred income

	2018	2017
	\$'000	\$'000
Opening balance at 1 July	4,100	4,783
Amortisation	(683)	(683)
Closing balance at 30 June	3,417	4,100

The deferred income arose from 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 costs 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

	2018	2017	2018	2017
	Shares	Shares	\$'000	\$'000
Share capital at the beginning of the year	1,439,267	1,439,267	14,123	14,123
Issued for cash	652,173	-	75,000	-
Less: Transaction costs arising on share issues	-	-	(7,537)	-
Closing balance	2,091,440	1,439,267	81,586	14,123

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.

Issue of ordinary shares

On 5 January 2018, 652,173 new shares were issued to NZ Super for which the Company received gross proceeds of \$75,000,000 (refer to note 22 for further details). \$10,000,000 of the gross proceeds was placed in escrow in a trust account maintained by Russell McVeagh for 18 months from the date of share issue as part of the Subscription Agreement (refer also to note 11).

Incremental transactions costs of \$7,537,000 directly related to the issue of the new share were offset against the share proceeds received (refer to note 7 for further details).

Dividends paid

	2018	2017	2018	2017
	Per share	Per share	\$'000	\$'000
Ordinary shares				
Special dividend	3.00	-	1,722	-
Final dividend	-	3.48	-	5,009
Total dividend paid	3.00	3.48	1,722	5,009

On 18 January 2018, the Board declared a special dividend of \$3.00 (gross of tax) per ordinary share issued. NZ Super and the trustees of the Fidelity Family Trust waived their rights to receive this dividend. A dividend was therefore paid in respect of 573,973 shares on 24 January 2018 totalling \$1,721,919. This dividend is not imputed.

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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 also be at least \$0.

During the years ended 30 June 2018 and 30 June 2017, the Company complied with all capital licensing requirements. The Board has ultimate responsibility for maintaining the optimal capital structure. The Audit and Risk Committee oversees the capital computations and advises 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.

As part of the review of the Company's capital structure by the Board, a capital raise was completed in January 2018, which saw 652,173 new shares issued for \$75,000,000 (refer to note 21 for further details).

The Appointed Actuary is satisfied that appropriate actions within the Board's control are sufficient to ensure a solvency margin is maintained at all times over the next four years, without raising any extra capital.

The solvency position of the Company is as follows:

	2018			2017		
	Statutory Fund	Non-Statutory Fund	Total	Statutory Fund	Non-Statutory Fund	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Actual solvency capital	225,848	53,118	278,966	178,241	21,347	199,588
Minimum solvency capital	196,177	6,894	203,071	171,704	2,306	174,010
Solvency margin	29,671	46,224	75,895	6,537	19,041	25,578
Solvency ratio	115%	771%	137%	104%	926%	115%

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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:

	Investment linked \$'000	Non- investment linked \$'000	Total Statutory Fund \$'000
2018			
Investment assets	131,880	134,872	266,752
Other assets	10,201	89,005	99,206
Policy liabilities	142,082	(155,999)	(13,917)
Liabilities other than policy liabilities	-	122,472	122,472
Shareholders' retained earnings	-	257,405	257,405
Premium revenue and contributions received	5,428	257,681	263,109
Investment revenue	13,074	6,568	19,642
Claims expense and investment contracts payments	17,819	106,883	124,702
Other operating expenses	1,850	118,209	120,059
Investment revenues paid or allocated to policyholders	11,831	-	11,831
Profit before tax	1,512	22,539	24,051
Profit after tax	798	13,516	14,314
Capital receipts / (distributions)	-	29,500	29,500
2017			
Investment assets	128,225	95,808	224,033
Other assets	15,134	96,647	111,781
Policy liabilities	143,359	(131,593)	11,766
Liabilities other than policy liabilities	-	112,992	112,992
Shareholders' retained earnings	-	211,056	211,056
Premium revenue and contributions received	7,138	232,521	239,659
Investment revenue	10,180	4,911	15,091
Claims expense and investment contracts payments	16,998	104,268	121,266
Other operating expenses	1,973	113,711	115,684
Investment revenues paid or allocated to policyholders	9,024	-	9,024
Profit before tax	2,178	9,737	11,915
Profit after tax	646	4,132	4,778
Capital receipts / (distributions)	-	5,000	5,000

