Fidelity Life Assurance Company Limited

Consolidated Financial Statements

for the year ended 30 June 2021

Fidelity Life Assurance Company Limited
Consolidated income statement
for the year ended 30 June 2021

	Note	**2021 $'000**	2020 $'000
Revenue			
Insurance premium revenue	5	**278,606**	275,478
Insurance premium ceded to reinsurers	5	**(114,205)**	(117,187)
Net premium revenue		**164,401**	158,291
Investment income	6	**18,094**	3,721
Fee and commission revenue		**102**	232
Other income	5	**7,908**	15,867
Total revenue		**190,505**	178,111
Expenses			
Claims expense	7	**130,786**	139,720
Reinsurance recoveries	7	**(79,794)**	(92,705)
Net claims expense		**50,992**	47,015
Commission expenses	7	**56,695**	53,420
Loan loss allowance movement		**-**	(471)
Operating expenses	7	**68,980**	56,796
Net change in life insurance contract assets	19	**(13,447)**	(12,108)
Net change in life investment contract liabilities	20	**12,350**	826
Total expenses		**175,570**	145,478
Profit before tax		**14,935**	32,633
Income tax expense	8	**10,606**	12,522
Profit for the year attributable to the owners of the Company	4	**4,329**	20,111
Basic and diluted earnings per share	28	**2.07**	9.62

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 2021

	Note	2021 $'000	2020 $'000
Profit for the year		**4,329**	20,111
Other comprehensive income/(loss)			
Items that will not be reclassified to profit or loss			
Revaluation movement, net of tax (asset held for sale)	8, 15, 16	**-**	(2,180)
Other comprehensive income/(loss) for the year, net of tax		**-**	(2,180)
Total comprehensive income for the year attributable to the owners of the Company		**4,329**	17,931

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 2021

	Note	2021 $'000	2020 $'000
Assets			
Cash and cash equivalents	9	**184,484**	188,057
Other financial assets at amortised cost	10	**20,032**	-
Assets arising from reinsurance contracts	11	**25,472**	24,980
Assets classified as held for sale	15	**-**	25,746
Financial assets at fair value through profit or loss	12	**138,774**	134,019
Derivative financial instruments	12	**-**	903
Life insurance contract assets	19	**243,530**	249,404
Loans and other receivables	13	**8,193**	9,110
Property, plant and equipment	16	**2,837**	944
Right-of-use assets	14	**300**	426
Income tax assets	8	**5,547**	4,088
Deferred tax assets	8	**-**	811
Intangible assets	17	**13,622**	9,222
Total assets		**642,791**	647,710
Liabilities			
Payables and other financial liabilities	18	**57,561**	53,764
Lease liabilities	14	**270**	400
Derivative financial instruments	12	**47**	-
Deferred tax liabilities	8	**73,699**	64,772
Life insurance contract assets ceded under reinsurance	19	**39,137**	58,458
Life investment contract liabilities	20	**111,125**	113,010
Deferred income		**1,368**	2,051
Total liabilities		**283,207**	292,455
Net assets		**359,584**	355,255
Equity			
Share capital	21	**81,586**	81,586
Retained earnings		**277,998**	266,304
Revaluation reserve		**-**	7,365
Total equity		**359,584**	355,255

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

For and on behalf of the Board
29 September 2021

B.J. Blake

Brian Blake
Chair

L Smartt

Lindsay Smartt
Director

pwc

Fidelity Life Assurance Company Limited
Consolidated statement of changes in equity
for the year ended 30 June 2021

	Note	Share capital $'000	Retained earnings $'000	Revaluation reserve $'000	Total equity $'000
Balance at 1 July 2019		81,586	246,193	9,545	337,324
Profit for the year		-	20,111	-	20,111
Other comprehensive income	8	-	-	(2,180)	(2,180)
Total comprehensive income for the year		-	20,111	(2,180)	17,931
Balance at 30 June 2020		81,586	266,304	7,365	355,255
Balance at 1 July 2020		**81,586**	**266,304**	**7,365**	**355,255**
Profit for the year		-	**4,329**	-	**4,329**
Total comprehensive income for the year		-	**4,329**	-	**4,329**
Transfer to retained earnings		-	**7,365**	**(7,365)**	-
Balance at 30 June 2021		**81,586**	**277,998**	-	**359,584**

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 2021

	Note	2021 $'000	2020 $'000
Cash flows from operating activities			
Premiums from life insurance contracts		**279,169**	276,196
Deposits from life investment contracts		**3,773**	4,086
Reinsurance received on claims paid		**73,394**	97,993
Interest received		**721**	700
Interest paid on lease liabilities		**(15)**	(24)
Dividends and distributions received		**6,310**	6,514
Other investment (losses)		**-**	(45)
Other income		**13,146**	7,507
Benefits paid under life insurance contracts		**(128,890)**	(139,387)
Benefits paid under life investment contracts		**(18,008)**	(14,859)
Reinsurance premiums paid		**(115,399)**	(119,199)
Commission paid		**(58,601)**	(56,375)
Payments to suppliers and employees		**(61,476)**	(55,169)
Transaction costs		**(2,354)**	-
Income tax paid		**(2,326)**	(779)
Short term and low value lease payments		**(56)**	(39)
Net cash (outflows)/inflows from operating activities		**(10,612)**	7,120
Cash flows from investing activities			
Gross sale proceeds from sale of financial assets[1]		**95,714**	406,489
Payments for financial assets[1]		**(87,992)**	(240,368)
Purchase of intangible assets		**(6,011)**	(8,158)
Purchase of property, plant and equipment		**(1,973)**	(564)
Proceeds from sale of property, plant and equipment		**27,556**	1,364
Cash invested in to term deposits		**(20,032)**	-
Net cash inflows from investing activities		**7,262**	158,763
Cash flows from financing activities			
Principal element of lease liabilities		**(223)**	(327)
Proceeds from issue of ordinary shares		**-**	10,000
Net cash (outflows)/inflows from financing activities		**(223)**	9,673
Net (decrease)/increase in cash and cash equivalents		**(3,573)**	175,556
Cash and cash equivalents at the beginning of the year		**188,057**	12,501
Cash and cash equivalents at the end of the year	9	**184,484**	188,057

[1] The comparative balances have been reclassified and presented on a gross basis consistent with the current year presentation.

Fidelity Life Assurance Company Limited
Consolidated statement of cash flows (continued)
for the year ended 30 June 2021

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

	2021	2020
	$'000	$'000
Net profit after tax	**4,329**	20,111
Non-cash items		
(Gain)/loss on sale of property, plant and equipment	**(2,905)**	42
Fair value gains on investments	**(9,880)**	(2,635)
Depreciation of property, plant and equipment and right-of-use assets	**538**	1,186
Amortisation of acquired value of in-force business	**(683)**	(683)
Amortisation of intangibles	**2,351**	1,651
Other movements	**(224)**	124
Bad and doubtful debts	**(71)**	(363)
Total non-cash items	**(10,874)**	(678)
Changes in working capital		
Decrease in life insurance and life investment contract assets and liabilities	**(7,035)**	(30,350)
Decrease in other assets	**(6,275)**	1,642
Increase in income tax balances	**8,280**	11,742
Increase/(decrease) in other liabilities	**2,141**	(1,176)
(Decrease)/increase in derivative liabilities	**(1,178)**	5,829
Total changes in working capital	**(4,067)**	(12,313)
Cash flows from operating activities	**(10,612)**	7,120

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

1. General information

Fidelity Life Assurance Company Limited ('Fidelity Life') (the 'Company') and its subsidiaries (together called the 'Group') are financial services companies that provide insurance and investment management services. The Company and its subsidiaries are 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 29 September 2021. 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 consolidated 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.

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 29.

Principles of consolidation
Subsidiaries are all entities controlled by the Group. Control is achieved when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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

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

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.

a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period:

- Amendments to NZ IAS 1 and NZ IAS 8 - Definition of Material

The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

b) Impact of standards issued but not yet applied by the Group

NZ 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. NZ IFRS 17 is mandatory for the Group's consolidated financial statements and is expected to apply for periods beginning on or after 1 July 2023. It will replace the current standard, NZ IFRS 4: Insurance Contracts. The Group is still assessing the impact on the Group's results.

2. Summary of significant accounting policies (continued)

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 asset 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.

(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. In respect of deferred tax on carried forward tax losses, this has included an assessment of the likelihood of future taxable profits arising in the foreseeable future and of shareholder continuity being maintained during that period, factoring in the new business continuity test.

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.

(c) Reinsurance recapture

During the prior year, the Group reached an agreement with a reinsurer to take back the risks initially ceded to the reinsurer within a reinsurance arrangement. The key commercial terms and risks transferred were determined to be agreed with the reinsurer on 30 June 2020 with the risk transfer effected as at 31 March 2020. The total settlement of the recapture was $6.3m, which was paid to the Group during September 2020. Refer to notes 5 (b) and 11.

