Fidelity Life

ANNUAL REPORT 2019

BUILDING FOR FUTURE GROWTH

NEW ZEALAND LIFE INSURANCE COMPANY OF THE YEAR – FOR THE SECOND YEAR RUNNING

We're the largest Kiwi owned and operated life insurer and proud to be there for 300,000 customers when they need us. Since 1973 we've paid over $1 billion in claims, delivering on our purpose of giving New Zealanders certainty to enjoy a more rewarding life.

NAVIGATING CHANGE AND TAKING OPPORTUNITIES

These are truly exciting times. In the face of once-in-a-generation regulatory and technology change, we see opportunities while others are distracted. We're committed to a model where customers' interests come first, there's greater transparency across the industry and good conduct is rewarded.

THE NEED FOR SPEED

To succeed in a world that's increasingly digital and customer-focused we're stepping up the pace of our transformation. That's why we're investing in our brand and building world-class digital capabilities. We remain firmly focused on setting the business up for a sustainable and successful future, with our customers at the heart of everything we do.

CONTENTS

KEY FACTS

As at 30 June 2019

$647.3m
Total assets

11.4%
Market share in-force business

$337.3m
Equity

$20.7m
Total comprehensive income

$125.7m
Total claims paid

300,000
Customers
Lives assured through a retail, business or group scheme policy.

257
Number of staff

Brian Blake, Chair (left)
Nadine Tereora, CEO (right)

CHAIR'S REVIEW

Welcome to Fidelity Life's annual report for 2019.

During the 2019 financial year the pace and scale of change in New Zealand's life insurance industry stepped up considerably and continues to challenge the Board and the company.

Regulatory – and media – scrutiny intensified, with the review of life insurers' conduct and culture by the Financial Markets Authority (FMA) and the Reserve Bank of New Zealand (RBNZ) and preparations for the new financial advice licencing regime being key areas of focus.

While some in the industry are struggling with the regulatory attention, we welcome it because it's helping create a level playing field.

In fact our transformation to a more customer-focused model had already commenced well before the FMA / RBNZ conduct and culture review, and that's why we believe we're well-placed compared to some of our competitors.

A SATISFACTORY FINANCIAL PERFORMANCE

The market remains highly competitive, with life insurers continuing to enhance products and sharpen pricing. Against this backdrop the company defended its number three in-force market position and produced a satisfactory financial performance.

Total comprehensive income grew to $20.7 million from $16.7 million in 2018, while underlying profit fell from $19.2 million last year to $13.6 million in 2019. As the table below highlights, we benefited significantly from the fall in bond rates.

Reconciliation of underlying profit	2019 $m	2018 $m
Total comprehensive income (as reported)	20.7	16.7
Add-back – SRP costs / impairment of SRP project (net tax @ 28%)*	0.0	3.0
Underlying profit from insurance operations	**20.7**	**19.7**
Change in actuarial assumptions due to movement in the NZ Government 10 year bond (net of tax @ 28%)	(7.1)	(0.5)
Underlying profit from insurance operations before changes in actuarial assumptions	**13.6**	**19.2**

* Systems Replacement Programme

However we also experienced an $8.3 million increase in net claims (before tax) – a trend impacting the entire industry – and incurred some modest restructuring costs as our focus on operational excellence continued.

THE CASE FOR CHANGE IS COMPELLING

What has become ever more apparent during the year is the urgent need to hasten our transformation journey and position the company strongly for a future that's increasingly customer-focused and digital.

The consequences of not adapting quickly to regulatory, consumer and technology change will be severe. But if there's one thing we're certain of, it's that slow, incremental change isn't enough.

When it comes to digital transformation, we're starting from a relatively low base; like many other life insurers we're dealing with complex issues relating to our legacy IT systems.

However we're now starting to build towards world-class digital capability. In modernising our technology our aim is to drive innovation, productivity and improved support for our advisers and partners, and deliver flexible products and good outcomes for our customers.

Consumers are switching on to new digital health and wellbeing programmes common in overseas markets and now being introduced in New Zealand by some life and health insurers. We're investigating some exciting opportunities in this area.