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24. Risk Management

Risk management framework

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 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 six key components:

- i. The risk management policy purpose is to communicate why risk management is important to the Group and describe the approach to managing risk. The 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 strategy forms part of the annual strategic and business planning documents, identifying the key risk management initiatives that need to be planned and budgeted for.
- iv. The corporate risk register allows the Audit and Risk Committee and Risk Management Committee 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.
- v. The risk appetite statement is reviewed annually by the Board. The risk appetite statement is used as a guide to the level of risk the Group is prepared to accept.
- vi. An internal audit function whose purpose is to provide independent and objective assurance on the adequacy and effectiveness of controls set up by management.

The risk management programme of work is regularly reviewed to ensure it continues to effectively manage the Group's risks.

An Asset and Liability Committee ('ALCO') was set up during the reporting period. The ALCO, which reports to and is directly accountable to the Board of Directors, comprises the Chief Executive Officer, the Chief Financial Officer, the Appointed Actuary, the Head of Risk and Compliance, one Director and an independent actuarial advisor. The establishment of the ALCO has resulted in the disestablishment of the Investment Committee previously responsible for the management of market risk.

Fidelity Life's business lines expose the Company to balance sheet and profit and loss risk associated with movements in financial instruments and other assets, as well as the movement in the net present value of future projected income and liability cash flows. The purpose of the ALCO is to construct portfolios of financial assets that maximise expected returns subject to the risk appetite and constraints established by the Fidelity Life Board. The ALCO is empowered to investigate any sources of actual or potential change in those values and the key measures of financial condition, including balance sheet strength and liquidity, regulatory solvency levels, profitability, changes in the values of different classes of liability, and the performance of investment assets. The ALCO is responsible for reviewing investment policy and submitting any recommendations for change to the Board for approval, including liability hedging and currency hedging strategies.

The Group's activities expose it to market risk, insurance risk, liquidity risk and credit risk:

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 ALCO. The ALCO 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').

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24. Risk Management (continued)

(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 invested in international shares and international bonds which are denominated in foreign currencies. As at 30 June 2018 foreign currency denominated assets amounted to 12.5% (2017: 12.3%) 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.

(ii) Price risk

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

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:

		2018		2017	
		\$'000		\$'000	
Market risks		Impact on post-tax profit	Impact on equity	Impact on post-tax profit	Impact on equity
Currency rates	Increase by 10%	20	20	6	6
	Decrease by 10%	(17)	(17)	(5)	(5)
Equity prices	Increase by 10%	1,182	1,182	701	701
	Decrease by 10%	(1,182)	(1,182)	(701)	(701)
Interest rates	Increase by 1%	(36)	(36)	(1,905)	(1,905)
	Decrease by 1%	36	36	1,631	1,631

This table refers only to the effect on financial instruments and does not include the impact on life insurance contract liabilities and assets.

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24. Risk Management (continued)

B. Insurance Risk

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

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 holds catastrophe reinsurance treaties to limit large losses arising from concentrations of risk due to geographical exposure or single events. The Group also holds pandemic reinsurance treaties to limit the net exposures to pandemic 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.

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.	<ul style="list-style-type: none"> - 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.	<ul style="list-style-type: none"> - 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.	<ul style="list-style-type: none"> - Longevity - Market returns on underlying assets

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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 profit (post-tax) at 30 June if actuarial assumptions change as follows:

		2018 Impact on post- tax profit \$'000	2017 Impact on post- tax profit \$'000
Discount rate	Increase by 0.25%	(544)	(825)
	Decrease by 0.25%	543	814
Mortality / morbidity	Increase by 10%	(32)	(43)
	Decrease by 10%	51	32
Discontinuance	Increase by 10%	92	122
	Decrease by 10%	(131)	(127)
Expenses	Increase by 10%	(3)	(3)
	Decrease by 10%	3	3

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.