(d) Configuration or customisation costs in a cloud computing arrangement

The Group has capitalised costs incurred in configuring or customising certain suppliers' application software in cloud computing arrangements as intangible assets (refer to note 17), as the Group considered that it would benefit from those costs to implement the cloud-based software over the expected terms of the cloud computing arrangements. Following the publication of IFRS Interpretations Committee ('IFRIC') agenda decision on Configuration or Customisation Costs in a Cloud Computing Arrangement in March 2021 (ratified by the International Accounting Standards Board ('IASB') in April 2021), the Group has commenced a review of these capitalised costs to determine whether they would need to be expensed or reclassified as prepayments. The IFRIC concluded that costs incurred in configuring or customising software in a cloud computing arrangement can be recognised as intangible assets only if the activities create an intangible asset that the entity controls and the intangible asset meets the recognition criteria. Costs that do not result in intangible assets are expensed as incurred unless they are paid to the suppliers (or subcontractors of the suppliers) of the cloud-based software to significantly customise the cloud-based software for the Group. In the latter case, the costs paid upfront are recorded as prepayments for services and amortised over the expected terms of the cloud computing arrangements.

At the time of finalising the 30 June 2021 financial statements, the review process is still in progress as to allow the Group adequate opportunity to conduct a detailed and accurate review of the related costs. The Group expects to implement the updated accounting policy in the next financial period.

e) Business combinations - financial liability recognition and measurement

In the current year, the Group entered negotiations for a potential business acquisition (refer to note 27). All incurred costs directly attributable to the acquisition are classified as transaction costs. Contingent consideration is recognised and classified as a financial liability where the Group has a present legal, contractual and/or constructive obligation to transfer an economic resource as a result of past events. Amounts classified as a financial liability are subsequently measured at fair value through profit or loss.

Unconditional financial liabilities

Transaction costs that give rise to unconditional financial liabilities are recognised as expenses when incurred (refer to note 7).

Financial liabilities contingent on future events

Financial liabilities contingent on future events that are beyond the Group's control are measured at each reporting date using a probability-weighted matrix.

2. Summary of significant accounting policies (continued)

Comparative information - restatement of prior year balances

(a) Presentation of deferred tax

A restatement has been made in the current year in relation to the presentation of Deferred Tax balances. In previous years, the Group had presented the deferred tax assets and the deferred tax liabilities separately on the face of the statement of financial position, whereas these amounts are to be netted off to the maximum extent permissible by law. The comparatives have been restated accordingly, including the disaggregated information note (refer to note 23) and the statutory fund note (refer to note 29), and have no impact on the consolidated income statement, net assets or cash flows of the prior year.

The restatement affected the following line items on the statement of financial position:

- Deferred Tax Assets - Decrease $30,404k
- Deferred Tax Liabilities - Decrease $30,404k

(b) Restatement of Premium Smoothing Reserve

In the current year, the Group restated its Premium Smoothing Reserve ('PSR') which is used to spread the recognition of premium income of a book of business for tax purposes. This resulted in the understatement of the deferred tax asset on unused tax losses and the deferred tax liability on life insurance contract assets in prior periods. This has been corrected by restating the deferred tax balances (refer to note 8). Other note disclosures amended include the solvency position (refer to note 22). This has been reflected in the current year comparatives and there is no impact on the balances reported in the consolidated statement of financial position and the consolidated income statement for the prior year.

Significant changes during the year

The financial position and performance of the Group was affected by the following events during the year:

COVID-19 global pandemic

In March 2020, the World Health Organisation designated COVID-19 to be a pandemic, threatening the health and well-being of a large number of people across multiple countries. The global outbreak has caused escalating levels of societal uncertainty. In response to the pandemic, the New Zealand government introduced an Alert Level system which dictates the level of business activity and societal interaction that can take place at each Alert Level. During the current financial year various regions of New Zealand have moved Alert Levels due to the emergence of community cases and other risk factors associated with COVID-19. All of New Zealand was at the lowest alert level, Alert Level 1, as at 30 June 2021.

While the Group's business activities were deemed to be essential services during all Alert Levels, meaning it could continue to operate, it continued to be impacted by the economic turmoil associated with the COVID-19 pandemic; including wide-ranging and significant impacts upon financial markets and the Reserve Bank's Official Cash Rate.

The pandemic has resulted in impacts to key estimates and judgements used in these financial statements, including:

- Review of actuarial models and policies including how life insurance and investment contract liabilities and assets are calculated as detailed in notes 3, 19 and 20;
- Decisions on capital management as detailed in note 22;
- Exposures to, and the policies and procedure for managing financial risks as detailed in note 24.

An assessment of the impact of COVID-19 on the Group's balance sheet based on the information available at the time of preparing these financial statements is set out below:

Balance sheet item	COVID-19 assessment		Note
	2021	2020	
Assets classified as held for sale	Not applicable as there are no assets classified as held for sale at balance date.	Asset held for sale is held at the lower of carrying amount and fair value less costs of sale. An independent valuation was obtained as at 30 June 2020. The market value was used as the basis of the valuation, reflecting any COVID-19 related impact to the property market.	15, 16
Financial assets at fair value through profit or loss and derivative financial instruments	Positive uplift, due to gains from financial markets. Financial assets and liabilities at fair value through profit or loss ('FVPL') and derivatives are recorded at fair value.	COVID-19 has adversely impacted financial markets. Financial assets and liabilities at fair value through profit or loss ('FVPL') and derivatives are recorded at fair value.	12
Loans and other receivables	No material impact.	The Group has updated the provision for impairment for the increase in expected credit losses ('ECL').	13
Deferred tax	Updated forecasting has not indicated a significant deterioration in future taxable income against which the Group can utilise the deferred tax asset.	Updated forecasting has not indicated a significant deterioration in future taxable income against which the Group can utilise the deferred tax asset.	8
Intangible assets	A review of intangible assets was undertaken in the current financial year and there is no evidence that there has been a decline in the value of these assets resulting from COVID-19.	A review of intangible assets was undertaken in the current financial year and there is no evidence that there has been a decline in the value of these assets resulting from COVID-19.	17
Life insurance contract assets and liabilities	The prior year COVID-19 assumptions relating to discontinuance rates have been removed from future projections.	The Group has allowed for an uplift in morbidity and discontinuance rates in calculating life insurance contract balances.	3, 19
Life investment contract liabilities	Life investment contracts are recorded at fair value.	Life investment contracts are recorded at fair value.	3, 20

3. Actuarial methods and policies

The actuarial reports on the policy contract values and solvency calculations for the years ended 30 June 2021 and 30 June 2020 were prepared by the Chief Actuary, Nicholas Smart, M.Com, FNZSA, FIAA and reviewed by the Appointed Actuary John Smith M.Sc. FNZSA, FIAA. Messrs Smart and Smith are satisfied as to the accuracy of the data from which the amount of the policyholder liabilities and assets and related reinsurance have 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 liabilities and assets are:

Discount rates

Policyholder liability discount rates

	At 30 June 2021	At 30 June 2020
Discounted cash flows on renewable risk plans and level premium risk plans based on 10 year NZ Government bond rate – gross interest rate	**1.77%**	0.91%
Non-participating assurances – net interest rate	**1.27%**	0.66%
Claim reserves and provisions for investment guarantees – gross interest rate	**1.77%**	0.91%
Annuities – net interest rate	**1.27%**	0.66%
Participating plans with reversionary bonuses. Derived from expected after-tax return on the assets backing the participating fund	**0.80%**	0.70%

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. (2020: 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% (2020: 28%). Life insurance assets and liabilities are calculated gross of tax with a separate liability being held for tax.

3. Actuarial methods and policies (continued)

Mortality rates

Mortality rates for life insurance contracts 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 type of product.

Participating plans are assumed to experience mortality in line with NZ10 select mortality table.

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

Morbidity rates

Future morbidity experience is based on proportions of reinsurance rate tables and premium rates. The proportions used are based on recent experience.

Adjustments to base rates have been made at 30 June 2021 to allow for underwriting, product and where experience by age, gender differs from base tables.

Rates of discontinuance

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

	2021	2020
Yearly Renewable Term: Lump sum	**5.0% - 36.0%**	7.0% - 20.0%
Yearly Renewable Term: Income Protection	**6.0% - 50.0%**	7.0% - 50.0%
Whole of Life and Endowments including participating contracts	**3.0%**	3.0%
Level Term	**3.0% - 16.0%**	3.0% - 15.0%
Automatic acceptance with premiums limited to ten years	**2.0% - 54.0%**	3.0% - 40.0%
Automatic acceptance with level or reviewable premiums	**2.0% - 54.0%**	3.0% - 40.0%

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.

