

Fidelity Insurance Limited

Annual Report

For the nine months ended 30 June 2022

## Fidelity Insurance Limited

This Annual Report covers Fidelity Insurance Limited (Company) as an individual entity.

Fidelity Insurance Limited is a limited liability company, incorporated and domiciled in New Zealand. Its registered place of business is:

Fidelity Life House, Level 4

136 Fanshawe Street

Auckland 1010

The members of the Board of Directors of the Company (Board) as at the signing date of these financial statements are Ronald James Hill, David Gordon Benison, Brian Blake, Nicola Greer, Mel Hewitson and Lindsay Smartt. Brian Blake, Nicola Greer, Melanie Hewitson and Lindsay Smartt were appointed as Directors of the Company on 28 February 2022, whilst Leanne Gloria Lazarus, Christopher John David Moller and Karen Lee Silk resigned as Directors effective 28 February 2022.

## Directors' Report

Pursuant to section 211(3) of the Companies Act 1993, the shareholder of the Company has agreed that the Annual Report of the Company for the accounting period of nine months ended 30 June 2022 need not comply with the requirements of paragraphs (a), and (e) to (j) of subsection 211 (1) and with subsection 211(2), if applicable.

Accordingly, there is no information to be included in the Annual Report other than the financial statements for the nine months ended 30 June 2022, the independent auditor's report on those financial statements and the report under section 78 of the Insurance (Prudential Supervision) Act 2010 which are attached to this Director's Report.

For an on behalf of the Board of Directors:

A handwritten signature in black ink, appearing to read 'R Hill', with a large loop at the start and a checkmark-like flourish at the end.

Ronald James Hill

31 October 2022

A handwritten signature in black ink, appearing to read 'L Smartt', with a large loop at the start and a checkmark-like flourish at the end.

Lindsay Smartt

31 October 2022

# **Fidelity Insurance Limited**

## **Financial Statements**

**for the nine months ended  
30 June 2022**

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**Fidelity Insurance Limited**  
**Income statement**  
for the nine months ended 30 June 2022

	Note	9 months to 30 June 2022 \$'000	12 months to 30 September 2021 \$'000
<b>Revenue</b>			
Insurance premium revenue	5	116,006	153,290
Outwards reinsurance premium expense	5	(27,238)	(16,903)
<b>Net premium revenue</b>		<b>88,768</b>	<b>136,387</b>
Investment (loss)/income	6	(4,207)	1,286
Commission and other income	5	5,167	26,833
Reinsurance commission income	7	130,000	-
Gains on derivative financial instruments	6	13,308	26,841
<b>Total revenue</b>		<b>233,036</b>	<b>191,347</b>
<b>Expenses</b>			
Insurance claims and rebate expense	8	(44,025)	(67,090)
Reinsurance recoveries revenue	8	12,702	11,979
<b>Net claims expense</b>		<b>(31,323)</b>	<b>(55,111)</b>
Net change in life insurance contract assets	11	(150,195)	(27,847)
Other operating expenses	8	(32,234)	(48,004)
<b>Net claims and expenses</b>		<b>(213,752)</b>	<b>(130,962)</b>
<b>Profit before tax</b>	18	<b>19,284</b>	<b>60,385</b>
Income tax expense	9	(6,389)	(16,324)
<b>Profit after tax</b>	18	<b>12,895</b>	<b>44,061</b>
<b>Profit for the period attributable to the owners of the Company</b>		<b>12,895</b>	<b>44,061</b>

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

**Fidelity Insurance Limited**  
**Statement of comprehensive income**  
for the nine months ended 30 June 2022

	9 months to 30 June 2022 \$'000	12 months to 30 September 2021 \$'000
Profit for the period	12,895	44,061
Other comprehensive income		
Other comprehensive income for the period, net of tax	-	-
Total comprehensive income for the period attributable to the owners of the Company	12,895	44,061

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

**Fidelity Insurance Limited**  
**Statement of financial position**  
as at 30 June 2022

		30 June 2022	30 September 2021
	Note	\$'000	Restated <sup>1</sup> \$'000
<b>Assets</b>			
Cash and cash equivalents	16	9,778	6,563
Derivative financial instruments	16	-	4,347
Financial assets at fair value through profit or loss	10	169,960	245,935
Reinsurance recoveries receivable	17	16,349	12,091
Receivables due from related entities	16	987	-
Current tax assets		2,392	-
Other assets		1,810	2,373
Life insurance contract assets <sup>2</sup>	11	101,215	131,450
<b>Total assets</b>		<b>302,491</b>	<b>402,759</b>
<b>Liabilities</b>			
Payables due to related entities	16	-	7,111
Current tax liabilities		-	14,935
Other liabilities	12	7,182	2,825
Deferred tax liabilities	9	29,649	38,391
Claims reserve	17	38,677	42,867
Life insurance contract assets ceded under reinsurance	11	119,960	-
<b>Total liabilities</b>		<b>195,468</b>	<b>106,129</b>
<b>Net assets</b>		<b>107,023</b>	<b>296,630</b>
<b>Equity</b>			
Share capital	13	79,520	79,520
Retained earnings		27,503	217,110
<b>Total equity</b>		<b>107,023</b>	<b>296,630</b>

<sup>1</sup> Refer to note 2 for details of the restatement made.

<sup>2</sup> Life insurance contract assets were presented as a negative liability in the prior period and have been reclassified to instead be presented as assets in the current period.

For and on behalf of the Board

30 September 2022

Ronald James Hill  
Chair



Lindsay Smartt  
Director

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

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**Fidelity Insurance Limited**  
**Statement of changes in equity**  
for the nine months ended 30 June 2022

	Note	Share capital \$'000	Retained earnings \$'000	Total equity \$'000
<b>Balance at 30 September 2020</b>		79,520	212,049	291,569
<b>Year ended 30 September 2021</b>				
Profit for the year		-	44,061	44,061
<b>Total comprehensive income for the year</b>		-	44,061	44,061
<b>Transactions with owners</b>				
Dividends paid on ordinary shares	13	-	(39,000)	(39,000)
<b>Total transactions with owners</b>		-	(39,000)	(39,000)
<b>Balance at 30 September 2021</b>		79,520	217,110	296,630
<b>Nine months ended 30 June 2022</b>				
Profit for the period		-	12,895	12,895
<b>Total comprehensive income for the period</b>		-	12,895	12,895
<b>Transactions with owners</b>				
Dividends paid on ordinary shares	13, 16	-	(50,000)	(50,000)
Return of capital paid	13, 16	-	(152,502)	(152,502)
<b>Total transactions with owners</b>		-	(202,502)	(202,502)
<b>Balance at 30 June 2022</b>		79,520	27,503	107,023

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

**Fidelity Insurance Limited**  
**Statement of cash flows**  
for the nine months ended 30 June 2022

	Note	9 months to 30 June 2022 \$'000	12 months to 30 September 2021 \$'000
<b>Cash flows from operating activities</b>			
Premiums received		114,540	153,631
Reinsurance payments		(24,822)	(16,843)
Interest income received		37	16
Commission income and other income received		7,149	26,648
Reinsurance commission income received		130,000	-
Investment income received		6,332	5,298
Derivative financial instruments settlement received		17,655	17,637
Claims and rebates payments		(48,215)	(67,486)
Reinsurance income received		8,444	14,570
Other operating expenses paid		(38,388)	(46,066)
Income taxes paid		(32,458)	(12,860)
<b>Net cash inflows from operating activities</b>		<b>140,274</b>	<b>74,545</b>
<b>Cash flows from investing activities</b>			
Sale of investments		139,414	90,212
Purchase of investments		(74,015)	(126,986)
Sale/(purchase) of property and equipment		44	(17)
<b>Net cash inflows/(outflows) from investing activities</b>		<b>65,443</b>	<b>(36,791)</b>
<b>Cash flows from financing activities</b>			
Dividends paid to ordinary shareholders		(50,000)	(39,000)
Return of capital paid to ordinary shareholders		(152,502)	-
<b>Net cash (outflows) from financing activities</b>		<b>(202,502)</b>	<b>(39,000)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>3,215</b>	<b>(1,246)</b>
Cash and cash equivalents at the beginning of the period		6,563	7,809
<b>Cash and cash equivalents at the end of the period</b>		<b>9,778</b>	<b>6,563</b>

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

**Fidelity Insurance Limited**  
**Statement of cash flows**  
for the nine months ended 30 June 2022

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

	Note	9 months to 30 June 2022 \$'000	12 months to 30 September 2021 \$'000
<b>Net profit after tax</b>		<b>12,895</b>	<b>44,061</b>
<b>Non-cash items</b>			
Fair value losses on investments		10,576	4,028
Depreciation of property, plant and equipment		3	17
<b>Total non-cash items</b>		<b>10,579</b>	<b>4,045</b>
<b>Changes in working capital</b>			
(Increase)/decrease in reinsurance recoveries receivable		(4,258)	2,591
Decrease in other assets		516	156
Decrease/(increase) in payables due to related entities	16	(8,098)	2,152
Decrease/(increase) in derivative financial instruments		4,347	(9,204)
(Increase)/decrease in current tax liabilities <sup>1</sup>	9	(17,327)	12,432
Increase/(decrease) in other liabilities	12	4,357	(171)
(Decrease) in deferred tax liabilities <sup>1</sup>	9	(8,742)	(8,968)
(Decrease) in claims reserve	17	(4,190)	(396)
Decrease in life insurance contract assets		30,235	27,847
Increase in life insurance contract assets ceded under reinsurance		119,960	-
<b>Total changes in working capital</b>		<b>116,800</b>	<b>26,439</b>
<b>Cash flows from operating activities</b>		<b>140,274</b>	<b>74,545</b>

<sup>1</sup> The comparative balances were presented on a net basis in the prior period.

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

**Fidelity Insurance Limited**  
**Notes to the financial statements**  
for the nine months ended 30 June 2022

**1. General information**

Fidelity Insurance Limited's (previously 'Westpac Life-NZ- Limited') (the 'Company') primary activities are the development, underwriting and management of products under life insurance legislation providing insurance cover against the risks of death, disability, redundancy and bankruptcy.

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is:

Fidelity Life House  
Level 4, 136 Fanshawe Street  
Auckland, 1010  
New Zealand

These financial statements were authorised for issue by the Board on 30 September 2022. The Board has the power to amend and reissue the financial statements.

**Change in Company's ownership and change of legal name and balance date**

On 5 July 2021, the former owner of Westpac Life-NZ- Limited ('Westpac Life'), Westpac Financial Services Group-NZ- Limited ('WFSGNZL'), signed an agreement to sell 100% of Westpac Life's shares to Fidelity Life Assurance Company Limited ('FLAC') for \$400m plus a \$17.6m adjustment for net assets on completion. The transaction was approved by FLAC's shareholders and the Reserve Bank of New Zealand ('RBNZ') and completed on 28 February 2022.

Following the acquisition, Westpac Life changed its legal name to Fidelity Insurance Limited ('FIL'). Further, the Company was granted approval by Inland Revenue to change its financial year-end date from 30 September to 30 June in order to align its financial year end with that of its parent FLAC. This means that these audited financial statements are for the nine-month period ended 30 June 2022 ('the period'), whilst the comparative period presented is for the twelve-month period ended 30 September 2021 ('the year'). Therefore, the current and prior periods presented are not entirely comparable. Hereafter, the Company will report its results as normal with respect to a full 30 June financial year-end notwithstanding the Directors' plans to undertake the Portfolio Transfer (note 21) on 30 June 2023 and wind up the Company thereafter.