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.

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24. Risk Management (continued)

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 liabilities / (assets) cash flows are in relation to maturity values payable.

2018	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	6,011	-	-	-	6,011	6,011
Restricted cash	-	10,087	-	-	10,087	10,087
Assets arising from reinsurance contracts	13,203	-	-	-	13,203	13,203
Financial assets held for sale	143,041	-	-	-	143,041	143,041
Financial assets at fair value through profit or loss	173,089	-	-	-	173,089	173,089
Loans and other receivables	19,598	986	773	4,052	25,409	18,733
	354,942	11,073	773	4,052	370,840	364,164
Financial liabilities						
Payables and other financial liabilities	47,521	-	-	-	47,521	47,521
Derivative financial instruments	42	-	-	-	42	42
Financial liabilities held for sale	49,173	9,270	24,701	58,938	142,082	142,442
	96,736	9,270	24,701	58,938	189,645	190,005
Life insurance contract liabilities / (assets) net of reinsurance	1,200	997	2,594	5,806	10,597	(155,999)
2017	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	7,189	-	-	-	7,189	7,189
Assets arising from reinsurance contracts	18,489	-	-	-	18,489	18,489
Financial assets held for sale	144,201	-	-	-	144,201	144,201
Financial assets at fair value through profit or loss	43,727	7,987	39,511	23,670	114,895	104,056
Derivative financial instruments	154	-	-	2,499	2,653	2,653
Loans and other receivables	19,120	3,824	4,298	5,696	32,938	22,278
	232,880	11,811	43,809	31,865	320,365	298,866
Financial liabilities						
Payables and other financial liabilities	47,791	-	-	-	47,791	47,791
Financial liabilities held for sale	50,303	8,258	22,699	62,100	143,360	143,502
	98,094	8,258	22,699	62,100	191,151	191,293
Life insurance contract liabilities / (assets) net of reinsurance	682	1,153	2,785	6,089	10,709	(130,894)

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24. Risk Management (continued)

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.

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.

Risk with respect to debt securities is managed within the guidelines of the Group's SIPO. Mortgages and loans are managed by generally requiring security over property.

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

2018	AAA+ to A- \$'000	BBB+ to BBB- \$'000	BB+ to B- \$'000	Unrated \$'000	Total \$'000
Cash and cash equivalents	6,011	-	-	-	6,011
Restricted cash	-	-	-	10,087	10,087
Assets arising from reinsurance contracts	13,203	-	-	-	13,203
Mortgages and loans	-	-	-	8,733	8,733
	19,214	-	-	18,820	38,034
2017	AAA+ to A- \$'000	BBB+ to BBB- \$'000	BB+ to B- \$'000	Unrated \$'000	Total \$'000
Cash and cash equivalents	7,189	-	-	-	7,189
Assets arising from reinsurance contracts	18,489	-	-	-	18,489
Debt securities	22,005	9,590	-	378	31,973
Derivatives	2,653	-	-	-	2,653
Mortgages and loans	-	-	-	11,164	11,164
	50,336	9,590	-	11,542	71,468

Included in the consolidated statement of financial position are unitised funds of \$173,089,000 (2017: \$126,429,000) 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.

Fidelity Life Assurance Company Limited
Notes to the consolidated financial statements
for the year ended 30 June 2018

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	
			2018	2017
Fidelity Capital Guaranteed Bond Limited	Non-trading investment company	Ordinary	100%	100%
Life and Advisory Services Limited	Investment services	Ordinary	100%	100%
Fidelity Life Custodial Services Limited	Custodial/ Trustee services	Ordinary	100%	100%

All subsidiaries are incorporated in New Zealand and have a balance date of 30 June. Fidelity Life Custodial Services Limited ('FLCSL') was incorporated on 21 April 2017 and acts as the custodian and legal owner of shares in the Company held on behalf of minority shareholders.