3. Actuarial methods and policies (continued)

Participating business

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

	At 30 June 2021	At 30 June 2020
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.**	Assumed that the current bonus allocation will continue indefinitely. The bonus is equal to conservative portfolio return on cash deposits.
Participating plans with reversionary bonuses - supportable bonus rate	**0.0% of the sum assured and reversionary bonus.**	0.0% of the sum assured and reversionary bonus.
Participating plans with reversionary bonuses – current bonus declaration	**0.0%**	0.0%
Policyholder's share of the surplus in the participating pool	**83.3%**	83.3%

COVID-19 and resulting economic slowdown

Additional assumption overlays relating to higher claim experience continue to be applied at 30 June 2021. However, adjustments to discontinuance rates that were expected due to COVID-19 have been removed from future projections. The effect of the assumptions can be seen in the future profit margins and life insurance contract assets.
In the previous financial year, additional assumptions had been applied for a limited period of time to allow for the expected impact of COVID-19. These additional assumptions included an increase in discontinuances and higher claims for Income Protection.

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 liabilities and assets and related reinsurance balances 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:

	2021		2020	
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	**(9,826)**	**-**	1,230	-
Premium rates	**-**	**-**	73,710	-
Mortality/Morbidity rates	**(315)**	**-**	3,814	-
Renewal expenses	**-**	**-**	(104)	-
Premium projection changes[1]	**57,825**	**-**	-	-
Other modelling changes	**(14,560)**	**(516)**	(20,538)	(6,639)
COVID-19 assumptions	**6,695**	**-**	(20,194)	(2,790)
Discount rates	**(39,782)**	**(10,124)**	26,620	7,368
Total	**37**	**(10,640)**	64,538	(2,061)

[1] This includes contractual increases in projections, with the Group now including CPI increases within this.

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').

4. Sources of profit

	2021	2020
	$'000	$'000
Profit for the year arose from		
Life insurance contracts		
Planned margins of revenues over expenses	**22,675**	19,767
Difference between actual and assumed experience	**(5,405)**	4,360
Effects of changes in underlying economic and financial assumptions	**(10,407)**	7,486
Net financial charge from insurance contracts	**2,742**	3,298
	9,605	34,911
Life investment contracts - liabilities		
Difference between actual and assumed experience	**(103)**	(98)
Effects of changes in underlying assumptions	**284**	(119)
	181	(217)
Investment earnings on assets in excess of policyholder liabilities	**2,970**	786
Shareholder tax	**(8,942)**	(13,757)
Non-statutory fund (before tax)	**515**	(1,612)
Profit after tax	**4,329**	20,111

5. Revenue

Accounting policies

Insurance 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.

Insurance premium ceded to reinsurers

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.

Other income

Other income is primarily comprised of reinsurance recapture income recognised in the prior year. Revenue is recognised in profit or loss when it has been earned.

Under NZ IFRS 15, revenue is recognised in the accounting period in which the performance obligation associated with that revenue is completed. Considerations received are recognised as liabilities if there are remaining performance obligations or refunds are expected.

5. Revenue (continued)

	2021	2020
	$'000	$'000
(a) Net premium revenue		
Insurance premium revenue	**278,606**	275,478
Insurance premium ceded to reinsurers	**(114,205)**	(117,187)
Total net premium revenue	**164,401**	158,291

	2021	2020
	$'000	$'000
(b) Other income		
Reinsurance recapture[1]	**-**	9,317
Reinsurance treaty policy administration fees	**4,405**	5,579
Gain on sale of assets[2]	**2,535**	-
Other income	**968**	971
Total other income	**7,908**	15,867

[1] In the prior year, the Group reached an agreement with a reinsurer to take back the risks initially ceded to the reinsurer within a reinsurance arrangement. Settlement of the agreement was concluded in September 2020 (see note 11).

[2] The majority of the gain on sale of assets earned during the year was due to the sale of the Group's property at 81 Carlton Gore Road in June 2021.

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.

	2021	2020
	$'000	$'000
Dividends and distributions	**4,606**	6,430
Net realised and unrealised gains	**12,533**	2,146
Total unit trusts	**17,139**	8,576
Interest received on investments at fair value through profit or loss	**727**	445
Total cash, term deposits, loans and debt securities	**727**	445
Net realised and unrealised gains/(losses)	**228**	(5,255)
Total derivatives	**228**	(5,255)
Other investment (losses)	**-**	(45)
Total investment income	**18,094**	3,721

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.

7. Expenses (continued)
(a) Insurance claims and related reinsurance (continued)

Claim and reinsurance recoveries are as follows:	**2021** **$'000**	2020 $'000
Death, disabilities and income protection claims	**128,797**	137,320
Maturities	**80**	211
Surrenders	**778**	960
Annuities	**1,131**	1,229
Total claims	**130,786**	139,720
Less: Reinsurance recoveries	**(79,794)**	(92,705)
Total net claims expense	**50,992**	47,015

(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.

Commission that varies with and is directly related to securing new life insurance 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 insurance contract assets.

(ii) *Maintenance costs*

Maintenance costs are the fixed and variable costs of administrating policies subsequent to sale.

(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.

7. Expenses (continued)
(b) Commission and operating expenses (continued)

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

	2021	2020
	$'000	$'000
Life insurance contracts		
Acquisition costs		
Commission expenses	**24,797**	23,575
Operating expenses	**27,499**	26,515
Maintenance costs		
Commission expenses	**31,468**	29,442
Operating expenses	**36,972**	29,104
	120,736	108,636
Life investment contracts		
Maintenance costs		
Commissions	**430**	403
Operating expenses	**761**	332
Investment management expenses	**(9)**	444
	1,182	1,179
Non Statutory Fund		
Operating expenses	**3,757**	(70)
Total commission and operating expenses	**125,675**	109,745

Included within other operating expenses are the following:

	2021	2020
	$'000	$'000
Salaries and wages and other employee costs	**35,600**	32,544
Restructure costs	**275**	36
Remuneration of auditor (appointed auditor: PricewaterhouseCoopers)		
Audit of statutory financial statements	**587**	442
Audit fees in relation to prior year	**25**	-
Audit of solvency return	**44**	42
Tax compliance services	**20**	20
Tax advisory services	**14**	-
Custodial control assurance engagement	**18**	17
Total remuneration of auditor	**708**	521
Directors' fees	**703**	623
Project and other professional fees (note 17)	**7,210**	4,399
Depreciation (note 16)[1]	**318**	865
Amortisation (note 17)	**2,351**	1,651
Transaction costs[2]	**3,812**	-

[1] Depreciation excludes right-of-use asset depreciation. For right-of-use asset depreciation, please refer to note 14.
[2] Transaction costs include costs incurred for projects undertaken during the year (refer to note 27).

8. Taxation

Accounting policies
Current and deferred income tax

Income tax expense comprises current and deferred tax, calculated using the tax rate enacted or substantively 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 offset against deferred tax liabilities to the extent they relate to income taxes which are legally able to be offset against each other.

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

	2021	2020
	$'000	$'000
Profit before tax	**14,935**	32,633
Tax at the New Zealand income tax rate of 28% (2020: 28%)	**4,181**	9,137
Tax effect of non-taxable income	**(3,684)**	(1,425)
Tax effect of non-deductible expenses	**7,907**	5,056
Benefit of imputation credits received	**(210)**	(234)
Prior period adjustment	**(88)**	(12)
Tax effect of agreement to amend treatment of reinsurance arrangement (refer to footnote 2 on the next page)	**2,500**	-
Income tax expense reported in the consolidated income statement	**10,606**	12,522
Comprising:		
Current tax	**70**	(289)
Deferred tax	**10,536**	12,811
	10,606	12,522
Tax expense/(benefit) attributed to policyholders	**1,664**	(1,245)
Tax expense attributed to shareholders	**8,942**	13,767
	10,606	12,522

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

	2021			2020		
	$'000			$'000		
	Before tax	**Deferred tax expense**	**After tax**	Before tax	Deferred tax expense	After tax
Fair value (loss)/gains on revaluation of land and building	-	-	-	(2,174)	609	(1,565)
Remeasurement of assets classified as held for sale	-	-	-	(854)	239	(615)
	-	-	-	(3,028)	848	(2,180)

	2021	2020
	$'000	$'000
Income tax assets		
Income tax prepaid[1]	**3,593**	3,593
Current tax asset	**1,953**	494
Tax benefit recognised on acquired policies	**1**	1
Total income tax assets	**5,547**	4,088

[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.