**Change in Board composition**

Following the acquisition by FLAC, the composition of the Board of Directors ('Board') of the Company changed. The members of the Board as at the signing date of these financial statements are Brian James Blake, Nicola Jean Greer, Melanie Lyn Hewitson, Lindsay Raymond Smartt, Ronald James Hill and David Gordon Benison. Brian James Blake, Nicola Jean Greer, Melanie Lyn Hewitson and Lindsay Raymond Smartt were appointed as Directors of the Company on 28 February 2022, whilst Leanne Gloria Lazarus, Christopher John David Moller and Karen Lee Silk resigned as Directors effective 28 February 2022.

**2. Summary of significant accounting policies**

**Basis of preparation**

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

**Statement of compliance**

These financial statements 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 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 financial statements of the Company have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013.

**Fidelity Insurance Limited**  
**Notes to the financial statements**  
for the nine months ended 30 June 2022

**2. Summary of significant accounting policies (continued)**

All amounts in these financial statements have been rounded in thousands of New Zealand dollars unless otherwise stated.

**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 'Statutory Fund No. 1' (the 'Statutory Fund'). The activities of the Statutory Fund are reported in aggregate with non-statutory fund amounts in these financial statements. For details of the Statutory Fund refer to note 18.

**Historical cost convention**

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

**Going concern – portfolio transfer**

As a result of the planned portfolio transfer to Fidelity Life Assurance Company Limited outlined in note 21, the financial statements have been prepared on a realisation basis. In the portfolio transfer, the assets and liabilities will transfer at book values as at 30 June 2023. Therefore, the realisation basis does not materially differ to a going concern basis and there have been no change to the measurement of assets and liabilities of the Company as at 30 June 2022.

**Foreign currency translation**

*Functional and presentational currency*

The financial statements of the Company are presented in New Zealand dollars, which is the Company's functional and presentation currency.

*Transactions and balances*

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

**Financial assets and financial liabilities**

*(i) Recognition*

Purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial liabilities are recognised when an obligation arises.

*(ii) Classification and measurement*

The Company classifies its financial assets into the following categories: financial assets at fair value through profit or loss ('FVPL'), derivative financial instruments and financial assets at amortised cost. Financial assets at FVPL relate to local authority securities, investment grade corporate bonds, term deposits and units in unlisted unit trusts. Derivative financial instruments are measured at FVPL. Financial assets at amortised cost include cash and cash equivalents and other assets.

Financial assets

Financial assets are classified based on:

- a) the business model within which the assets are managed; and
- b) whether the contractual cash flows of the instrument represent solely payment of principal and interest ('SPPI').

The Company determines the business model at the level that reflects how groups of financial assets are managed. When assessing the business model, the Company considers factors including how performance and risks are managed, evaluated and reported; the frequency, volume of, and reason for sales in previous periods; and expectations of sales in future periods.

**Fidelity Insurance Limited**  
**Notes to the financial statements**  
for the nine months ended 30 June 2022

**2. Summary of significant accounting policies (continued)**

When assessing whether contractual cash flows are SPPI, interest is defined as consideration primarily for the time value of money and the credit risk of the principal outstanding. The time value of money is defined as the element of interest that provides consideration only for the passage of time and not consideration for other risks or costs associated with holding the financial asset. Terms that could change the contractual cash flows so that they may not meet the SPPI criteria include contingent and leverage features, non-recourse arrangements, and features that could modify the time value of money.

*Debt instruments*

If the debt instruments have contractual cash flows which represent SPPI on the principal balance outstanding they are classified at:

- amortised cost if they are held with a business model which is achieved through holding the financial asset to collect these cash flows; or
- fair value through other comprehensive income ('FVOCI') if they are held with a business model which is achieved both through collecting these cash flows or selling the financial asset; or
- FVPL if they are held with a business model which is achieved through selling the financial asset.

Debt instruments are also measured at FVPL where the contractual cash flows do not represent SPPI on the principal balance outstanding or where it is designated at FVPL to eliminate or reduce an accounting mismatch (including where the assets back an insurance liability).

Debt instruments at FVPL are measured at fair value with subsequent changes in fair value recognised in profit or loss.

*Equity instruments*

Equity instruments are measured at FVPL with subsequent changes in fair value recognised in profit or loss.

Financial liabilities

The Company classifies its financial liabilities into the following categories: financial liabilities at amortised cost and derivative financial instruments. Financial liabilities are measured at amortised cost with the exception of derivative financial instruments which are measured at FVPL. Financial liabilities at amortised cost relate to payables due to related entities and certain other liabilities.

Financial assets and financial liabilities measured at FVPL are recognised initially at fair value. All other financial assets and financial liabilities are recognised initially at fair value plus or minus directly attributable transaction costs respectively.

Further details of the accounting policy for each category of financial asset or financial liability mentioned above is set out in the note for the relevant item.

The Company's policies for determining the fair value of financial assets and financial liabilities are set out in note 14.

*(iii) Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the asset have expired, or when the Company has either transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full under a 'pass through' arrangement and transferred substantially all the risks and rewards of ownership.

**Fidelity Insurance Limited**  
**Notes to the financial statements**  
for the nine months ended 30 June 2022

**2. Summary of significant accounting policies (continued)**

There may be situations where the Company has partially transferred the risks and rewards of ownership but has neither transferred nor retained substantially all the risks and rewards of ownership. In such situations, the asset continues to be recognised on the balance sheet to the extent of the Company's continuing involvement in the asset.

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

*(iv) Impairment of financial assets*

Impairment charges are based on an expected loss model which measures the difference between the current carrying amount and the present value of expected future cash flows taking into account past experience, current conditions and multiple probability-weighted macroeconomic scenarios for reasonably supportable future economic conditions.

Impairment charges are recognised in profit or loss, with a corresponding amount recognised as a reduction of the carrying value of the financial asset through an offsetting provision account.

*(v) Other assets*

Other assets include commissions receivable under insurance agency arrangements and premiums due from policyholders. Commissions receivable are classified as financial assets at amortised cost.

**Statement of cash flows**

*Operating, investing and financing activities*

Operating activities are the principal revenue-producing activities of the Company and other activities that are not investing or financing activities. Investing activities are the acquisition and disposal of long-term assets and other investments that are not included in cash and cash equivalents. Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the Company.

**Critical accounting assumptions and estimates**

Applying the Company's accounting policies requires the use of judgment, assumptions and estimates which impact the financial information. Significant assumptions and estimates used are included in the policies below.

The Company has further considered COVID-19 in its critical accounting judgements and estimates. Market expectations are that redundancy and long-term disability income insurance claims could be impacted by COVID-19. However, the Company's overall exposure to redundancy insurance claims and long term disability income claims is limited by benefit design and business volumes. Additionally, the Company has reinsurance arrangements in place for long term disability income which further limit the Company's overall exposure in this area. As a result, the areas of judgement, estimates and assumptions in the financial statements are consistent with those in the financial statements for the year ended 30 September 2021, except for changes to actuarial assumptions and methods as disclosed in note 3.

*Uncertainty over valuation of life insurance contract assets and claims reserve*

Life insurance contract assets and claims reserve arising from life insurance contracts are computed at each reporting date using statistical and mathematical methods. The valuations are prepared by suitably qualified personnel on the basis of recognised actuarial methods and with due regard to the actuarial principles. The methodology takes into account the risks and uncertainties of the particular classes of business written.

The key factors that may affect the estimation of these assets and liabilities are:

- the rate at which projected future cash flows are discounted;
- the cost of providing benefits and administering the contracts;
- mortality, morbidity and trauma experience; and
- discontinuance experience, which affects the Company's ability to recover the cost of acquiring new business over the life of the contracts.

**Fidelity Insurance Limited**  
**Notes to the financial statements**  
for the nine months ended 30 June 2022

**2. Summary of significant accounting policies (continued)**

In addition, factors such as regulation, competition, interest rates, taxes, rebate values, securities' market conditions and general economic conditions affect the level of these assets and liabilities.

The uncertainties surrounding these assumptions mean that it is likely that the actual observed claims incidence will vary from the liability estimated at the reporting date. See note 3 for more detail on the valuation of the life insurance contract assets and the assumptions applied.

*Reinsurance recoveries receivable*

Reinsurance recoveries receivable assets are recognised initially at fair value and subsequently measured at amortised cost less any provision for impairment, except for the amounts related to the reinsurance share of the 'Incurred but not reported ('IBNR')' reserve and the 'Disabled life reserve ('DLR')' which are measured in accordance with NZ IFRS 4.

*New reinsurance treaties – tax treatment*

During the year the Company entered into a new reinsurance arrangement under which it received a \$130m upfront initial commission payment (refer to note 7).

Reinsurance arrangements which contain significant upfront initial commission payments are generally considered 'life financial reinsurance' for income tax purposes. The Company has therefore treated this arrangement as such considering both historical experience and indicative guidance from Inland Revenue. The Company is in the process of obtaining a binding ruling from Inland Revenue to confirm this treatment. As at balance date, this process had not yet concluded although indicative guidance is that Inland Revenue is in agreement with the positions adopted. The binding ruling will be issued ahead of the next interim reporting date.

*Fair value of financial instruments*

Financial instruments designated at FVPL are recognised in the financial statements at fair value. All derivatives are measured and recognised at fair value.

Fair value is obtained from quoted market prices, independent dealer price quotations, discounted cash flow models and option pricing models, which incorporate current market and contractual prices for the underlying instrument, time to expiry, yield curves and volatility of the underlying instrument. The calculation of fair value for any financial instrument may also require adjustment of the quoted price or model value to reflect the cost of credit risk (where not embedded in underlying models or prices used). The process of calculating fair value on illiquid instruments or from a valuation model may require estimation of certain pricing parameters, assumptions or model characteristics. These estimates are calibrated against industry standards, economic models and observed transaction prices.

The fair value of financial instruments is provided in note 14, as well as the mechanism by which fair value has been derived.

**Standards adopted during the nine months ended 30 June 2022**

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

- Amendments to NZ IFRS 16: COVID-19 Related Rent Concessions;
- Amendments to NZ IFRS 9, NZ IAS 39, NZ IFRS 7, NZ IFRS 4 and NZ IFRS 16: Interest Rate Benchmark Reform - Phase 2;
- Amendments to NZ IFRS 4: Extension of the Temporary Exemption from Applying NZ IFRS 9.

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods. The Company did not have to change its accounting policies as a result of adopting these amendments.

**Impact of standard issued but not yet applied by the Company**

*NZ IFRS 17: Insurance Contracts*



**Fidelity Insurance Limited**  
**Notes to the financial statements**  
for the nine months ended 30 June 2022

**2. Summary of significant accounting policies (continued)**

NZ IFRS 17 'Insurance contracts' is the comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces NZ IFRS 4 'Insurance Contracts'. Disclosure and measurement under NZ IFRS 17 may differ significantly from NZ IFRS 4 and as such the Company is not yet able to reasonably estimate the impact of NZ IFRS 17 on its financial statements.

NZ IFRS 17 will be effective for the Company for the year ending 30 June 2024, with a comparative period restatement for the year ending 30 June 2023. Given the planned Portfolio Transfer (note 21) and that the Company is not expected to have any insurance contracts by the time of NZ IFRS 17 adoption the standard is therefore not expected to have any impact in future periods.