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.

	2018 \$'000	2017 \$'000
Short-term benefits	5,679	4,379
Total	5,679	4,379

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

	2018 \$'000	2017 \$'000
Loans to related parties		
Balance as at 1 July	-	769
Reclassified on leaving employment	-	(766)
Loan repayments received- secured loans	-	(3)
Balance as at 30 June	-	-
Interest revenue from secured loans	-	29

All transactions are at arm's length.

(c) Transactions with related parties

The following transactions occurred with related parties:

	2018 \$'000	2017 \$'000
Secured loans to shareholders		
Balance as at 1 July	1,169	1,168
Loans advanced during the year	-	3
Loan repayments received - secured loans	(497)	(2)
Balance as at 30 June	672	1,169
Interest revenue from secured loans	57	68
Commission paid to related parties		
Shareholders as at 30 June who held agency agreements with the Group	3,616	4,295
	3,616	4,295

All transactions are at arm's length.

Fidelity Life Assurance Company Limited
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25. Related party transactions (continued)

(d) Outstanding balances

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

	2018	2017
	\$'000	\$'000
Loans receivable from shareholders	672	1,169
Advisor accounts payable to shareholders	(15)	(17)

(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 5.9% (2017: 5.8%) 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. (2017: nil).

NZ Super took a 41.1% cornerstone interest in the Company on 5 January 2018 (refer to note 21 for further details). As part of the Subscription Agreement, \$10,000,000 of the gross proceeds received from the issue of new shares to NZ Super was placed in escrow until 5 July 2019 to support a number of warranties provided under this agreement (refer to note 11 for further details). Each of these warranties was reviewed at the reporting date to assess the Company's compliance with them. Based on this review, it was determined that the possibility of an outflow of resources embodying economic benefits arising under the warranties was remote. On that basis, there are no contingent liabilities as at 30 June 2018 (2017: nil).

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

	2018	2017
	\$'000	\$'000
Within one year	1,344	1,264
Later than one year but not later than five years	3,820	4,307
Later than five years	-	511
	5,164	6,082

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

	2018	2017
	\$'000	\$'000
Within one year	263	263
Later than one year but not later than five years	1,051	175
Later than five years	438	-
	1,752	438

27. Events occurring after balance date

There have been no events occurring after balance date that require adjustment to or disclosure in the consolidated financial statements.

Fidelity Life Assurance Company Limited
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28. Earnings per share

(i) Basic earnings per share

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

	2018 \$'000	2017 \$'000
Profit after tax from continuing operations	14,339	5,313
(Loss) after tax from discontinued operations	(221)	(123)
Total profit for the year attributable to the owners of the Company	14,118	5,190
	Shares	Shares
Weighted average number of ordinary shares on issue	1,753,739	1,439,267
	\$	\$
Basic earnings per share		
Continuing operations	8.18	3.69
Discontinued operations	(0.13)	(0.09)
	8.05	3.60

(ii) Diluted earnings per share

There is no dilution in earnings per share as all shares have been issued.