8. Taxation (continued)

Deferred tax assets

The balance comprises temporary differences attributable to:

	Deferred income	Intangible assets	Payables and other financial liabilities	Unused tax losses	IFRS 16 (Right-of-use asset / lease liability)	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2019 (restated)	-	2,691	2,098	29,325	5	34,119
Restatement due to PSR Correction[1]	-	-	-	4,082	-	4,082
Balance as at 1 July 2019 (restated)	**-**	**2,691**	**2,098**	**33,407**	**5**	**38,201**
Movement through the consolidated income statement	-	59	(395)	(2,563)	(5)	(2,904)
Restatement due to PSR Correction[1]	-	-	-	310	-	310
Balance at 30 June 2020 (restated)	-	**2,750**	**1,703**	**31,154**	**-**	**35,607**
Movement through the consolidated income statement[2]	**710**	**(2,750)**	**334**	**(14,233)**	**-**	**(15,939)**
Balance at 30 June 2021	**710**	**-**	**2,037**	**16,921**	**-**	**19,668**

Deferred tax liabilities

The balance comprises temporary differences attributable to:

	Intangible assets	Financial assets at fair value through profit or loss	Property, plant and equipment / Assets classified as held for sale	Life insurance contract assets	Deferred Acquisition Costs[3]	Deferred income	IFRS 16 (Right-of-use asset / lease liability)	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2019	-	461	1,711	1,173	74,116	8,606	-	86,067
Restatement due to PSR Correction[1]	-	-	-	4,082	-	-	-	4,082
Balance as at 1 July 2019 (restated)	**-**	**461**	**1,711**	**5,255**	**74,116**	**8,606**	**-**	**90,149**
Movement through the consolidated income statement	-	493	(74)	601	7,672	1,258	7	9,957
Movement through other comprehensive income	-	-	(848)	-	-	-	-	(848)
Restatement due to PSR Correction[1]	-	-	-	310	-	-	-	310
Balance at 30 June 2020 (restated)	**-**	**954**	**789**	**6,166**	**81,788**	**9,864**	**7**	**99,568**
Movement through the consolidated income statement	**418**	**(916)**	**44**	**1,055**	**3,859**	**(9,864)**	**1**	**(5,403)**
Movement through other comprehensive income	**-**	**-**	**(798)**	**-**	**-**	**-**	**-**	**(798)**
Balance at 30 June 2021	**418**	**38**	**35**	**7,221**	**85,647**	**-**	**8**	**93,367**

[1] **Comparative information - restatement of prior year balances**
In the current year, the Group restated its Premium Smoothing Reserve ('PSR') which is used to spread the recognition of premium income on a book of business for tax purposes. This resulted in the understatement of the deferred tax asset on unused tax losses and the deferred tax liability on life insurance contract assets in prior periods. This has been corrected by restating the deferred tax balances. Refer to note 2.

[2] In the current year the Group reached agreement with Inland Revenue to amend the tax treatment of a historic reinsurance arrangement which resulted in taxable income being brought forward. This led to the utilisation of an additional $47.8m of tax losses in the current year representing a $13.5m movement through deferred tax assets.

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

	2021	2020
	$'000	$'000
Net deferred tax liabilities	**73,699**	63,960

Imputation credits

	2021	2020
	$'000	$'000
Imputation credits available for use in subsequent reporting periods based on a tax rate of 28%	**34**	30

9. 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 gross 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:	**2021**	2020
	$'000	$'000
Bank balances	**19,506**	35,526
Deposits at call[1]	**164,978**	152,531
Total cash and cash equivalents	**184,484**	188,057

[1] The Group has reviewed and restructured its investment portfolio during the year. As a result some of the financial assets were re-invested in call accounts to improve the Group's liquidity and reduce counter party concentration risks. Deposits at call are held with AA- rated banks with 52% of the deposits at call held with one bank.

10. Other financial assets at amortised cost

Accounting policy

Other financial assets at amortised cost comprise term deposits that are held with banks and financial institutions. The carrying value of these assets is approximately equal to their fair value.

	2021	2020
	$'000	$'000
Term deposits	**20,032**	-
	20,032	-

Fixed interest rates in the year to 30 June 2021 were between 0.80% and 1.19%. Term deposits are held with AA- rated banks with 25% of the term deposits being held with each bank. The term deposits are backing shareholder funds.

Due:		
Within 12 months	**15,032**	-
Later than 12 months	**5,000**	-
	20,032	-

11. 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.

	2021	2020
	$'000	$'000
Life insurance contracts reinsurance assets		
Balance at 1 July	**24,980**	19,889
Reinsurance claims made to reinsurers	**56,672**	72,512
Payments received from reinsurers	**(56,180)**	(73,721)
Reinsurance recapture receivable[1]	**-**	6,300
Balance at 30 June (expected to be recovered within 12 months)	**25,472**	24,980

[1] In the prior year, the Group reached an agreement with a reinsurer to take back the risks initially ceded to the reinsurer within a reinsurance arrangement. The full settlement of $6.3m was received in September 2020 (see note 5).

12. Financial instruments

Accounting Policies

NZ IFRS 9 contains a classification and measurement approach for financial assets that reflects the business model in which the assets are managed and the contractual terms of the cash flows.

(i) Classification
The Group classifies its financial assets into the following measurement categories:
- those to be measured at amortised cost; and
- those to be measured subsequently at fair value, either through other comprehensive income ('FVOCI') or through profit or loss ('FVPL').

Financial assets are not reclassified subsequent to their initial recognition, except if in the period the Group changes its business model for managing those financial assets. Subsequent measurement of the Group's financial assets depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights 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.

(iii) Measurement
Amortised Cost
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as being measured at FVPL:
- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

FVPL
The Group classifies the following financial assets at FVPL:
- debt investments that do not qualify for measurement at either amortised cost or FVOCI;
- equity investments that are held for trading; and
- equity investments for which the Group has not elected to recognise fair value gains or losses through OCI.

Business model assessment
The Group must make an assessment of the objective of the business model in which a financial asset is held at a portfolio level as this best reflects the way the business is managed. The information considered includes:
- the stated policies and objectives for the portfolio and operation of those policies in practice; and
- how the performance of the portfolio is evaluated and reported to the Group's management.

Assessment whether contractual cash flows are solely payments of principal and interest
For the purpose of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time, for other basis lending risks and costs and for a profit margin.

12. Financial instruments (continued)

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets.

Recognition of gains or losses

FVPL

A gain or loss on a debt instrument that is subsequently measured at FVPL is recognised in profit or loss and presented net within investment income/(losses) in the period in which it arises.

Amortised Cost

Interest income from these financial assets is included in interest income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in investment income/(losses) together with foreign exchange gains or losses. Impairment losses are presented as a separate line item in the statement of profit or loss.

Financial instruments by category

Financial assets	**Fair value through profit or loss**	**Amortised Cost**	**Total**
	$'000	**$'000**	**$'000**
At 30 June 2021			
Cash and cash equivalents	**-**	**184,484**	**184,484**
Other financial assets at amortised cost	**-**	**20,032**	**20,032**
Assets arising from reinsurance contracts	**-**	**25,472**	**25,472**
Financial assets at fair value through profit or loss	**138,774**	**-**	**138,774**
Loans and other receivables	**-**	**5,202**	**5,202**
	138,774	**235,190**	**373,964**

	Fair value through profit or loss	Amortised Cost	Total
	$'000	$'000	$'000
At 30 June 2020			
Cash and cash equivalents	-	188,057	188,057
Assets arising from reinsurance contracts	-	24,980	24,980
Financial assets at fair value through profit or loss	134,019	-	134,019
Derivative financial instruments (held for trading)	903	-	903
Loans and other receivables	-	5,632	5,632
	134,922	218,669	353,591

Financial liabilities	**Fair value through profit or loss**	**Amortised cost**	**Total**
	$'000	**$'000**	**$'000**
At 30 June 2021			
Payables and other financial liabilities	**-**	**49,805**	**49,805**
Lease liabilities	**-**	**270**	**270**
Derivative financial instruments (held for trading)	**47**	**-**	**47**
Life investment contract liabilities	**111,125**	**-**	**111,125**
	111,172	**50,075**	**161,247**

	Fair value through profit or loss	Amortised cost	Total
	$'000	$'000	$'000
At 30 June 2020			
Payables and other financial liabilities	-	47,759	47,759
Lease liabilities	-	400	400
Life investment contract liabilities	113,010	-	113,010
	113,010	48,159	161,169

12. 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 2021				
Financial Assets				
Financial assets at FVPL				
Debt securities - Unitised funds	**-**	**61,333**	**-**	**61,333**
Equity securities - Unitised funds	**-**	**77,441**	**-**	**77,441**
Total financial assets at fair value	**-**	**138,774**	**-**	**138,774**
Financial Liabilities				
Derivative financial instruments				
Forward currency contracts	**-**	**47**	**-**	**47**
Life investment contract liabilities	**-**	**-**	**111,125**	**111,125**
Total financial liabilities at fair value	**-**	**47**	**111,125**	**111,172**
At 30 June 2020				
Financial Assets				
Financial assets at FVPL				
Debt securities - Unitised funds	-	66,384	-	66,384
Equity securities - Unitised funds	-	67,635	-	67,635
Total financial assets at fair value through profit or loss	-	134,019	-	134,019
Derivative financial instruments				
Forward currency contracts	-	903	-	903
Total derivative financial instruments	-	903	-	903
Total financial assets at fair value	-	134,922	-	134,922
Financial Liabilities				
Life investment contract liabilities	-	-	113,010	113,010
Total financial liabilities at fair value	-	-	113,010	113,010

The notional principal amounts of outstanding derivatives at 30 June 2021 were forward currency contracts $27,150,963 (2020: $55,444,277).