**Comparative information – restatement of the presentation of the prior year balances**

A restatement has been made in the current year in relation to the presentation of life insurance contract assets. In previous years, the Company had presented the life insurance contract assets as negative policy liabilities within liabilities on the face of the statement of financial position, whereas these should have been presented within assets. The comparative balance has been restated accordingly in the amount of \$131,450,000, including in the life insurance contract assets note (refer to note 11) and in the Statutory Fund note (refer to note 18), and there is no impact on the consolidated income statement, net assets or cash flows of the prior year.

**3. Actuarial assumptions and methods**

**Actuarial policies and methods**

The effective date of the actuarial valuation of life insurance contract assets is 30 June 2022 (refer to note 11). The actuarial valuation for the Company was prepared by the Chief Actuary, Nicholas Smart M.Com, FNZSA, FIAA (2021: FIL Actuarial team) and reviewed by Lee-Ann Du Toit, who is the Appointed Actuary of the Company and a Fellow of the New Zealand Society of Actuaries (2021: Ian New, B.Sc, ARCS, FNZSA, FIAA). Mr. Smart and Ms. Du Toit are satisfied as to the accuracy of the data from which the amount of the insurance contracts liabilities and assets and related reinsurance have been determined.

Life insurance contract assets are amounts which, when taken together with future premiums and investment earnings, are required to meet the payment of future benefits and expenses, and incorporate profit margins on existing business to be released when earned in future periods.

**Disclosure of assumptions**

The valuations included in the reported results are calculated using assumptions about certain key underlying variables. The assumptions are determined by the Appointed Actuary of the Company based on results of annual investigations into the experience of the Company's in force business, industry experience data and data provided by the Company's reinsurers.

After making appropriate checks, the Appointed Actuary of the Company was satisfied as to the accuracy of the data from which the amount of life insurance contract assets has been determined.

The key assumptions used in determining life insurance contract assets for the major products are disclosed below.

*Discount rates*

For the 30 June 2022 valuation the discount rate used is based on the NZ Government Bond Rate, previously the relevant discount rate had been based on the NZ Swap Rate. The discount rates used to determine life insurance contract assets were as follows:

	30 June 2022	30 September 2021
Loan Cover	3.32%	0.84%
Bill Protection Insurance, Mortgage Insurance and Flexicover Insurance	3.48%	1.383%
Term Cover and Other Major Products	3.89%	1.998%

**Fidelity Insurance Limited**  
**Notes to the financial statements**  
for the nine months ended 30 June 2022

**3. Actuarial assumptions and methods (continued)**

*Profit carriers*

The profit carriers for the products which were valued on a projection basis were as follows:

<b>Product</b>	<b>Profit carrier</b>
Term Cover	Premium
Gold Term Cover	Premium
Simplicity Life	Premium
Disability Income Insurance	Premium
Gold Disability Income Insurance	Premium
Flexicover Insurance	Premium
Mortgage Repayment Insurance	Claims
Loan Cover	Claims
Bill Protection Insurance	Premium
Lifetime Guarantee and Kiwilife Senior	Claims
Kiwilife, Kiwicover and Kiwiguard	Premium
Accident Cover	Premium
Ex-Tower Loan Insurance	Premium

*Maintenance expenses*

The non-commission maintenance expenses allowances assumed were as follows:

<b>Product</b>	<b>9 months to 30 June 2022</b>	<b>12 months to 30 September 2021</b>
Term Cover (\$ per annum per policy)	\$113	\$90
Gold Term Cover (\$ per annum per policy)	\$113	\$90
Simplicity Life (\$ per annum per policy)	\$113	\$90
Disability Income Insurance (\$ per annum per policy)	\$113	\$90
Gold Disability Income Insurance (\$ per annum per policy)	\$113	\$90
Flexicover Insurance (% of premiums)	21%	16%
Mortgage Repayment Insurance (% of original single premium spread over the term)	39%	30%
Loan Cover (% of original single premium spread over the term)	39%	30%
Bill Protection Insurance (\$ per annum per policy)	\$163	\$125
Lifetime Guarantee and Kiwilife Senior (\$ per annum per policy)	\$163	\$125
Kiwilife, Kiwicover and Kiwiguard (\$ per annum per policy)	\$113	\$90
Accident Cover (\$ per annum per policy)	\$113	\$90
Ex-Tower Loan Insurance (% of premiums)	21%	16%

*Inflation and automatic indexation of benefits*

Insurance contracts with automatic inflation-linked indexation of benefits are assumed to have benefits increase in line with inflation. Expectations on inflation are in line with New Zealand Treasury forecasts as at June 2022, with the rate of inflation projected to range between 3.9%-6.7% for the years 2022 to 2024 before returning to the long-term assumption of 2%. Maintenance expenses are assumed to increase in line with inflation expectations (30 September 2021: 2.0% per annum).

*Taxation*

For the purposes of the actuarial calculations, a taxation rate of 28% (30 September 2021: 28%) has been assumed throughout. A GST taxation rate of 15% (30 September 2021: 15%) has been assumed throughout, where applicable.

**Fidelity Insurance Limited**  
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**3. Actuarial assumptions and methods (continued)**

*Rebate values*

Future policy rebate values are projected on the basis of the Company's current practice.

*Unit-linked business*

The Company has no unit-linked business.

*Participating business*

The Company has no participating business.

*Mortality, morbidity and trauma*

The projected rates of claims reflect industry experience in New Zealand together with the Company's experience where appropriate. The tables used as a basis for mortality and morbidity assumptions were as follows:

Product	9 months to 30 June 2022	12 months to 30 September 2021
Term Cover and Gold Term Cover	94% of NZ Insured Lives 2008-2010 with adjustments for smoker status and selection	94% of NZ Insured Lives 2008-2010 with adjustments for smoker status and selection
Disability Income Insurance and Gold Disability Income Insurance	Adjusted ADI 2007-2011	Adjusted ADI 2007-2011
Simplicity Life, Kiwilife, Life components of Mortgage Repayment Insurance, Flexicover Insurance, Ex-Tower Loan Insurance and Loan Cover	94% to 180% of NZ Insured Lives 2008-2010	94% to 180% of NZ Insured Lives 2008-2010
Lifetime Guarantee and Kiwilife Senior	125% of NZ Population 2010/12	125% of NZ Population 2010/12
Disability components of Mortgage Repayment Insurance, Flexicover Insurance, Ex-Tower Loan Insurance, Bill Protection Insurance and Loan Cover	Adjusted ADI 2007-2011	Adjusted ADI 2007-2011
Kiwicover, Kiwiguard and Accident Cover	Adjusted NZ population accident experience 2009/11	Adjusted NZ population accident experience 2009/11
Term Cover and Gold Term Cover	110% Company experience trauma table	110% Company experience trauma table

*Rates of discontinuance*

Projected rates of discontinuance of policies were as follows:

**Fidelity Insurance Limited**  
**Notes to the financial statements**  
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**3. Actuarial assumptions and methods (continued)**

	9 months to 30 June 2022	12 months to 30 September 2021
Product		
Term Cover (% per annum)	7.0% to 12.0%	7% to 15%
Gold Term Cover (% per annum)	7.0% to 12.0%	7% to 14%
Simplicity Life (% per annum)	10%	10%
Disability Income Insurance (% per annum)	7%	7%
Gold Disability Income Insurance (% per annum)	7.0% to 14.0%	7% to 14%
Flexicover Insurance (% per annum)	11%	11%
Mortgage Repayment Insurance (% per annum)	15%	15%
Loan Cover (% per annum)	35.0% to 60%	35% to 60%
Bill Protection Insurance (% per annum)	12%	14%
Lifetime Guarantee (% per annum)	1%	1%
Kiwilife Senior (% per annum)	3%	3%
Kiwilife (% per annum)	10%	10%
Kiwicover, Kiwiguard (% per annum)	6%	6%
Accident Cover (% per annum)	6%	6%
Ex-Tower Loan Insurance (% per annum)	15%	15%

Where a range of discontinuance rates is assumed for a product, the assumption varies by the duration in force of the policy. Where a flat rate of discontinuance is assumed for a product, the assumption is independent of duration.

*Effect of changes in actuarial assumptions*

Aside from the changes in discount rates and the inflation rate due to changing economic conditions, the changes in actuarial assumptions from 2021 to 2022 set out above had no impact upon the Company's life insurance contract assets as none of the Company's related product groups is in loss recognition (from 2020 to 2021: nil). The changes in discount rates decreased profit by \$12,419,000 (30 September 2021: decreased by \$23,690,000), and the change in the inflation assumption decreased profit by \$5,683,000 (30 September 2021: nil). The changes in actuarial assumptions had the effect of decreasing the present value of future planned profit margins by \$13,865,000 (30 September 2021: decreasing by \$24,713,000). The primary contributors to this impact were:

- (\$19,858,000) arising from the changes to projected non-commission maintenance expenses (30 September 2021: (\$16,342,000));
- \$760,000 arising from the changes to projected discontinuance rates (30 September 2021: nil);
- (\$1,084,000) arising from the changes to the discount rate methodology (30 September 2021: nil);
- \$6,317,000 arising from changes to the projected commission rates (30 September 2020: nil).
- Nil arising from changes to reinsurance premium rates (30 September 2021: (\$5,955,000));
- Nil arising from changes to premium rates (30 September 2021: (\$2,417,000))
- Nil arising from changes to projected rates of morbidity claims (30 September 2021: nil); and

There were no modelling changes that had an impact on the present value of future planned profit margins (30 September 2021: decreased by \$8,049,000).

*Sensitivity analysis*

The Company conducts sensitivity analysis to quantify exposure to risk of changes in the key underlying variables such as discount rates, maintenance expenses, mortality, morbidity and discontinuances. The valuations included in the reported results and the Company's best estimates of future performance are calculated using certain assumptions about these variables. The movement in any key variable will impact the performance and net assets of the Company and as such represents a risk.

The table below illustrates how changes in key variables would impact the reported profit of the Company.

**Fidelity Insurance Limited**  
**Notes to the financial statements**  
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**3. Actuarial assumptions and methods (continued)**

	9 months to 30 June 2022		12 months to 30 September 2021	
	Change in Variable	Impact on Future Planned Profit	Change in Variable	Impact on Future Planned Profit
Changes in discount rates	+1.0%	-7.7%	+0.5%	-5.1%
	-1.0%	9.0%	-0.5%	5.5%
Change in mortality and morbidity	+10%	-9.8%	+10%	-10.7%
	-10%	10.0%	-10%	10.9%
Change of non-commission policy maintenance expense	+10%	-2.5%	+10%	-1.6%
	-10%	2.5%	-10%	1.6%
Change in discontinuance rate	+10%	-9.6%	+10%	-10.9%
	-10%	11.2%	-10%	12.7%

The financial impact of the above changes would emerge through reported profits over future years, except for the impact of changes to discount rates which would result in an immediate one-off impact upon reported profit. None of the Company's groups of related products are in loss recognition and none would move into loss recognition upon reasonably expected changes in the variables set out in the above table, where the changes are applied individually.