29. New accounting standards

New standards first applied in the year

There are no standards or amendments adopted since 1 July 2017 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 IFRS 9 Financial Instruments* – The standard addresses the classification, measurement and recognition of financial assets and financial liabilities. NZ IFRS 9 introduces a revised model for classification and measurement, a single, forward-looking "expected loss" impairment model and a substantially reformed approach to hedge accounting. This standard, which becomes effective for annual periods commencing on or after 1 January 2018, is not expected to change the classification of existing financial instruments. As the Group is not adopting hedge accounting, there is no impact from the new hedge accounting rules. The Group will apply the general model for the calculation of impairment which takes into account expected losses. It is not expected to have a material impact on the financial statements, however additional disclosures are expected.
- *NZ IFRS 15 Revenue from Contracts with Customers* – The standard has not been adopted early. This objective of this standard is to create a single revenue recognition model that applies to revenue from contracts with customers in all industries. This standard, which becomes effective for annual periods commencing on or after 1 January 2018, is not expected to have a significant impact given the majority of the Company's revenue streams, notably insurance premium, is outside the scope of the standard. Additional disclosures are expected.
- *NZ IFRS 16 Leases* – This standard has not been adopted early. This standard will fundamentally change the accounting treatment of leases by lessees. The current dual accounting model for lessees, which distinguishes between on balance sheet finance leases and off balance sheet operating leases, will no longer apply. Instead, there will be a single, on balance sheet accounting model for all leases similar to the current accounting treatment of finance leases. Lessor accounting will remain similar to current practices. This standard becomes effective for annual periods commencing on or after 1 January 2019, is not expected to have a significant impact on the financial statements.
- *IFRS 17 Insurance Contracts* – This standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts that fall within the scope of the standard. IFRS 17 is mandatory for the Group's consolidated financial statements for periods beginning after 1 January 2021. It will replace the current standard, IFRS 4 Insurance Contracts. The Group is assessing the impact on the Group's results.

Fidelity Life Assurance Company Limited
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30. Statutory Fund

Fidelity Life operates under IPSA which requires that its life business is conducted within at least one statutory fund.

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:

	2018	2017
	\$'000	\$'000
Income statement		
Insurance premium revenue	257,681	232,521
Insurance premium ceded to reinsurers	(116,415)	(109,569)
Investment income	6,514	4,756
Other income	6,640	6,973
Claims expense	(106,883)	(103,751)
Reinsurance recoveries	72,406	77,414
Commission and operating expenses	(118,537)	(127,744)
Net change in life insurance contract assets	22,612	30,164
Income tax expense	(9,488)	(5,875)
Profit after tax from discontinued operations	(221)	(123)
Profit for the year attributable to the owners of the Company (non-participating)	14,309	4,766
Assets		
Cash and cash equivalents	4,994	5,816
Assets arising from reinsurance contracts	13,203	18,489
Financial assets held for sale	143,041	144,201
Financial assets at fair value through profit or loss	123,956	81,707
Derivative financial instruments	-	2,653
Life insurance contract assets	187,267	165,637
Loans and other receivables	20,013	24,944
Property, plant and equipment	26,887	24,279
Deferred tax assets	29,384	29,649
Intangible assets	3,049	3,841
Other assets	1,676	1,077
Total assets	553,470	502,293
Liabilities		
Payables and other financial liabilities	45,334	45,625
Financial liabilities held for sale	142,442	143,502
Derivative financial instruments	42	-
Deferred tax liabilities	73,562	63,267
Life insurance contract liabilities ceded under reinsurance	31,268	34,743
Deferred income	3,417	4,100
Total liabilities	296,065	291,237
Net assets	257,405	211,056

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



Independent auditor's report

To the shareholders of Fidelity Life Assurance Company Limited

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 30 June 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated 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.

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 2018, 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).

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 assurance, agreed upon procedures, tax compliance, tax advisory, due diligence and other advisory services. The provision of these other services has not impaired our independence as auditor 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. At the time of our audit, there was no other information available to us.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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.

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://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-5/>

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 Michele Embling.

For and on behalf of:



Chartered Accountants
11 September 2018

Auckland

Appointed Actuary's review of Fidelity Life Assurance Company Limited at 30 June 2018

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 2018 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 full-time employee of Fidelity Life Assurance Company Limited. I do not own any shares in Fidelity Life Assurance Company Limited (2017: 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 2018 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 2018 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
11 September 2018