12. 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	Net fair value gains	Purchases/ deposits	Withdrawals/ disposals	Balance at the end of the year
	$'000	$'000	$'000	$'000	$'000
2021					
Liabilities classified as level 3					
Life investment contract liabilities	**113,010**	**12,252**	**3,747**	**(17,884)**	**111,125**
2020					
Liabilities classified as level 3					
Life investment contract liabilities	122,956	680	4,085	(14,711)	113,010

13. 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.

Impairment

The Group recognises a loss allowance for the estimated credit losses ('ECLs') on financial assets measured at amortised cost subject to NZ IFRS 9 impairments, being loan receivables, cash, cash equivalents and term deposits.

A majority of the Group's financial assets represent rights and obligations arising under insurance contracts as defined in NZ IFRS 4 Insurance Contracts which are out of scope and therefore not subject to the NZ IFRS 9 impairment model.

The Group applies a three stage approach to measuring ECLs on financial assets measured at amortised cost. Assets migrate through the following three stages on their change in credit quality since initial recognition:

i) Stage 1: 12-month ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and which were not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

ii) Stage 2: Lifetime ECL - not credit impaired

For exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognised. The management practice is to consider three elements in assessing whether there have been a significant increase in credit risk - a quantitative element, qualitative element and the 30 day rebuttable presumption, together with other information.

iii) Stage 3: Lifetime ECL - credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than to the gross carrying amount.

The loss allowances which are measured as 12-month ECLs are:
- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which the credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowance for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

13. Loans and other receivables (Continued)

The Group considers the probability of default upon initial recognition of an asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period.

In assessing whether there has been a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportable forward-looking information. The following indicators are incorporated:
- internal credit rating;
- actual or expected significant adverse changes in financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- significant changes in the value of the collateral supporting the obligation; and
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers.

Macroeconomic information (such as market interest rates and unemployment rates) is incorporated as part of the internal rating model.

The Group assumes that the credit risk of a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:
- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising the security (if any is held); or
- the financial asset is 90 days or more past due.

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group considers this to be BBB- or higher per rating agency.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

In all cases, the maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECL
ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls.

Write-off
The gross carrying amount of a financial asset is written off (either partially or in full) to the extent there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

	2021	2020
	$'000	$'000
Mortgages and loans		
Mortgage and loan balances	**833**	1,524
Less provision for impairment	**(695)**	(778)
Loan receivables net of expected credit losses	**138**	746
Trade and other receivables		
Prepayments	**2,991**	3,478
Sundry receivables	**180**	66
Outstanding premiums	**4,884**	4,820
Total trade and other receivables	**8,055**	8,364
Total loans and other receivables	**8,193**	9,110

14. Leases

Accounting policy

Rental contracts are typically made for fixed periods of 3 to 5 years with extension options available. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The Group's lease agreements do not impose any covenants, but lease assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The lease payments are discounted using the lessee's incremental borrowing rate, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentive receivable;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

To determine the incremental borrowing rate, the Group:
- where possible, uses recent third-party financing received by the individual lessees as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate and adjusted for credit risks; and
- makes adjustments specific to the lease (e.g. term, security).

Lease payments are allocated between the principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise low-value IT equipment.

Variable lease payments relate to operating expenses on regional office leases. Operating expenses include charges for water, gas, electricity, telephone and other utilities.

14. Leases (continued)

Extension and termination options are included in a number of leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. None of the total lease payments made in the current financial period (2020: 28%) were as a result of exercising the extension option.

The Group leases various assets including offices, IT equipment and motor vehicles. Information about leases for which the Group is a lessee is presented below.

	Office	IT equipment	Motor vehicle	Total
	$'000	$'000	$'000	$'000
Right-of-use assets				
Balance at 1 July 2020	85	209	132	426
Additions	-	34	51	85
Depreciation charge for the period	(43)	(83)	(95)	(221)
Modification to lease terms	-	-	10	10
Balance as at 30 June 2021	**42**	**160**	**98**	**300**
Lease liabilities				
Balance at 1 July 2020	47	217	136	400
Additions	-	34	51	85
Interest expense	1	9	5	15
Modification to lease terms	-	-	10	10
Lease payments	(48)	(90)	(102)	(240)
Balance as at 30 June 2021	**-**	**170**	**100**	**270**
Current	-	90	70	160
Non Current	-	80	30	110
	-	**170**	**100**	**270**

	2021	2020
	$'000	$'000
Amounts recognised in profit or loss (included in 'Operating expenses')		
Interest on lease liabilities	**15**	24
Variable lease payment not included in the measurement of lease liabilities	**-**	16
Depreciation charges on right-of-use of assets	**221**	321
Expense relating to short-term leases	**-**	2
Expense relating to leases of low-value assets	**57**	37
Total cash outflow for leases	**240**	367

Leases committed not yet commenced

In the previous financial year, the Group signed an agreement to enter into a lease agreement for new premises at 136 Fanshawe Street, Auckland ('Fanshawe property'). The lease agreement is still in negotiation as at balance date (see note 26 (b)).

15. Assets classified as held for sale

In May 2020, the Group committed to a plan to sell the owner occupied building at 81 Carlton Gore Road, Newmarket, Auckland ('the Carlton Gore Road property'). Accordingly the Carlton Gore Road property was reclassified as an asset held for sale in the prior year. In accordance with NZ IFRS 5, the Carlton Gore Road property value was remeasured at the time of the classification as held for sale at the lower of its carrying amount and fair value less costs of sale, based on an independent valuation. The property value was remeasured again based on an updated independent valuation as at 30 June 2020:

	Jun-19
Owner occupied building - 81 Carlton Gore Road	**$'000**
Carrying value of the property (before remeasurement)	29,203

	Initial measurement May-20 $'000	Subsequent measurement Jun-20 $'000
Asset held for sale - 81 Carlton Gore Road		
Fair value as per independent valuation	26,600	26,300
Less: costs of sale	(554)	(554)
Measured at fair value less costs of sale	26,046	25,746

Revaluation of property
The Carlton Gore Road 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 re-measured on 30 June 2020 at $26,300,000 based on an independent valuation by Bayleys Valuations Limited. The market value was used as the basis for the valuation. Due to the impact of COVID-19 at the time there was significant market uncertainty around commercial property prices with the valuation used being relevant to the prior year balance date only.

Primary assumptions used in valuing the property

	Jun-20
Capitalisation rate[1]	**6.00%**
Discount rate[1]	**7.38%**

[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 (prior to being transferred to asset held for sale):

	2020 $'000
Cost	**18,186**
Accumulated depreciation	**(3,900)**
Net book amount	**14,286**

Sale and lease back
The Carlton Gore Road property was sold on 30 June 2021. The gain on sale from this transaction is disclosed in note 5. The Carlton Gore Road property was settled prior to the Fanshawe property completion date. The Group will lease back the Carlton Gore Road property until completion, refer to note 26 (b).

16. 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	1-5 years

Building fit-out and improvements that are in a work in progress state and yet to be capitalised are not depreciated until they are available for use, i.e. when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management.

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 2019				
Cost or fair value	29,000	1,270	5,933	36,203
Accumulated depreciation	-	(1,099)	(5,030)	(6,129)
Net book amount	29,000	171	903	30,074
Year ended 30 June 2020				
Opening net book amount	29,000	171	903	30,074
Additions	-	76	489	565
Revaluation	(2,174)	-	-	(2,174)
Depreciation	(429)	(36)	(400)	(865)
Disposals	-	(8)	(48)	(56)
Transferred to asset held for sale	(26,397)	(203)	-	(26,600)
Closing net book amount	-	-	944	944
At 1 July 2020				
Cost or fair value	26,397	1,338	6,374	34,109
Accumulated depreciation	-	(1,135)	(5,430)	(6,565)
Transferred to asset held for sale	(26,397)	(203)	-	(26,600)
Net book amount	-	-	944	944
Year ended 30 June 2021				
Opening net book amount	**-**	**-**	**944**	**944**
Additions	**-**	**-**	**192**	**192**
Work in progress to be capitalised	**-**	**2,275**	**-**	**2,275**
Depreciation	**-**	**-**	**(318)**	**(318)**
Disposals	**-**	**-**	**(256)**	**(256)**
Closing net book amount	**-**	**2,275**	**562**	**2,837**
At 30 June 2021				
Cost or fair value	**-**	**2,275**	**6,310**	**8,585**
Accumulated depreciation	**-**	**-**	**(5,748)**	**(5,748)**
Net book amount	**-**	**2,275**	**562**	**2,837**

17. 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 2 to 7 years on a straight-line basis.

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.