**4. Margin on services profit**

	9 months to 30 June 2022 \$'000	12 months to 30 September 2021 \$'000
<b>Net profit for the period arose from:</b>		
Planned margins of revenues over expenses	21,693	36,697
Difference between actual and assumed experience	20,483	23,287
Effects of changes in underlying economic and financial assumptions	(18,102)	(23,690)
Profit on non-projected business	774	1,106
Investment earnings on assets in excess of policy liabilities	(2,980)	1,084
Net commission on fire and general agency	-	4,494
Other sources	(8,993)	1,083
<b>Net profit for the year</b>	<b>12,895</b>	<b>44,061</b>

**5. Net premium revenue and other income**

<b>Accounting policy</b>
<b>Insurance premium revenue</b>
Life insurance premiums with a regular due date are recognised as revenue on an accrual basis. Premiums with no due date are recognised as revenue on a cash received basis. Premiums are shown before deduction of commission. There is no deposit component.
<b>Outwards reinsurance premium expense</b>
Premium ceded to reinsurers under reinsurance contracts are recognised as outwards reinsurance premium expense presented within net premium revenue in accordance with the pattern of reinsurance service received.

**Fidelity Insurance Limited**  
**Notes to the financial statements**  
for the nine months ended 30 June 2022

**5. Net premium revenue and other income (continued)**

**Commission and other income**

General insurance commission income which arises from commissions received on insurance business whereby the Company acts as an agent, are recognised in profit or loss when the performance obligation is satisfied by transferring the promised service.

Other income includes profit share and refunds received in relation to reinsurance arrangements.

		9 months to 30 June 2022	12 months to 30 September 2021
	Note	\$'000	\$'000
<b>Net premium revenue</b>			
Insurance premium revenue		116,006	153,290
Outwards reinsurance premium expense		(27,238)	(16,903)
<b>Total net premium revenue</b>		<b>88,768</b>	<b>136,387</b>
<b>Commission and other income</b>			
Other income		5,161	3,034
General insurance commission	16	6	23,799
<b>Total commission and other income</b>		<b>5,167</b>	<b>26,833</b>

**6. Investment (loss)/income**

**Accounting policy**

**Interest income**

Interest income for all interest earning financial assets at amortised cost, detailed within the table below, is recognised using the effective interest rate method.

The effective interest rate method calculates the amortised cost of a financial instrument by discounting the financial instruments estimated future cash receipts or payments to their present value and allocates the interest income, including any fees, premiums or discounts integral to the instrument, over its expected life.

Interest income on financial assets at FVPL is recognised as part of interest income.

**Gain or loss on derivative financial instruments**

Realised gains or losses and unrealised gains or losses arising from changes in the fair value of derivative financial instruments are recognised as investment income in the statement of comprehensive income in the period in which they arise.

**Fidelity Insurance Limited**  
**Notes to the financial statements**  
for the nine months ended 30 June 2022

**6. Investment (loss)/income (continued)**

	9 months to 30 June 2022 \$'000	12 months to 30 September 2021 \$'000
<b>Interest income</b>		
Deposits with related entities	2	1
Fixed interest-bearing securities	35	15
<b>Total interest income</b>	<b>37</b>	<b>16</b>
<b>Gains/(losses) on financial assets at FVTPL</b>		
Realised gains on unit trusts - debt securities	4,597	-
Realised gains on unit trusts - equity securities	1,735	5,298
Unrealised (losses) on unit trusts - debt securities	(6,174)	-
Unrealised (losses) on unit trusts - equity securities	(4,402)	(4,028)
<b>Total (losses)/gains from financial assets at FVTPL</b>	<b>(4,244)</b>	<b>1,270</b>
<b>Total investment (loss)/income</b>	<b>(4,207)</b>	<b>1,286</b>
<b>Fair value gains on derivative financial instruments</b>	<b>13,308</b>	<b>26,841</b>

**7. Reinsurance commission income**

**Accounting policy**

***Reinsurance commission***

Upfront reinsurance commissions are initially recognised in the income statement and then deferred as liabilities arisen from reinsurance contracts. This amount is then amortised over the life of the underlying policies, in line with the release of profit margins associated with these policies.

The Company entered into a new reinsurance treaty arrangement on 28 February 2022, subsequent to the acquisition disclosed in note 16. Under this treaty, the Company received an upfront reinsurance initial commission payment of \$130m.

**8. Net claims and other operating expenses**

**Accounting policy**

***Claims expenses***

All incurred insurance claims are recognised as expenses in the statement of comprehensive income. Claims are recognised in the statement of comprehensive income when the liability to the policy holder under the policy contract has been established, or upon notification of the insured event depending on the type of claim. There is no deposit component.

**Fidelity Insurance Limited**  
**Notes to the financial statements**  
for the nine months ended 30 June 2022

**8. Net claims and operating expenses (continued)**

***Reinsurance recoveries revenue***

Reinsurance recoveries are recognised as revenue as the underlying claims are incurred and are presented within net claims expenses. Recoveries receivable are measured as the present value of the expected future receipts, calculated on the same basis as the claims reserve.

***Rebate expenses***

Rebate expenses are expenses of refunding the premium customers paid on the loan cover product, if the customers' loan is repaid in full before the due date or the loan is varied during the term.

***Policy acquisition expenses***

Policy acquisition expenses are the expenses of acquiring new business including commissions and similar distribution expenses, expenses of accepting, issuing and initially recording policies.

***Policy maintenance expenses***

Policy maintenance expenses are the expenses of administering policies subsequent to sale and maintaining operations such that they are sufficient to service existing policies. These include general growth and development expenses and all operating and management expenses other than policy acquisition and investment management expenses.

***Investment management expenses***

Investment management expenses are the expenses of managing investment funds.

	9 months to 30 June 2022 \$'000	12 months to 30 September 2021 \$'000
Insurance claims	(43,998)	(66,887)
Rebate expenses	(27)	(203)
Total insurance claims and rebate expenses	<u>(44,025)</u>	<u>(67,090)</u>
Reinsurance recoveries revenue	12,702	11,979
<b>Net claims expenses</b>	<b><u>(31,323)</u></b>	<b><u>(55,111)</u></b>
<b>Salaries and other staff expenses</b>		
Salaries and wages	3,881	6,445
Defined contribution plan	285	448
Employee entitlements	143	300
Restructuring costs	1	51
Other staff expenses	109	67
<b>Total salaries and other staff expenses</b>	<b><u>4,419</u></b>	<b><u>7,311</u></b>



**Fidelity Insurance Limited**  
**Notes to the financial statements**  
for the nine months ended 30 June 2022

**8. Net claims and operating expenses (continued)**

	9 months to 30 June 2022 \$'000	12 months to 30 September 2021 \$'000
<b>Other expenses</b>		
Audit fees (appointed auditor: PricewaterhouseCoopers)		
Audit and review of the financial statements	296	102
Other audit related services <sup>1</sup>	37	20
Total audit fees	333	122
Management fees	13,413	4,550
Policy expenses	8,892	30,483
GST	3,318	3,843
Purchased services	655	716
Director fees	155	-
Stationery	37	45
Other expenses	1,012	934
<b>Total other expenses</b>	<b>27,815</b>	<b>40,693</b>
<b>Total other operating expenses</b>	<b>32,234</b>	<b>48,004</b>
<b>Components of other operating expenses:</b>		
Investment management expenses	407	618
Policy acquisition expenses <sup>2</sup> :		
Commissions	1,699	3,064
Other	908	1,608
Total policy acquisition expenses	2,607	4,672
Policy maintenance expenses <sup>2</sup> :		
Commissions	8,293	30,127
Other	20,927	12,587
Total policy maintenance expenses	29,220	42,714
<b>Total other operating expenses</b>	<b>32,234</b>	<b>48,004</b>

<sup>1</sup> Assurance and agreed upon procedures provided on certain financial information performed in the role of auditor (or where most appropriate to be performed by the auditor). For both periods these related to the assurance services over the solvency return and for 2021 these also included the agreed upon procedures in relation to projections used in the solvency calculations.

<sup>2</sup> Expenses are categorised into acquisition or maintenance on the basis of time and cost analysis of activities carried out by the Company.

**Fidelity Insurance Limited**  
**Notes to the financial statements**  
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**9. Taxation**

**Accounting policy**

**Income tax**

The income tax expense for the period/year comprises current tax and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in other comprehensive income.

Current tax is the tax payable for the period/year using enacted or substantively enacted tax rates and laws. Current tax also includes adjustments to tax payable for previous years.

**Goods and services tax ('GST')**

Revenue, expenses and assets are recognised net of GST except as described below.

For insurance premiums, claims and commissions, these are presented gross with the GST presented as part of expenses.

To the extent that GST is not recoverable from the New Zealand Inland Revenue, GST is recognised as part of the expense or the cost of the asset.

**Deferred income tax**

Deferred tax accounts for temporary differences between the carrying amounts of assets and liabilities in the financial statements and their values for taxation purposes. Deferred tax is not recognised if the temporary difference arises from the initial recognition of assets and liabilities that affect neither accounting nor taxable profit.

Deferred tax is determined using the enacted or substantively enacted tax rates and laws which are expected to apply when the assets will be realised or the liabilities settled.

Except as noted above, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred tax assets and liabilities have been offset where they relate to the same taxable entity or group and where there is a legal right and intention to settle on a net basis.

**Deferred tax on life insurance contract assets**

Life insurance contract assets represent the net present value of estimated future cash flows and planned profit margins. Using the margin on services methodology, planned after tax profit margins are recognised in the statement of comprehensive income over the period services are provided to policy holders.

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

	Note	9 months to 30 June 2022 \$'000	12 months to 30 September 2021 \$'000
<b>Income tax expense</b>			
Current tax			
Current period		15,119	24,875
Prior period adjustments		12	417
Deferred tax			
Current period		(8,723)	(8,551)
Prior period adjustments		(19)	(417)
<b>Total income tax expense</b>		<b>6,389</b>	<b>16,324</b>

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**Fidelity Insurance Limited**  
**Notes to the financial statements**  
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**9. Taxation (continued)**

**Reconciliation of income tax expense to profit before income tax expense**

Note	9 months to 30 June 2022 \$'000	12 months to 30 September 2021 \$'000
Profit before income tax expense	19,284	60,385
Tax at the New Zealand income tax rate of 28% (2021: 28%)	5,400	16,908
Tax effect of non-taxable income	-	(588)
Tax effect of non-deductible expenses	1,091	4
Benefit of imputation credits received	(95)	-
Prior period adjustment	(7)	-
<b>Total income tax expense</b>	<b>6,389</b>	<b>16,324</b>

**Deferred tax liabilities**

	30 June 2022 \$'000	30 September 2021 \$'000
<b>Deferred tax (assets)/liabilities attributable to the following:</b>		
PIE income	(64)	139
Life insurance contract assets	29,917	38,340
Other	(204)	(88)
<b>Balance at the end of the period</b>	<b>29,649</b>	<b>38,391</b>
<b>Movements</b>		
Balance at the beginning of the period	38,391	47,359
Charged to the statement of comprehensive income	(8,742)	(8,968)
<b>Balance at the end of the period</b>	<b>29,649</b>	<b>38,391</b>

**Imputation credits**

	30 June 2022 \$'000	30 September 2021 \$'000
Imputation credits available for use in the subsequent reporting periods <sup>1</sup> based on a tax rate of 28% (2021: 28%)	8,894	40,080

<sup>1</sup> Upon completion of the sale of the Company to FLAC, the available imputation credits at that time of \$29.5m have been forfeited due to the change in ownership.

**10. Financial assets at fair value through profit or loss**

**Accounting policy**

Financial assets at FVPL are the life insurance backing assets which include investments in unit trusts.

Life insurance backing assets are designated at FVPL upon initial recognition with changes in fair value included in profit or loss.

**Fidelity Insurance Limited**  
**Notes to the financial statements**  
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**10. Financial assets at fair value through profit or loss (continued)**

	30 June 2022 \$'000	30 September 2021 \$'000
Debt securities - unit trusts	161,050	231,009
Equity securities - unit trusts	8,910	14,926
<b>Total financial assets at fair value through profit or loss</b>	<b>169,960</b>	<b>245,935</b>
Amounts expected to be settled within 12 months	169,960	245,935
Amounts expected to be settled after 12 months	-	-
	<b>169,960</b>	<b>245,935</b>

**11. Life insurance contract assets**

**Accounting policy**

***Life insurance contract assets***

Life insurance contract assets are calculated by using the margin on services methodology in accordance with New Zealand Society of Actuaries Professional Standard 20 Determination of Life Insurance Policy Liabilities. Under this methodology, planned profit margins and an estimate of future liabilities are calculated separately for each major product line using applied assumptions at each reporting date. Profit margins are released over each financial period in line with the service that has been provided (refer to note 3).

***Liability adequacy test***

Expected future cash flows are reviewed to establish the present value of the estimated future expenses for the group of related products against the present value of estimated future revenues. Where there is a shortfall in the liabilities, a loss is recognised in the statement of comprehensive income in the reporting period in which the assessment is made.

	30 June 2022 \$'000	30 September 2021 Restated <sup>1</sup> \$'000
<b>Balance at the beginning of the period</b>	<b>131,450</b>	<b>159,297</b>
Changes in life insurance contract assets reflected in the statement of comprehensive income	(30,235)	(27,847)
<b>Balance at the end of the period</b>	<b>101,215</b>	<b>131,450</b>
<b>Components of life insurance contract assets:</b>		
Future policy benefits	(1,018,472)	(1,136,283)
Balance of future expenses	(556,680)	(642,401)
Planned margins of revenues over expenses	(540,731)	(601,677)
Balance of future revenues	2,187,179	2,473,471
<b>Life insurance contract assets at the end of the period</b>	<b>71,296</b>	<b>93,110</b>
Add deferred tax liability element of life insurance contract assets	29,919	38,340
<b>Balance at the end of the period</b>	<b>101,215</b>	<b>131,450</b>
<b>Life insurance contract assets excluding deferred tax liability:</b>		
Amounts expected to be settled within 12 months	2,841	3,453
Amounts expected to be settled after 12 months	98,374	127,997
<b>Total life insurance contract assets</b>	<b>101,215</b>	<b>131,450</b>

<sup>1</sup> Refer to note 2 for details of the restatement made.

**Fidelity Insurance Limited**  
**Notes to the financial statements**  
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**11. Life insurance contract assets (continued)**

Life insurance contract assets ceded under reinsurance	30 June 2022 \$'000	30 September 2021 \$'000
Balance at the beginning of the period	-	-
Changes in life insurance contract assets ceded under reinsurance reflected in the income statement	119,960	-
<b>Balance at the end of the period</b>	<b>119,960</b>	<b>-</b>
<b>Maturity analysis</b>		
Amounts expected to be settled within 12 months	7,672	-
Amounts expected to be settled after 12 months	112,288	-
<b>Total life insurance contract assets ceded under reinsurance</b>	<b>119,960</b>	<b>-</b>

Life insurance contract assets ceded under reinsurance arose in the current financial year as a result of entering a new reinsurance treaty arrangement (note 7).

The following analysis presents the maturity profile for the life insurance contract assets and life insurance contract assets ceded under reinsurance on an undiscounted basis. As such, the balances in the tables below do not agree with the respective balances disclosed on the balance sheet.

	30 June 2022 \$'000	30 September 2021 Restated <sup>1</sup> \$'000
<b>Undiscounted life insurance contract assets excluding deferred tax liability</b>		
Up to 1 Year	2,586	3,335
1 to 5 Years	14,149	16,689
Over 5 Years	149,767	150,962
<b>Total undiscounted life insurance contract assets</b>	<b>166,502</b>	<b>170,986</b>

	30 June 2022 \$'000	30 September 2021 \$'000
<b>Undiscounted life insurance contract assets ceded under reinsurance</b>		
Up to 1 Year	11,959	-
1 to 5 Years	45,972	-
Over 5 Years	99,304	-
<b>Total undiscounted Life insurance contract assets ceded under reinsurance</b>	<b>157,235</b>	<b>-</b>

<sup>1</sup> Refer to note 2 for details of the restatement made.

The tables above do not take into account the Portfolio Transfer disclosed in note 21.

**12. Other liabilities**

**Accounting policy**

Other liabilities include accrued expenses, bonus provision and other staff benefits. Accrued expenses are primarily premiums payable for reinsurance contracts. Accrued expenses and certain other liabilities are financial liabilities which are measured at amortised cost. The bonus provision and other staff benefits (including wages and salaries, inclusive of non-monetary benefits, and any associated on-costs) (e.g. payroll tax) is calculated based on expected payments.

**Fidelity Insurance Limited**  
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**12. Other liabilities (continued)**

	30 June 2022 \$'000	30 September 2021 \$'000
Accrued expenses	6,453	1,830
Bonus provision and other staff benefits	729	995
<b>Total other liabilities</b>	<b>7,182</b>	<b>2,825</b>
Amounts expected to be settled within 12 months	7,182	2,825
Amounts expected to be settled after 12 months	-	-
	<b>7,182</b>	<b>2,825</b>

**13. Shareholder's equity**

**Accounting policy**

*Share capital*

Ordinary shares are recognised at the amount paid up per ordinary share net of directly attributable issue costs.

*Dividends and Return of Capital*

Return of Capital represents a return of a portion of the original investment back to the shareholders and is recognised as a direct reduction in equity.

Both Returns of Capital and ordinary dividends are recognised as a movement in equity in the year within which they are paid.

Where a Return of Capital or 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.

	30 June 2022 Shares	30 September 2021 Shares	30 June 2022 \$'000	30 September 2021 \$'000
Balance at the beginning of the period	79,520,000	79,520,000	79,520	79,520
Balance at the end of the period	79,520,000	79,520,000	79,520	79,520

**Ordinary shares**

The shares have no par value. Ordinary shares entitle the holder to participate in dividends and, in the event of the Company winding up, to a share of the proceeds in proportion to the number of and amounts paid on the shares held. Each ordinary share entitles the holder to one vote, either in person or by proxy, at a shareholder meeting.

**Dividends**

As disclosed in note 19, the Company is subject to certain regulatory capital requirements. The dividend policy ensures compliance with these requirements.

In the period ended 30 June 2022, the Company paid dividends in respect of the ordinary shares amounting to \$50,000,000 (\$0.63 per share) (period ended 30 September 2021: \$39,000,000 (\$0.49 per share)) to the former sole shareholder of the Company, WFSGNZL.

**Return of Capital**

Immediately after the acquisition by FLAC, FIL's Board of Directors declared a Return of Capital to FLAC in the amount of \$152,502,250 that was subsequently paid in cash (period ended 30 September 2021: none).

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**14. Fair value of financial instruments**

**Accounting policy**

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

On initial recognition, the transaction price generally represents the fair value of the financial instrument unless there is observable information available in an active market to the contrary. Where unobservable information is used, the difference between the transaction price and the fair value (day one profit or loss) is only recognised in the income statement over the life of the instrument when the inputs become observable.

**Fair valuation control framework**

The Company uses a Fair Valuation Control Framework where the fair value is either determined or validated by a function independent of the originator of the transaction. This framework formalises the policies and procedures used to achieve compliance with relevant accounting, industry and regulatory standards. The framework includes specific controls relating to:

- the revaluation of financial instruments;
- independent price verification;
- fair value adjustments; and
- financial reporting.

The method of determining fair value differs depending on the information available.

**Fair value hierarchy**

A financial instrument's categorisation within the valuation hierarchy is based on the lowest level input that is significant to the fair value measurement.

The Company categorises all fair value instruments according to the hierarchy described below.

**Valuation techniques**

The Company applies market accepted valuation techniques in determining the fair valuation of over-the-counter derivatives.

The specific valuation techniques, the observability of the inputs used in valuation models and the subsequent classification for each significant product category are outlined below:

**Financial instruments measured at fair value**

**Level 1 instruments**

The fair value of financial instruments traded in active markets based on recent unadjusted quoted prices. These prices are based on actual arm's length basis transactions.

There are no financial instruments included in the Level 1 category (30 September 2021: nil).

**Level 2 instruments**

The fair value for financial instruments that are not actively traded is determined using valuation techniques which maximise the use of observable market inputs. Valuation techniques include:

- the use of market standard discounting methodologies;
- option pricing models; and
- other valuation techniques widely used and accepted by market participants.

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**14. Fair value of financial instruments (continued)**

Instruments	Balance sheet category	Includes	Valuation
Unit trusts	Financial assets at fair value through profit or loss	Units in unlisted unit trusts	Valued using observable market prices or other widely used and accepted valuation techniques utilising observable market inputs.
Interest rate products	Derivative financial instruments	Interest rate swaps - derivative financial instruments	Industry standard valuation models are used to calculate the expected future value of prepayments, which are then discounted back to present value. The models' interest rate inputs are benchmark interest rates and active broker quoted interest rates in the swap markets. Interest rate volatilities are sourced from brokers and consensus data providers.

**Level 3 instruments**

Financial instruments valued where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data due to illiquidity or complexity of the product. These inputs are generally derived and extrapolated from other relevant market data and calibrated against current market trends and historical transactions.

These valuations are calculated using a high degree of management judgement.

There are no financial instruments included in the Level 3 category (30 September 2021: nil).

**Analysis of movements between fair value hierarchy levels**

During the period, there were no material transfers between levels of the fair value hierarchy (2021: no material transfers between levels).

**Financial instruments not measured at fair value**

For cash and cash equivalents, payables due to related entities, other assets and other liabilities which are carried at amortised cost, the carrying amount approximates to fair value. These items are either short-term in nature or reprice frequently, and are of a high credit rating.

**15. Risk management policies and procedures**

**The Company's Risk Management Programme**

The Company's financial condition and operating activities are affected by a number of key financial risks (insurance risk, credit risk, market risk and liquidity risk) as well as non-financial risks (compliance risk, operational risk, conduct risk, reputation risk and environmental, social and governance risk).

The Board determines the Company's overall risk appetite and approves the Risk Management Programme, management strategies, policies and practices to ensure that risks are identified and managed within the context of this appetite.

Inherent in the Company's risk management approach are the requirements to:

- meet regulatory and compliance obligations;
- protect the Company's capital;
- achieve transparency of the Company's risk profile; and
- embed adequate controls to guard against excessive risk or undue risk concentration.



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**15. Fair value of financial instruments (continued)**

Senior management is responsible for implementing and assessing the effectiveness of risk management strategies and internal controls of the Company in accordance with the overarching Risk Management Programme, policies and procedures covering risk identification, rating, assessment, treatment and ongoing management (including reporting).

The life insurance activities of the Company are concerned with the pricing, acceptance and management of the mortality and morbidity risks of lives insured. The risks underwritten by the Company are actively managed to ensure they do not adversely affect the Company's ability to pay benefits and claims when due. Compliance and operational risks are controlled and monitored to maintain the efficiency of the Company as well as to manage the risk of non-compliance.

The Company's Risk Management Committee ('RMC') is responsible for overseeing the effectiveness and implementation of the Risk Management Programme. The RMC oversees and manages all risks inherent in the operations of the Company. Material matters are escalated to the Company's Board.