17. Intangible assets (continued)
Intangible assets can be analysed as follows:

	Software	Internally developed software	Software under development	Total
	$'000	$'000	$'000	$'000
At 1 July 2019				
Cost	2,119	16,776	7,536	26,431
Accumulated amortisation	(2,089)	(13,980)	(7,527)	(23,596)
Net book amount	30	2,796	9	2,835
Year ended 30 June 2020				
Opening net book amount	30	2,796	9	2,835
Additions	387	-	7,771	8,158
Amortisation	(86)	(1,565)	-	(1,651)
Other movements	-	-	(120)	(120)
Closing net book amount	331	1,231	7,660	9,222
At 30 June 2020				
Cost	2,506	16,776	15,307	34,589
Accumulated amortisation/impairment	(2,175)	(15,545)	(7,647)	(25,367)
Net book amount	331	1,231	7,660	9,222
Year ended 30 June 2021				
Opening net book amount	**331**	**1,231**	**7,660**	**9,222**
Additions	**131**	**-**	**6,620**	**6,751**
Transfers in/(out)	**-**	**7,978**	**(7,978)**	**-**
Amortisation	**(154)**	**(2,197)**	**-**	**(2,351)**
Closing net book amount	**308**	**7,012**	**6,302**	**13,622**
At 30 June 2021				
Cost	**2,637**	**17,107**	**6,302**	**26,046**
Accumulated amortisation/impairment	**(2,329)**	**(10,095)**	**-**	**(12,424)**
Net book amount	**308**	**7,012**	**6,302**	**13,622**

In 2019 the Group began work on developing a new policy administration system to replace several legacy systems. The first phase of the system development was completed in July 2020. The second phase is in progress and is expected to be completed in the next financial year.

Following the Phase 1 system deployment, the Group wrote-off existing systems with a cost value of $15m. As the replaced systems had already been fully amortised/impaired in prior financial periods, this write-off did not impact the profit or loss in the current financial year.

18. 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.

	2021	2020
	$'000	$'000
Creditors and accruals	**7,584**	5,085
Claims notified	**20,400**	18,504
Contract liability	**-**	1,350
Income in advance	**1,084**	868
Reinsurance liabilities	**21,821**	22,820
Employee entitlements	**6,672**	5,137
Total payables and other financial liabilities	**57,561**	53,764
Due:		
Within 12 months	**53,871**	49,997
Later than 12 months	**3,690**	3,767
	57,561	53,764

19. Life insurance contract liabilities and assets

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 liabilities and assets 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 liabilities and assets is recognised in the consolidated income statement.

19. Life insurance contract liabilities and assets (continued)

	2021 $'000	2020 $'000
Movement in life insurance contract liabilities/(assets)		
Opening balance at 1 July	**(249,404)**	(220,295)
Premiums received	**278,606**	275,478
Liabilities released for payments on death, surrender and other terminations in the year	**(130,786)**	(139,720)
Commission and other expenses	**(125,676)**	(109,745)
Other movements[1]	**(16,270)**	(55,122)
Closing balance at 30 June	**(243,530)**	(249,404)

[1] This includes amortisation, experience impacts and experience changes during the financial year.

	2021 $'000	2020 $'000
Life insurance contract assets ceded under reinsurance		
Opening balance at 1 July	**58,458**	41,457
Movement in consolidated income statement	**(19,321)**	17,001
Closing balance at 30 June	**39,137**	58,458
Net of reinsurance life insurance contract (assets)	**(204,393)**	(190,946)
Due:		
Within 12 months[2]	**(4,157)**	1,551
Later than 12 months[2]	**(200,236)**	(192,497)
	(204,393)	(190,946)

[2] Prior year figures only included the participating portfolio in amounts due within 12 months ($630k). Figures now include all amounts relating to all life insurance contracts.

	2021 $'000	2020 $'000
Life insurance contract assets net of reinsurance contain the following components		
Future policy benefits[3]	**828,849**	751,417
Future expenses[3]	**728,221**	652,480
Planned margins of revenues over expenses	**359,522**	340,341
Future revenues[3]	**(2,120,985)**	(1,935,184)
Life insurance contract (assets) net of reinsurance	**(204,393)**	(190,946)
Life insurance contracts with a discretionary participation feature that have a guaranteed element	**36,472**	36,027

[3] There was a change in presentation in the current year and, for consistency, comparatives have also been revised.

20. 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.

	2021 $'000	2020 $'000
Movement in life investment contract liabilities		
Opening balance at 1 July	**113,010**	122,956
Contributions received	**3,942**	4,284
Fees deducted from account balances	**(195)**	(199)
Liabilities released for payments on death, surrender and other terminations in the year	**(17,884)**	(14,711)
Investment return credited to policyholders	**12,260**	1,354
Other movements	**(8)**	(674)
Closing balance at 30 June	**111,125**	113,010
Due:		
Within 12 months	**33,340**	35,359
Later than 12 months	**77,785**	77,651
	111,125	113,010
Life investment contracts with a guaranteed element	**95,180**	94,226

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

	2021	2020	**2021**	2020
	Shares	Shares	**$'000**	$'000
Opening balance at 1 July	**2,091,440**	2,091,440	**81,586**	81,586
Closing balance at 30 June	**2,091,440**	2,091,440	**81,586**	81,586

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.

22. Capital management

During the year the Group has applied the newly developed Internal Capital Adequacy Assessment Process ('ICAAP') framework to prioritise capital management in decision making.

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 ('Solvency Standard'). The Board approves the capital policy and minimum capital levels and limits via the ICAAP. 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. The solvency margin of the Statutory Fund must be at least $0 (2020: $17m) and the Non Statutory fund must be at least $0.

During the years ended 30 June 2021 and 30 June 2020, the Company complied with all capital licensing requirements and is monitoring the development of new RBNZ standards.

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, capital management and solvency. 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.

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.

The solvency position of the Company is as follows:

	2021			2020		
	Statutory Fund	**Non-Statutory Fund**	**Total**	Statutory Fund[1]	Non-Statutory Fund	Total[1]
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Actual solvency capital	**303,580**	**22,977**	**326,557**	279,254	32,210	311,464
Minimum solvency capital	**263,002**	**2,308**	**265,310**	254,585	3,347	257,932
Solvency margin	**40,578**	**20,669**	**61,247**	24,669	28,863	53,532
Solvency ratio	**115%**	**996%**	**123%**	110%	962%	121%

[1] The comparative amounts have been restated by $4.4m to reflect a restatement of the Premium Smoothing Reserve (refer to note 2 for further details).

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:

2021	Investment linked $'000	Non-investment linked $'000	Total Statutory Fund $'000
Investment assets	**111,153**	**182,925**	**294,078**
Other (liabilities)/assets	**(29)**	**70,906**	**70,877**
Policy liabilities	**111,125**	**(204,393)**	**(93,268)**
Liabilities other than policy liabilities	**-**	**123,223**	**123,223**
Shareholders' retained earnings	**-**	**335,000**	**335,000**
Insurance premium revenue and contributions received	**3,747**	**278,606**	**282,353**
Investment income	**12,260**	**5,688**	**17,948**
Claims expense and investment contracts payments	**17,884**	**130,786**	**148,670**
Other operating expenses	**1,182**	**120,737**	**121,919**
Investment revenues paid or allocated to policyholders	**12,260**	**-**	**12,260**
(Loss)/profit before tax	**1,845**	**16,660**	**18,505**
Profit after tax	**181**	**6,717**	**6,898**
2020			
Investment assets	110,983	175,567	286,550
Other assets	2,027	68,858	70,885
Policy liabilities	113,010	(190,946)	(77,936)
Liabilities other than policy liabilities	-	114,768	114,768
Shareholders' retained earnings	-	320,603	320,603
Insurance premium revenue and contributions received	4,086	275,478	279,564
Investment income	4,701	1,096	5,797
Claims expense and investment contracts payments	14,711	139,720	154,431
Other operating expenses	1,180	108,637	109,817
Investment revenues paid or allocated to policyholders	1,354	-	1,354
(Loss)/profit before tax	(1,463)	35,942	34,479
Profit after tax	(217)	21,714	21,497

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 is ultimately responsible for risk management, specific responsibility for the monitoring and evaluation of the effectiveness of risk management is delegated to the Board 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 framework, the purpose of which is to communicate why risk management is important and describe the Group's approach to managing risk. Risk management is the cultures, capabilities and practices integrated with the Group's strategy (and its execution), that the Group rely on to manage risk in creating, preserving and realising value. Risk Management is a critical business discipline that reduces uncertainty in the achievement of the Group's objectives; it also strengthens and complements other corporate governance initiatives.

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. The Group's Risk Management Framework follows the principles of AS/NZ ISO 31000 Risk Management Principles and Guidelines. The risk management programme of work is regularly reviewed to ensure it continues to effectively manage the Group's risks.

iii. The risk and compliance programme of work 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 Enterprise Risk register allows the 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. The identified risks are owned by a member of the Executive team for transparency and accountability with second line assurance provided by Risk & Compliance regarding controls identified.

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 has been set up by the Group. This is presently an outsourced function provided by KPMG. The internal audit function follows an agreed program of work which is reviewed at least annually to ensure appropriate subjects for audit are identified and agreed.

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

The Asset and Liability Committee ('ALCO') is a management committee comprised of the Chief Financial Officer, the Appointed Actuary, the Chief Risk Officer and an independent actuarial advisor.