As prescribed by Section 73 of IPSA, the Company maintains the Risk Management Programme and this is reviewed regularly. The Risk Management Programme consists of the Board Risk Appetite Statement and Risk Management Framework.

**Risk Management Framework**

The Company has adopted the 'Three Lines of Defence' approach to risk management which reflects its culture of 'risk is everyone's business' and that all employees are responsible for identifying and managing risk and operating within the Company's desired risk profile. Each 'Line of Defence' is responsible for establishing its own risk controls and processes for determining whether those controls continue to be adequate and effective. Each subsequent 'Line of Defence' also oversees and advises on the adequacy of the processes and controls at the preceding level and considers them in forming its views on the adequacy and effectiveness of risk management.

The Company accepts and manages risks that arise from business activities, provided such risks are within the Company's defined risk appetite.

**Categories of risks**

The key risks that the Company is subject to are specific insurance risks and risks arising from the general business environment

The Risk Management Framework identifies the following broad categories of risk:

- Insurance risk
- Credit risk
- Market risk
- Liquidity risk
- Non-financial risk including capital and regulatory compliance risk

Additional details surrounding the risk management activities relating to the management of these risks follows.

**Insurance risk**

Insurance risk is the risk of mis-estimation of the expected cost of insured events, volatility in the number or severity of insured events, and mis-estimation of the cost of incurred claims. Insurance risk manifests as the inherent uncertainty as to the occurrence, amount and timing of insurance liabilities. The Company is exposed to this risk through its underwriting philosophy, product design, retention limits, reinsurance arrangements, mortality/morbidity fluctuations and trends, natural disasters and pandemics.

To manage insurance risk, the Company has various risk mitigation systems in place:

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**15. Fair value of financial instruments (continued)**

- Claims fluctuation risk – the Company maintains actuarial models to value the in-force book of individual policies as is used as a key input in the pricing of policies. The Company's claims performance is closely monitored and reported on. Claims fluctuations are managed through reinsurance arrangements;
- Underwriting risk – insurance policies underwritten by the Company are subject to approval by a specialist underwriter who reviews each application against defined standards. The Company ensures that underwriting standards remain up to date and in line with industry and reinsurer standards;
- Reinsurance risk – the Company obtains reinsurance cover for all life insurance policies with a sum insured above the risk retention levels approved by the Board. The Company also has catastrophe reinsurance cover in place;
- Termination risk – the Company actively monitors and manages termination rates; and
- Concentration risk – the Company maintains a retention limit per life and reinsures the excess.

Under the Company's internal reporting system the financial and operating results, mortality and morbidity experience and expenses are monitored quarterly against budget projections. In addition, detailed annual actuarial investigations are performed into the mortality, morbidity and persistency experience of the life insurance products. Concentrations of risk based on individual lives are managed through the use of surplus reinsurance arrangements whereby the Company's maximum exposure to any individual life is capped. The Company also holds catastrophe reinsurance treaties to limit large losses arising from concentrations of risk due to geographical exposure or single events. The Company also is part of an excess of loss treaty to limit the net exposures to high levels of claims from all sources. The Company actively manages its exposure under its retention agreements with its reinsurers.

*Other financial risks*

The Company is exposed to a range of financial risks through its financial assets, reinsurance assets and insurance liabilities. The key components of financial risk are as follows:

- Credit risk – the risk of financial loss where a customer or counterparty fails to meet their financial obligations;
- Market risk – the risk of an adverse impact on earnings resulting from changes in market factors. These risks are monitored daily against a comprehensive limit framework based on longer term risk/return objectives. The principal risk components of this monitoring process are:
  - Interest rate risk – the potential loss arising from changes in the value of financial instruments and life insurance contract assets, due to changes in market interest rates; and
  - Equity price risk – the potential loss arising from decline in value of equity instruments due to changes in their quoted market value or implied volatilities;
- Liquidity risk – the risk that the Company will not be able to fund assets and meet obligations as they come due.

The Company's policies for managing the above financial risks are set out below.

**Credit risk**

Financial assets which potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents, financial assets at FVPL, reinsurance recoveries receivable and other assets. Related risks include resilience risk and asset concentration risk.

The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

- financial strength ratings of reinsurers are monitored and the Company seeks to maintain reinsurance providers above agreed minimum financial strength ratings;
- credit risk limits for investment assets are defined within a recognised rating scale and managed for the Company by the appointed investment portfolio managers. The Risk Management Framework also sets out acceptable credit quality ratings for investments that may be held; and

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**15. Risk management policies and procedures (continued)**

- credit risk in respect of customer balances is actively monitored and losses incurred on non-payment of premiums or contributions will only persist during the grace period specified in the policy document until expiry, when the policy is terminated.

As part of its overall risk management programme the Company cedes a proportion of its insurance risk. While these cessions mitigate insurance risk, the amounts recoverable from reinsurers expose the Company to credit risk. Exposure to and the credit quality of reinsurance counterparties are actively monitored.

The maximum exposure to credit risk is represented by the carrying amount of on-balance sheet financial assets (which comprises cash and cash equivalents, derivative financial instruments, financial assets at FVPL, other assets and reinsurance recoveries receivable).

**Market risk**

The main market risk that the Company faces is interest rate risk and equity price risk. This reflects the underlying nature of its investments and liabilities. The Company's investment strategies for the Fidelity Insurance Limited Shareholder Fund ('Shareholder Fund') and Fidelity Life Insurance Limited Statutory Fund No. 1 ('Statutory Fund No.1') are approved by the Board (refer to note 18). The investment strategies are reviewed annually.

To manage market risk arising from life insurance contract assets, the Company used derivatives to manage interest rate risk. This was achieved by implementing an interest rate swap arrangement. This practice was terminated on 31 March 2022.

To mitigate market risk arising from financial assets at FVPL, the Company's investment manager has implemented the following controls:

- trading authorities and responsibilities are clearly delineated at all levels to ensure accountability;
- a structured system of limits and reporting of exposures against these exist for all trading activities; and
- models are used to determine the risk and impact on the statement of comprehensive income.

In addition to these controls, the Company's investment manager uses derivatives to:

- protect an asset or portfolio against a fluctuation in market value;
- reduce the transaction costs of achieving a desired market exposure;
- immediately adjust the asset exposure within the established strategy;
- adjust the duration of fixed interest portfolios; or
- manage the exposure within a portfolio to fluctuations in interest rates and foreign currency exchange rates.

***Interest rate risk***

Interest rate risk is the potential loss arising from changes in the value of financial instruments due to changes in market interest rates.

The Company is exposed to interest rate risk in that future interest rate movements will affect cash flows, the market value of fixed interest assets, and the market value of unit trusts which hold fixed interest assets.

The Company is also exposed to interest rate risk on obligations arising from its life insurance contracts. A sensitivity analysis of the life insurance contract assets is disclosed in note 3. The interest rate risk created by fixed interest assets and reinsurance recoveries is not deemed material.

***Equity price risk***

The Company is exposed to equity price risk arising from its investments in unit trusts. The underlying investments of these unit trusts indirectly expose the Company to various risks such as interest rate risk, foreign currency risk and credit risk.

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**15. Risk management policies and procedures (continued)**

The following table provides the after-tax impact on profit or loss and equity for a reasonably possible change in equity prices:

	9 months to 30 June 2022 \$'000	12 months to 30 September 2021 \$'000
1.5% decrease in unit trust prices	(1,836)	(2,656)
1.5% increase in unit trust prices	1,836	2,656

**Liquidity risk**

The liquidity of positions taken is factored into the investment decision making process. Considerations include market depth, possible market disruptions and standard settlement times.

The liquidity position of the Company is monitored regularly and funds backing life insurance contracts are significantly invested in readily realisable assets such as cash, short term securities and unit trust investments.

Minimum cash balances required to be held are established to ensure that sufficient funds are available to meet all potential policy holder and shareholder obligations.

The following liquidity analysis of financial assets and liabilities presents the contractual undiscounted cash flows receivable and payable, and is based on the remaining period as at balance date to the contractual maturity. The balances in the tables below may not agree to the balance sheet as the tables incorporate all cash flows on an undiscounted basis, including both principal and associated future interest income/expense accruals.

The Company's undiscounted maturity profiles for financial assets and liabilities were as follows:

		30 June 2022				
	Note	No specific maturity <sup>1</sup> \$'000	Up to 1 Year <sup>2</sup> \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	Total \$'000
<b>Financial assets</b>						
Cash and cash equivalents		-	9,778	-	-	9,778
Financial assets at fair value through profit or loss	10	169,960	-	-	-	169,960
Other assets		-	1,810	-	-	1,810
Receivables due from related entities	16	-	987	-	-	987
<b>Insurance assets</b>						
Reinsurance recoveries receivable		-	14,277	1,387	1,043	16,707
<b>Total assets</b>		<b>169,960</b>	<b>26,852</b>	<b>1,387</b>	<b>1,043</b>	<b>199,242</b>
<b>Financial liabilities</b>						
Payables due to related entities		-	-	-	-	-
Other liabilities		-	6,453	-	-	6,453
<b>Insurance liabilities</b>						
Claims reserve		-	36,163	1,666	1,271	39,100
<b>Total liabilities</b>		<b>-</b>	<b>42,616</b>	<b>1,666</b>	<b>1,271</b>	<b>45,553</b>

**Fidelity Insurance Limited**  
**Notes to the financial statements**  
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**15. Risk management policies and procedures (continued)**

		30 September 2021				
	Note	No specific maturity <sup>1</sup> \$'000	Up to 1 Year <sup>2</sup> \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	Total \$'000
<b>Financial assets</b>						
Cash and cash equivalents	16	-	6,563	-	-	6,563
Derivative financial instruments	16	-	4,347	-	-	4,347
Financial assets at fair value through profit or loss	10	245,935	-	-	-	245,935
Other assets		-	2,326	-	-	2,326
<b>Insurance assets</b>						
Reinsurance recoveries receivable		-	9,666	1,518	1,136	12,320
<b>Total assets</b>		<b>245,935</b>	<b>22,902</b>	<b>1,518</b>	<b>1,136</b>	<b>271,491</b>
<b>Financial liabilities</b>						
Payables due to related entities	16	-	7,111	-	-	7,111
Other liabilities	16	-	1,830	-	-	1,830
<b>Insurance liabilities</b>						
Claims reserve		-	39,799	1,894	1,446	43,139
<b>Total liabilities</b>		<b>-</b>	<b>48,740</b>	<b>1,894</b>	<b>1,446</b>	<b>52,080</b>

<sup>1</sup> Amounts classified under 'No Specific Maturity' refer to investments in unit trusts, which can be withdrawn on demand.

<sup>2</sup> Amounts classified under 'Up to 1 Year' refer to all commitments which are either contractually due within the timeframe or payable on demand.

**Capital and regulatory compliance risk**

There is risk of legal or regulatory sanction, financial or reputational loss arising from the Company's failure to abide by the compliance obligations required of the Company.

Effective compliance risk management is about identifying compliance obligations and implementing and testing controls to ensure these obligations are met. The Company's compliance obligations include all obligations that have an impact on the Company including, but not limited to, obligations arising under IPISA, its related regulations, licence conditions and standards issued by the RBNZ.

The Board and senior management commit to compliance management through the establishment and maintenance of a dedicated compliance function in support of the Risk Management Framework. Staff are required to be proactive in becoming aware of their compliance obligations and implement the obligations in their day-to-day business activities, including actively monitoring and reporting compliance failures.

The Company maintains a Compliance Plan which set out the measures that it needs to apply to ensure compliance with the relevant compliance obligations.

The Company holds sufficient capital to mitigate the impact of losses which exceed the Company's ongoing surpluses. The Company strictly adheres to minimum regulatory capital requirements. In addition, the Board has defined a target level of capital to be held to ensure ongoing adherence with regulatory minimums.

Solvency reserves maintained by the Company are disclosed in note 19.

**Fidelity Insurance Limited**  
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**16. Related parties**

**Accounting policy**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions, or one other party controls both. Examples include subsidiaries, associates, joint ventures and superannuation plans as well as key management personnel and their related parties.

***Cash and cash equivalents (pre-acquisition period)***

Cash and cash equivalents include cash at bank, at call money market deposits and other investments in highly liquid assets.

***Derivative financial instruments (pre-acquisition period)***

Derivative financial instruments are instruments whose values are derived from the value of an underlying asset, reference rate or index and include forwards, futures, swaps and options. Derivatives are presented as an asset where they have a positive fair value at balance date or as a liability where the fair value at balance date is negative.

These derivatives are measured at FVPL and are disclosed as derivative financial instruments.

***Receivables due from / payables due to related entities***

This amount includes amounts due to the parent company and other entities controlled by the parent company (applicable to the pre-acquisition period). Due to related entities includes accrual expense balances due to other related entities. They are measured at amortised cost.

**Ultimate parent company**

The Company is a wholly-owned subsidiary of FLAC which is also the ultimate parent company. Prior to the acquisition by FLAC the parent company was WFSGNZL and the ultimate parent company was Westpac Banking Corporation ('WBC'), which is incorporated in Australia. Upon the change of ownership on 28 February 2022, these entities have ceased being related. Refer to note 1 for further details of the change in Company's ownership.

**a) Related party balances and transactions in the post-acquisition period (1 March – 30 June 2022)**

***Transactions with related entities***

During the period the Company made a Return of Capital to FLAC, refer to note 13.

The management fees paid to FLAC were \$10,472,500 and the total balance due from FLAC as at 30 June 2022 is included into the 'Receivables due from related entities' line in the Statement of financial position.

All transactions with related entities were arranged on a cost recovery basis and all amounts due to and from related entities are normally settled within 90 days.

***Key management personnel compensation***

The key management personnel are all the Directors of the Company. Director fees paid during the period are disclosed in note 8.

All transactions with key management personnel, their related entities and other related parties are conducted in the ordinary course of business.

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**16. Related parties (continued)**

**b) Related party balances and transactions in the pre-acquisition period (until 28 February 2022)**

All entities controlled by WBC, either directly or indirectly, were considered to be related entities of the Company. WNZL and BT Funds Management (NZ) Limited ('BTFMNZL') were indirect subsidiaries of the ultimate parent company.

***Nature of transactions***

Current account banking facilities and other financial products were provided by the WBC New Zealand Branch ('NZ Branch') to the Company.

Derivative transactions (interest rate swaps) were carried out between the Company and NZ Branch.

The Company received interest on cash deposits with the NZ Branch.

Insurance premium revenue was received from WNZL.

The Company's investment income is earned from the investments managed independently by BT Funds Management (NZ) Limited ('BTFMNZL'). The fair value of these investments is disclosed in note 10.

Investment management services in respect of the Statutory Fund No. 1 and Shareholder Fund (refer to note 18) are carried out by BTFMNZL and the Company pays investment management fees to BTFMNZL in respect of these services, which include the management of some of the Company's cash and cash equivalents which are deposited with the NZ Branch and ANZ Bank New Zealand Limited. The outstanding balance at 30 September 2021 is included in Sundry creditors - BTFMNZL.

Life insurance products were sold on behalf of the Company by WNZL. The Company paid sales commissions to WNZL. The outstanding balance at 30 September 2021 is included in Accrued expenses - WNZL.

In the prior year, salaries and other staff expenses were reimbursed by the Company to WNZL. Under the employment agreements, these salaries and other staff expenses related to employees who were employed by WNZL. Transactions in relation to this related party were arranged on a cost recovery basis. The outstanding balance at 30 September 2021 is included in Sundry creditors - WNZL.

Fees for support services were paid by the Company to WNZL for certain operating costs incurred by WNZL. These transactions were arranged on a cost recovery basis. The outstanding balance at 30 September 2021 is included in Sundry creditors - WNZL.

Transactions with related entities were arranged on commercial terms.

During the period the Company paid dividends to its former parent entity, refer to note 13.

**The Company and IAG New Zealand Limited ('IAG') Contract Novation**

The agreement for the distribution of general insurance products by the Company, between the Company and IAG, was novated from the Company to WNZL with effect on and from 30 September 2021, with commission paid to the Company ceased from that date.

***Transactions with related entities***

	Note	9 months to 30 June 2022 \$'000	12 months to 30 September 2021 \$'000
<b>Dividend paid</b>			
Dividend paid to WFSGNZL	13	50,000	39,000
<b>Income</b>			
Interest income from NZ Branch	4	14	1
Insurance premium revenue from WNZL		48	102
<b>Total income</b>		<b>62</b>	<b>103</b>

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**16. Related parties (continued)**

	Note	9 months to 30 June 2022 \$'000	12 months to 30 September 2021 \$'000
<b>Expenses</b>			
Investment management fees to BTFMNZL		251	569
Commissions to WNZL		4,921	30,483
Salaries and other staff expenses to WNZL	5	2,246	7,311
Fees for support services to WNZL		237	3,981
(Gain)/loss from derivative financial instruments transacted with NZ Branch	4	(8,991)	(26,841)
<b>Total expenses</b>		<b>(1,336)</b>	<b>15,503</b>
<b>Due from and to related entities</b>			
<b>Cash and cash equivalents</b>			
Deposits held with NZ Branch		-	2,124
Deposits under the management of BTFMNZL		-	4,439
<b>Total cash and cash equivalents</b>		<b>-</b>	<b>6,563</b>
<b>Derivative financial instruments</b>			
Derivative financial instruments transacted with NZ Branch (at fair value)		-	4,347
<b>Total derivative financial instruments</b>		<b>-</b>	<b>4,347</b>
<b>Total receivables due from related entities</b>		<b>-</b>	<b>10,910</b>
Amounts expected to be recovered within 12 months		-	10,910
Amounts expected to be recovered after 12 months		-	-
		-	10,910
<b>Payables due to related entities</b>			
Sundry creditors - BTFMNZL		-	53
Sundry creditors - WNZL		-	219
Accrued expenses - WNZL		-	6,839
<b>Total payables due to related entities</b>		<b>-</b>	<b>7,111</b>
<b>Other liabilities</b>			
Bonus provision and other staff benefits	12	-	995
<b>Total other liabilities</b>		<b>-</b>	<b>995</b>
<b>Total payables due to related entities and other liabilities</b>		<b>-</b>	<b>8,106</b>
Amounts expected to be recovered within 12 months		-	8,106
Amounts expected to be recovered after 12 months		-	-
		-	8,106

The notional amount of derivative financial instruments at 30 September 2021 was \$5,659,780. The fair value is disclosed in the balance sheet.

Except for cash and cash equivalents and derivative financial instruments, amounts due to and from related entities were normally settled within 90 days.



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**16. Related parties (continued)**

**Key management personnel**

Key management personnel were defined as being Directors and senior management of the Company.

	9 months to 30 June 2022 \$'000	12 months to 30 September 2021 \$'000
<b>Independent and Non-independent Directors</b>		
Salaries and other short-term benefits	151	228
<b>Non-independent key management personnel</b>		
Salaries and other short-term benefits	1,053	1,781
Post-employment benefits	122	150
Share-based payments	-	186
<b>Total key management personnel compensation</b>	<b>1,326</b>	<b>2,345</b>

All other transactions with key management personnel, their related entities and other related parties were conducted in the ordinary course of business. These transactions principally involved the provision of insurance services.

**17. Reconciliation of claims reserve and reinsurance recoveries receivable**

<b>Accounting policy</b>
<b>Claims reserve</b>
Provision has been made for liabilities in respect of insurance claims notified but not settled at balance date, together with an allowance for incurred but not reported ('IBNR') insurance claims.
<b>Reinsurance recoveries receivable</b>
Recoveries receivable represent amounts recoverable from reinsurers, calculated on the same basis as the liability for outstanding claims. Amounts recoverable from reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

Reconciliation of claims reserve	30 June 2022 \$'000	30 September 2021 \$'000
Balance at the beginning of the period	42,867	43,263
Release of start of period reserve for claims closed during the period	(20,482)	(20,440)
Changes in claims reserves for the period	15,160	20,346
Changes in IBNR reserve for the period	1,132	(302)
<b>Balance at the end of the period</b>	<b>38,677</b>	<b>42,867</b>
Amounts expected to be settled within 12 months	35,771	39,548
Amounts expected to be settled after 12 months	2,906	3,319
	<b>38,677</b>	<b>42,867</b>

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**17. Reconciliation of claims reserve and reinsurance recoveries receivable (continued)**

Reconciliation of reinsurance recoveries receivable	30 June 2022 \$'000	30 September 2021 \$'000
Balance at the beginning of the period	12,091	14,682
Release of start of period reinsurance recovery reserve for claims closed during the period	(7,715)	(12,197)
Changes in reinsurance recovery reserves for the period	8,735	9,646
Changes in reinsurance recovery IBNR reserve for the period	3,238	(40)
<b>Balance at the end of the period</b>	<b>16,349</b>	<b>12,091</b>
Amounts expected to be settled within 12 months	13,971	9,487
Amounts expected to be settled after 12 months	2,378	2,604
	<b>16,349</b>	<b>12,091</b>

**18. Statutory Fund**

It is a requirement of the IPSA that a life insurer must have at least one statutory fund in respect of its life insurance business. The statutory fund is subject to restrictions imposed under the IPSA. A core requirement is that the assets in the statutory fund are only available to meet the liabilities and expenses of the life insurance business and cannot be used to support any other business of the life insurance company. Distribution of the retained profits of a statutory fund may only be made when certain solvency and other requirements are met.

The following table shows a summary of the balances of the Company's statutory fund, Statutory Fund No. 1:

Income statement	9 months to 30 June 2022 \$'000	12 months to 30 September 2021 \$'000
Insurance premium revenue <sup>1</sup>	116,006	153,290
Outwards reinsurance premium expense <sup>1</sup>	(27,238)	(16,903)
Investment loss	(4,270)	1,214
Commission income and other income	5,161	1,540
Reinsurance commission income	130,000	-
Gains/(losses) on derivative financial instruments	13,308	26,841
Insurance claims and rebate expense <sup>1</sup>	(44,025)	(67,090)
Reinsurance recoveries revenue <sup>1</sup>	12,702	11,979
Net change in life insurance contract assets	(150,195)	(27,847)
Other operating expenses	(32,117)	(29,232)
<b>Profit before tax</b>	<b>19,332</b>	<b>53,792</b>
Income tax expense <sup>1</sup>	(6,389)	(14,478)
<b>Profit after tax</b>	<b>12,943</b>	<b>39,314</b>

<sup>1</sup> The comparative balances were presented on a net basis in the prior period.