The Group's business lines are exposed to balance sheet and profit or 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 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 impact of COVID-19 was less pronounced in the current financial year with limited regional restrictions seen in August and March. The Group took a holistic approach to managing the dynamic risks and issues arising. Business Continuity Plans were triggered as required to ensure the Group maintained business continuity for all stakeholders during these periods.

The Group also continued to maintain the usual customer service levels with a strong focus on the health and safety and wellbeing of employees. Working remotely increases the likelihood of fraud risk. The Group has a Fraud and Corruption plan and supporting Fraud Risk Register to identify, assess and monitor key points across the business which are potentially susceptible to fraud occurring.

In addition improvements were also initiated during the financial year around economic scenario response planning.

24. Risk Management (continued)

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').

(i) Currency risk

Currency risk is the risk that the fair value of 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 2021 foreign currency denominated assets amounted to 3.1% (2020: 10.4%) 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 and assets, the Group is exposed to equity price risk.

(iii) Interest rate risk

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

Fair value interest rate risk
Fair value interest rate risk arises from the potential for a change in interest rates to cause a fluctuation in the fair value of financial instruments and life insurance contract liabilities 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 regular monitoring of its exposure and assessing whether it is appropriate to adopt interest rate swaps given strategic objectives.

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:

		2021		2020	
		$'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%	**175**	**175**	158	158
	Decrease by 10%	**(143)**	**(143)**	(130)	(130)
Equity prices	Increase by 10%	**854**	**854**	819	819
	Decrease by 10%	**(854)**	**(854)**	(819)	(819)
Interest rates	Increase by 1%	**(1,071)**	**(1,071)**	(1,061)	(1,061)
	Decrease by 1%	**1,071**	**1,071**	1,061	1,061

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

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 advisors) 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 a catastrophe reinsurance treaty to limit large losses arising from concentrations of risk due to geographical exposure or single events. The Group also holds an excess of loss reinsurance treaty to limit the net exposures to high levels of claims from all sources. 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.	- Mortality - Morbidity - Discontinuance rates
Life insurance contracts with discretionary participating benefits	These policies include a clearly defined initial guaranteed sum assured which is payable on death. The guaranteed amount is a multiple of the amount that is increased throughout the duration of the policy by the addition of regular bonuses annually which once added are not removed. Regular bonuses are added retrospectively.	Benefits arising from the discretionary participation feature are based on the performance of a specified pool of contracts or a specified type of contract.	- Mortality - Morbidity - Market risk - Discontinuance rates - Market returns on underlying assets
Life annuity contracts	These policies provide regular payments to the life assured.	The amount of the payment is set at inception of the policy.	- Longevity - Market returns on underlying assets

24. Risk Management (continued)

Sensitivity analysis
The analysis assumes that the value of liabilities will not be affected by changes in demographic assumptions.

The following table shows the changes in the value of profit (post-tax) at 30 June if actuarial assumptions change as follows:

		2021	2020
		Impact on post-tax profit	Impact on post-tax profit
		$'000	$'000
Discount rate	Increase by 0.25%	**(2,594)**	(828)
	Decrease by 0.25%	**2,633**	890
Mortality / morbidity	Increase by 10%	**63**	75
	Decrease by 10%	**(10)**	(97)
Discontinuance	Increase by 10%	**197**	229
	Decrease by 10%	**(299)**	(338)
Expenses	Increase by 10%	**(32)**	(37)
	Decrease by 10%	**32**	37

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. This contrasts with annuities where greater mortality leads to lower levels of claims.
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.

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.

2021	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	184,484	-	-	-	184,484	184,484
Other financial assets at amortised cost	15,032	5,000	-	-	20,032	20,032
Assets arising from reinsurance contracts	25,472	-	-	-	25,472	25,472
Financial assets at fair value through profit or loss	138,774	-	-	-	138,774	138,774
Loans and other receivables	5,042	-	-	-	5,042	5,202
	368,804	5,000	-	-	373,804	373,964
Financial liabilities						
Payables and other financial liabilities	49,805	-	-	-	49,805	49,805
Lease liabilities	160	83	27	-	270	270
Derivative financial instruments	47	-	-	-	47	47
Financial liabilities life investment contracts	33,340	11,751	21,835	44,199	111,125	111,125
	83,352	11,834	21,862	44,199	161,247	161,247
Life insurance contract liabilities/(assets) net of reinsurance	770	584	1,626	2,913	5,893	(204,393)

2020	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	188,057	-	-	-	188,057	188,057
Assets arising from reinsurance contracts	24,980	-	-	-	24,980	24,980
Financial assets at fair value through profit or loss	134,019	-	-	-	134,019	134,019
Derivative financial instruments	903	-	-	-	903	903
Loans and other receivables	5,171	85	120	563	5,939	5,632
	353,130	**85**	**120**	**563**	**353,898**	**353,591**
Financial liabilities						
Payables and other financial liabilities	46,409	-	-	-	46,409	46,409
Lease liabilities	198	122	80	-	400	400
Financial liabilities life investment contracts	35,359	11,261	19,434	46,956	113,010	113,010
	81,966	**11,383**	**19,514**	**46,956**	**159,819**	**159,819**
Life insurance contract liabilities/(assets) net of reinsurance	**630**	**758**	**1,701**	**3,147**	**6,236**	**(190,946)**

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 have generally required security over property.

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

2021	**AAA+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	**184,484**	**-**	**-**	**-**	**184,484**
Other financial assets at amortised cost	**20,032**	**-**	**-**	**-**	**20,032**
Assets arising from reinsurance contracts	**25,472**	**-**	**-**	**-**	**25,472**
Mortgages and loans	**-**	**-**	**-**	**833**	**833**
	229,988	**-**	**-**	**833**	**230,821**

2020	**AAA+ to A-**	**BBB+ to BBB-**	**BB+ to B-**	**Unrated**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	188,057	-	-	-	188,057
Assets arising from reinsurance contracts	24,980	-	-	-	24,980
Derivatives	903	-	-	-	903
Mortgages and loans	-	-	-	1,524	1,524
	213,940	-	-	1,524	215,464

Included in the consolidated statement of financial position are unitised funds of $138,934,000 (2020: $134,019,000) 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. The Group closely monitors collateral held for the mortgages classified as credit-impaired. Those collateral related to mortgages are held in order to mitigate potential losses.

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 provision for impairment. The Group does not expect any investment or reinsurance counterparties to fail to meet their obligations given their high credit ratings.

The Group has significant funds invested in cash at banks. Although the risk is low, there is an asset concentration risk mitigation strategy of spreading cash between banks.

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 2021	2020
Fidelity Capital Guaranteed Bond Limited	Non-trading investment company	Ordinary	**100%**	100%
Life and Advisory Services Limited	Non-trading investment company	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.

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.

	2021 $'000	2020 $'000
Short-term benefits	**6,333**	5,355
Total	**6,333**	5,355

(b) Transactions with related parties

The following transactions occurred with related parties:

	2021 $'000	2020 $'000
Commission paid to related parties comprise:		
Shareholders as at 30 June who held agency agreements with the Group	**5,373**	4,351
	5,373	4,351

(c) Outstanding balances

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

	2021 $'000	2020 $'000
Advisor accounts payable to shareholders	**(17)**	(17)

(d) 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.

26. Commitments

(a) Capital commitments

Significant capital expenditure committed for at the end of the reporting period but not recognised as part of liabilities is as follows:

	2021 **$'000**	2020 $'000
Property, plant and equipment	**3,135**	4,500
Intangible assets	**1,951**	12,360
	5,086	16,860

(b) Leases committed not yet commenced

During the year ended 30 June 2020, the Group signed an agreement to enter into a lease agreement for new premises at 136 Fanshawe Street, Auckland. The final lease agreement was still in negotiation as at 30 June 2021. The previous owner-occupied property at 81 Carlton Gore Road, Auckland ('Carlton Gore Road property') was settled on balance date, prior to the completion date of the Fanshawe property. The Group leased back the Carlton Gore Road property until completion.

The Group's estimated future cash outflows (undiscounted) for future years in relation to the 136 Fanshawe Street property lease and 81 Carlton Gore Road property lease not yet commenced as at balance date are expected to be as follows:

	2021 **$'000**	2020 $'000
Lease of Fanshawe property[1]	**24,600**	24,600
Lease back of Carlton Gore Road property[2]	**284**	284
Total	**24,884**	24,884

[1] The Group is working through the right-of-use asset and lease liability determinations which will be finalised once the lease is agreed.

[2] The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases under NZ IFRS 16.

27. Events occurring after balance date

(a) Acquisition of Westpac Life

On 5 July 2021, the owner of Westpac Life-NZ- Limited (Westpac Life), Westpac Financial Services Group-NZ- Limited, signed an agreement to sell Westpac Life to the Group for approximately $400m. The sale is subject to regulatory and other approvals, including approval from the Group's shareholders and the Reserve Bank of New Zealand ('RBNZ'), with completion of the acquisition expected to be in the next financial year.