**Fidelity Insurance Limited**  
**Notes to the financial statements**  
for the nine months ended 30 June 2022

**18. Statutory Fund (continued)**

Statement of financial position	30 June 2022	30 September 2021
	\$'000	Restated <sup>1</sup> \$'000
<b>Assets</b>		
Cash and cash equivalents	9,505	6,267
Derivative financial instruments	-	4,347
Financial assets at fair value through profit or loss	166,023	237,288
Reinsurance recoveries receivable	16,349	12,091
Receivables due from related entities	987	-
Current tax assets	2,396	-
Other assets	1,810	392
Life insurance contract assets	101,215	131,450
<b>Total assets</b>	<b>298,285</b>	<b>391,835</b>
<b>Liabilities</b>		
Payables due to related entities	-	5,953
Current tax liabilities	-	14,428
Other liabilities	7,179	2,825
Deferred tax liabilities	29,644	38,382
Claims reserve	38,677	42,867
Life insurance contract assets ceded under reinsurance	119,960	-
<b>Total liabilities</b>	<b>195,460</b>	<b>104,455</b>
<b>Net assets</b>	<b>102,825</b>	<b>287,380</b>
<b>Equity</b>		
Share capital	79,520	79,520
Retained earnings	23,305	207,860
<b>Total equity</b>	<b>102,825</b>	<b>287,380</b>
<b>Transfer of capital to/(from) Shareholder Fund</b>	<b>197,502</b>	<b>35,000</b>

<sup>1</sup> Refer to note 2 for details of the restatement made.

During the period \$202.5m was distributed from the Shareholder Fund (2021: \$39m).

**19. Solvency reserves**

The Board's policy is to maintain a strong capital base to meet the regulatory requirements. The IPSA requires the Company to comply at all times with the Solvency Standard for Life Insurance Business 2014 ('Solvency Standard') issued by the RBNZ. The Directors have adopted a policy of holding a buffer amount of free capital over and above the minimum level of capital required by the Solvency Standard. The calculated minimum solvency capital is below \$5m therefore the Company is subject to the fixed capital amount of \$5m, as required by the Solvency Standard.

The solvency position reflects the proposed dividend distribution (note 21).

The IPSA requires disclosure of the solvency margins for the statutory fund, the business and assets outside the statutory fund and for the Company as a whole. These solvency margins as at 30 June 2022 and 30 September 2021 are shown in the following tables.

**Fidelity Insurance Limited**  
**Notes to the financial statements**  
for the nine months ended 30 June 2022

**19. Solvency reserves (continued)**

	30 June 2022			30 September 2021		
	Statutory	Non-Statutory	Total	Statutory	Non-Statutory	Total
	Fund No. 1	Fund		Fund No. 1	Fund	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Actual solvency capital	67,824	4,199	72,023	287,380	9,250	296,630
Minimum solvency capital	-	146	5,000	161,309	1,214	162,523
Solvency margin	67,824	4,053	67,023	126,071	8,036	134,107
Solvency ratio	N/A	2876%	1440%	178%	762%	183%

**20. Contingencies and commitments**

There were no contingent assets, contingent liabilities or unrecognised contractual commitments as at 30 June 2022 (30 September 2021: none).

**21. Subsequent events**

**Dividend distribution**

On 30 September 2022 the Fidelity Insurance Limited's Board declared a cash dividend distribution of \$0.44 (gross of tax) per ordinary share issued. This dividend will not be imputed.

**Intragroup Portfolio Transfer**

In September 2022 the plan was established to transfer all assets and liabilities of Fidelity Insurance Limited, including all insurance portfolios, to Fidelity Life Assurance Company Limited ('Portfolio Transfer'). The provisional date for executing the Portfolio Transfer is 30 June 2023 and is subject to obtaining regulatory and other approvals, including approval from the RBNZ. Following the transfer, Fidelity Insurance Limited will no longer have continuing business operations and its insurance licence with RBNZ will be terminated.



## Independent auditor's report

To the shareholder of Fidelity Insurance Limited (formerly Westpac Life-NZ- Limited)

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### Our opinion

In our opinion, the accompanying financial statements of Fidelity Insurance Limited (the Company), present fairly, in all material respects, the financial position of the Company as at 30 June 2022, its financial performance and its cash flows for the period 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 financial statements comprise:

- the statement of financial position as at 30 June 2022;
- the income statement for the period then ended;
- the statement of comprehensive income for the period then ended;
- the statement of changes in equity for the period then ended;
- the statement of cash flows for the period then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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### 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 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 Company 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 Company in the areas of other assurance services over the solvency return. In addition, certain partners and employees of our firm may deal with the Company on normal terms within the ordinary course of trading activities of the Company. The provision of these other services and relationships have not impaired our independence as auditor of the Company.

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### Emphasis of Matter - Basis of Preparation

We draw attention to the Going concern – portfolio transfer disclosure at Note 2 of the financial statements, and also Note 21, Subsequent Events. These disclosures explain the reasons for the financial statements of the Company being prepared on a realisation basis. As detailed in these notes, the Board plans to transfer all assets and liabilities of Fidelity Insurance Limited, including all insurance portfolios, to Fidelity Life Assurance Company Limited, at their book value on 30 June 2023. The Company is expected to have no continuing business post the transfer. As a result, the Directors have determined that the use of the going concern basis of preparation is not appropriate. Our opinion is not modified in respect of this matter.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the 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
<p><b>Measurement of life insurance contract assets and life insurance contract assets ceded under reinsurance</b></p> <p>Refer to the following notes in the Company's financial statements: Note 2 <i>Summary of significant accounting policies</i>, Note 3 <i>Actuarial assumptions and methods</i>, and Note 11 <i>Life insurance contract assets</i>.</p> <p>As at 30 June 2022, the Company had life insurance contract assets of \$101.2 million (30 September 2021: \$131.5 million) and life insurance contract assets ceded under reinsurance of \$120.0 million (30 September 2021: \$nil).</p> <p>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.</p> <p>We considered this a key audit matter due to the subjective actuarial judgements made and the complexity of the actuarial calculations and models.</p> <p>The key assumptions used in the estimation of the balance includes:</p> <ul style="list-style-type: none"> <li>• Long-term interest rates which affect the rate at which cash flows are discounted (discount rates);</li> <li>• The cost of providing benefits and administering these contracts (maintenance expenses);</li> <li>• Inflation and automatic indexation of benefits;</li> <li>• Mortality, morbidity and trauma experience for life insurance products; and</li> <li>• Persistency (or discontinuance) assumptions, which affects the Company's ability to recover the cost of acquiring new business over the lives of the contracts.</li> </ul>	<p>Together with PwC actuarial experts, we have:</p> <ul style="list-style-type: none"> <li>• Assessed the reasonableness of the key actuarial assumptions including the discount rates, maintenance expenses, inflation and automatic indexation of benefits, mortality, morbidity and trauma rates and the discontinuance rates. Our assessment of the assumptions included: <ul style="list-style-type: none"> <li>– Obtaining an understanding of, and testing on a sample basis, the processes and controls in place to determine the assumptions;</li> <li>– Examining the approach used by management to derive the assumptions by applying our industry knowledge and experience; and</li> <li>– Challenging the key assumptions used by management against past experience, market observable data (as applicable) and our experience of market practice.</li> </ul> </li> <li>• Assessed the reasonableness of the analysis of margin on services profit for the period to consider whether assumption changes are consistent with the experience and whether the movement in life insurance contract assets and associated reinsurance balances from the prior reporting period has been adequately explained.</li> <li>• 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.</li> <li>• Assessed the outcome of the liability adequacy test in order to ascertain whether the insurance contract balances are adequate in the context of a valuation based on best estimate assumptions at the reporting date.</li> </ul> <p>Policy data is a key input to the actuarial estimates. Accordingly, we:</p>



Description of the key audit matter	How our audit addressed the key audit matter
	<ul style="list-style-type: none"> <li>Evaluated the design effectiveness and tested the operating effectiveness of certain controls over the policy administration processes.</li> <li>Tested, on a sample basis, the completeness and accuracy of data between source and actuarial valuation systems.</li> </ul>

## Our audit approach

### Overview

<b>Materiality</b>	<p>Overall materiality: \$1.1 million, which represents approximately 1% of insurance premium revenue.</p> <p>We chose insurance premium revenue as the benchmark because, in our view, it is the benchmark against which the performance of the Company is most commonly measured by users, and is a generally accepted benchmark in the life insurance industry.</p>
<b>Key audit matters</b>	<p>As reported above, we have one key audit matter, being:</p> <ul style="list-style-type: none"> <li>Measurement of life insurance contract assets and life insurance contract assets ceded under reinsurance.</li> </ul>

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the 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.

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

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the 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 financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the 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 financial statements as a whole.

### 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 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 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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.

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**Responsibilities of the Directors for the financial statements**

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company'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 Company or to cease operations, or have no realistic alternative but to do so.

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**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

<https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-2/>

This description forms part of our auditor's report.





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**Who we report to**

This report is made solely to the Company's shareholder. 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 shareholder, for our audit work, for this report or for the opinions we have formed.

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

For and on behalf of:

A handwritten signature in black ink, appearing to read 'Richard Day', written over a horizontal line.

Chartered Accountants

Auckland

30 September 2022



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23 September 2022

The Directors  
Fidelity Insurance Limited  
Fidelity Life House  
Level 4  
136 Fanshawe Street  
Auckland 1010

Dear Directors,

**Report under Section 78 of the Insurance (Prudential Supervision) Act 2010  
Review of actuarial information for Fidelity Insurance Limited as at 30 June 2022**

a) This report has been prepared by Lee-Ann du Toit FNZSA, FASSA for the purpose of Section 78 of Insurance (Prudential Supervision) Act 2010 ("IPSA"). It has been included in the Fidelity Insurance Limited (FIL) financial statements.

b) The report provides information to the Directors and management of FIL regarding a review of the actuarial information (Section 77 of IPSA) contained in the 30 June 2022 financial statements for FIL and provides an opinion as to its appropriateness. This report has not been prepared with any other additional purposes in mind.

c) My review of the actuarial information included the following:

- Review of the Policy Liability valuation report prepared by the Chief Actuary, Nick Smart, dated 14 September 2022. This report included the following actuarial information:
  - i. Insurance contract assets (Policy Liabilities before reinsurance);
  - ii. Insurance contract liabilities – reinsurance (Policy Liabilities in respect of reinsurance);
  - iii. Present value of future tax payable in insurance contract assets and liabilities.
- Review of the calculations determining the solvency position of the company, Statutory Fund and Shareholder Fund.

d) I am a Partner at Deloitte and act as Appointed Actuary for FIL under a contract for services. I have no financial interests in FIL.

e) There were no restrictions or limitations placed on my work or on my report. I obtained all the information I required.

f) In my opinion and from an actuarial perspective:

- The actuarial information contained in the 30 June 2022 FIL financial statements has been appropriately included in those financial statements; and
- The actuarial information used in the preparation of the 30 June 2022 FIL financial statements has been appropriately used in those financial statements.

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g) In my opinion and from an actuarial perspective FIL maintained a Solvency Margin as at 30 June 2022 that complies with the Solvency Standard for Life Insurance Business issued by the Reserve Bank of New Zealand. This has been maintained at both an overall company level and for the Statutory Fund and Shareholder Fund.

Yours sincerely

A handwritten signature in black ink, appearing to read "Lee-Ann du Toit". The signature is stylized with a large, flowing 'L' and 'A'.

**Lee-Ann du Toit, FNZSA, FASSA**  
Appointed Actuary  
Fidelity Insurance Limited