(b) COVID-19

On 17 August 2021, following the re-emergence of COVID-19 in the community, the government announced a move from Level 1 to Level 4 for Auckland and the rest of the country. This has not resulted in changes to assumptions relating to the Group's key estimates and judgements referred to in these financial statements.

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.

	2021 **$'000**	2020 $'000
Total profit for the year attributable to the owners of the Company	**4,329**	20,111
	Shares	Shares
Weighted average number of ordinary shares on issue	**2,091,440**	2,091,440
Basic earnings per share	**$**	$
	2.07	9.62

(ii) Diluted earnings per share

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

29. 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:

	2021	2020
Income statement	**$'000**	$'000
Insurance premium revenue	**278,606**	275,478
Insurance premium ceded to reinsurers	**(114,205)**	(117,187)
Investment income	**17,948**	5,797
Other income	**7,969**	15,941
Claims expense	**(130,786)**	(139,720)
Reinsurance recoveries	**79,794**	92,705
Commission and operating expenses	**(121,919)**	(109,817)
Net change in life insurance contract assets	**13,447**	12,108
Net change in life investment contract liabilities	**(12,350)**	(826)
Income tax expense	**(11,606)**	(12,982)
Profit for the year attributable to the owners of the Company (non-participating)	**6,898**	21,497
Assets		
Cash and cash equivalents	**155,305**	154,568
Other assets	**20,032**	-
Assets arising from reinsurance contracts	**25,472**	24,980
Assets classified as held for sale	**-**	25,746
Financial assets at fair value through profit or loss	**138,774**	134,019
Derivative financial instruments	**-**	903
Life insurance contract assets	**243,530**	249,404
Loans and other receivables	**6,619**	5,281
Property, plant and equipment	**2,837**	944
Right-of-use assets	**300**	426
Income tax assets	**1,995**	537
Deferred tax assets	**-**	811
Intangible assets	**13,622**	9,222
Total assets	**608,486**	606,841
Liabilities		
Payables and other financial liabilities	**46,233**	45,104
Lease liabilities	**270**	400
Derivative financial instruments	**47**	-
Deferred tax liabilities	**75,305**	67,215
Life insurance contract assets ceded under reinsurance	**39,137**	58,458
Life investment contract liabilities	**111,125**	113,010
Deferred income	**1,368**	2,051
Total liabilities	**273,485**	286,238
Net assets	**335,001**	320,603

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

Our opinion

In our opinion, the accompanying 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 2021, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 30 June 2021;
- 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 significant accounting policies and other explanatory information.

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.

Independence

We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for 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 over custodial controls and the solvency return, tax compliance services and tax advisory services. In addition, our firm has insurance arrangements with the Group covering partners and employees within the firm. Those arrangements were contracted on normal terms within the ordinary course of trading activities of the Group. Certain partners and employees of our firm may also individually deal with the Group on normal terms within the ordinary course of trading activities of the Group. These matters have not impaired our independence as auditor of the Group.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Description of the key audit matter	How our audit addressed the key audit matter

Measurement of life insurance contract assets and life insurance contract assets ceded under reinsurance
As at 30 June 2021, the Group has life insurance contract assets of $244 million (30 June 2020: $249 million) and life insurance contract assets ceded under reinsurance of $39 million (30 June 2020: $58 million).
The valuation of these balances involves complex and subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can result in material impact to the measurement of these balances.
We considered this a key audit matter due to the subjective actuarial judgements made by the Directors and the complexity of the actuarial calculations and models.
The key actuarial assumptions include:
• The cost of providing benefits and administering these contracts (maintenance expenses)
• 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
• Bonus rates per annum for classes of participating business
• Long-term interest rates which affect the rate at which cash flows are discounted (discount rates)
• Premium rates.
Refer to the following notes in the consolidated financial statements: Note 2 *Summary of significant accounting policies*, Note 3 *Actuarial methods and policies* and Note 19 *Life insurance contract liabilities and assets*.
	Together with PwC actuarial experts, we have:
	• Assessed the reasonableness of the key actuarial assumptions including the rates of premium, discontinuance, mortality and morbidity rates, maintenance expenses, bonus rates and discount rates. Our assessment of the assumptions included:
	    o Obtaining an understanding of, and testing on a sample basis, the Group's processes and controls in place to determine the assumptions
	    o Examining the approach used by management to derive the assumptions by applying our industry knowledge and experience
	    o Challenging the key assumptions used by management against past experience, market observable data (as applicable) and our experience of market practice.
	• Assessed the reasonableness of the analysis of profit to consider whether assumption changes are consistent with the experience and whether the movement in life insurance contract assets and associated reinsurance liabilities from the prior reporting period have been adequately explained.
	• Assessed the valuation models and methodologies used by applying our industry knowledge and experience to compare whether the models and methodologies and changes to those are consistent with recognised actuarial practices and expectations derived from market experience.
	• Tested, on a sample basis, the underlying calculations in certain valuation models.
	• Assessed the outcome of the liability adequacy test in order to ascertain whether the insurance contract liabilities are adequate in the context of a valuation based on best estimate assumptions at the reporting date.
	Policy data is a key input to the actuarial estimates. Accordingly, we:
	• Evaluated the design effectiveness and tested the operating effectiveness of certain controls over underwriting and policy administration processes.
	• Tested, on a sample basis, the completeness and accuracy of data between source and actuarial valuation systems.

Description of the key audit matter

Recoverability of deferred tax asset arising from unused tax losses

As at 30 June 2021, the Group has deferred tax liabilities of $74 million (30 June 2020: $65 million), of which $17 million relates to deferred tax assets arising from past unused tax losses (30 June 2020: $33 million).

We considered recoverability of the deferred tax asset a key audit matter because:

- Significant management judgement is involved in forecasting future taxable profits and the period over which it is probable such losses will be utilised
- The utilisation of tax losses is subject to the business continuity test being satisfied for a minimum of five years following any breach of the shareholder continuity requirements.

In 2021, the Company reached an agreement with Inland Revenue to amend the tax treatment of an existing reinsurance arrangement. This agreement led to taxable income being brought forward, resulting in the utilisation of an additional $47.8 million of tax losses and a corresponding decrease of $13.5 million in the deferred tax asset in the year ended 30 June 2021.

Refer to the following notes in the Group's consolidated financial statements: Note 2 *Summary of significant accounting policies* and Note 8 *Taxation*.

How our audit addressed the key audit matter

Together with our actuarial and tax specialists, we performed the following procedures to assess the recoverability of the deferred tax asset arising from unused tax losses:

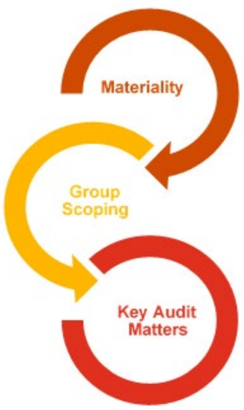
- Assessed the reasonableness of the forecasted future taxable profits by comparing prior year actual results with the forecasted financial results
- Considered forecasted taxable profits arising from the forecasted financial results and the period over which it is probable that sufficient taxable profits will be generated to utilise the tax losses
- Considered whether the five year business continuity test is met such that tax losses can be utilised if shareholder continuity is breached.

In connection with the agreement reached during the year with Inland Revenue for an existing reinsurance arrangement, we:

- Tested the mathematical accuracy of the adjustment to taxable income as a result of the change in tax treatment
- Examined correspondence between the Company and the Inland Revenue in relation to the agreed tax treatment and resulting adjustment.

Our audit approach

Overview



Overall group materiality: $2,750,000, which represents approximately 1% of insurance premium revenue.

We chose insurance premium revenue as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark in the life insurance industry.

We performed a full scope audit over the consolidated financial information of the Group.

As reported above, we have two key audit matters, being:

- Measurement of life insurance contract assets and life insurance contract assets ceded under reinsurance
- Recoverability of deferred tax asset arising from unused tax losses

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of audit opinion or assurance conclusion thereon.

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.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors and use our professional judgement to determine the appropriate action to take.

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 consolidated financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1/

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 Richard Day.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
29 September 2021 Auckland

Appointed Actuary's review of Fidelity Life Assurance Company Limited at 30 June 2021

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 the Financial Statements for Fidelity Life Assurance Company Limited for the year ended 30 June 2021 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 (and is the same 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.
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 2021 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 2021 has been used appropriately.

Solvency margin:

In my actuarial opinion and from an actuarial perspective:
Fidelity Life Assurance Company Limited (licensed insurer) is maintaining the solvency margin calculated under the solvency standard for life insurance business (IPSA 21(2)(b))

Statutory Funds:

In my actuarial opinion and from an actuarial perspective:
Fidelity Life Assurance Company Limited (licensed insurer) will maintain the solvency margin in respect of the Fidelity Life Statutory Fund No. 1 calculated under the solvency standard for life insurance business (IPSA 21(2)(c)).

John Smith
Appointed Actuary
29 September 2021