We're also exploring ways to diversify our channel mix in a way that complements our independent adviser channel. This work becomes even more important in the face of an ambitious regulatory change agenda being largely driven by low levels of consumer trust in traditional life insurance models and brands.

INVESTING FOR A SUSTAINABLE AND SUCCESSFUL FUTURE

With its current mix of skills and experience the Board is well equipped to lead the company through this next phase. We're confident about the future for Fidelity Life, however the coming 12-18 months are critical as we continue building a platform for future growth.

Successfully navigating change and securing the company's future will require significant investment in our brand and technology, in particular, and requires patience from shareholders. Because of the need for investment the Board has made the prudent decision not to pay a dividend this year.

Nadine and I look forward to updating you on our progress at the annual meeting in November.

Finally I'd like to congratulate Nadine and her management team on winning the Australian and New Zealand Institute of Insurance and Finance (ANZIIF) New Zealand Life Insurance Company of the Year Award for the second consecutive year, and being named a finalist for the award again in 2019. This is an outstanding result and just reward for the hard work of the entire team.

B.J. Blake

Brian Blake
Chair

CEO'S REVIEW

The 2019 financial year was one of unprecedented change, both for Fidelity Life and New Zealand's life insurance sector. In the face of a dynamic environment, we continued to reinforce the foundations of our business and set a platform for future growth.

TOP LINE UP, BOTTOM LINE DOWN

Our total comprehensive income grew from $16.7 million in 2018 to $20.7 million in 2019. Key drivers were an $8.2 million (before tax) uplift in net premium revenue to $150.3 million, a strong focus on managing operating expenses, and favourable movements in interest rates amounting to $7.1 million (after tax).

However our underlying profit of $13.6 million was down on last year's $19.2 million due in part to higher than expected claims. This is a common theme across the entire New Zealand life insurance sector, with income protection claims being the primary contributor as policyholders age, and cancer and mental illness become more prevalent.

Underlying profit was also impacted by restructuring costs and our response to the joint FMA and RBNZ review of life insurers' conduct and culture. These are discussed further below.

Despite intense competitor pressure in relation to our core offer (product, pricing and adviser remuneration) we ended the year with an in-force market share of 11.4% and maintained our number three position.

On the new business front our strategic alliance partnership with FMG Insurance was a standout this year, achieving above-plan results. Group risk new business inflows grew year-on-year, while our retail channel was down on last year, again reflecting a flat adviser market.

WE'RE THERE FOR OUR CUSTOMERS WHEN THEY NEED US

We achieved a significant customer milestone at the end of 2019: not only did we pay $125.7 million in claims for the financial year, we've now paid out a cumulative $1 billion in claims since we were founded in 1973. I'm immensely proud that we've been able to help our customers and their families in their time of need.

Our claims team's mission is to always do the right thing for our customers. Their efforts continue to impress and are reflected in consistently high customer satisfaction scores.

TRANSFORMING OUR FINANCE TEAM

Our strategic focus on operational excellence in 2019 delivered improved financial management. Chief Financial Officer Simon Pennington completed an ambitious repositioning of our expense base, which enabled the business to invest in new talent and deal with a number of one-off costs without over-spending.

Simon's team has also optimised financial reporting which has enhanced decision making and forecasting at Board and Executive levels.

REGULATION: CONDUCT AND CULTURE AT THE FOREFRONT

Regulatory activity during the year centred on conduct and culture and added significantly to our workload.

We're committed to a regulatory model where customers' interests come first, there's greater transparency across the industry and good conduct is rewarded.

Our Chief Risk Officer Anna Black and her team led our response to the joint FMA and RBNZ review of life insurers' conduct and culture. Having completed this work we're confident we have good conduct.

We've used this in-depth review to leverage further opportunities to advance our market position, especially with our focus on putting customers at the heart of our business.

We're now implementing our conduct and culture action plan which will see us working together with advisers and partners to deliver good customer outcomes.

We expect to see draft legislation relating to the conduct of financial institutions and insurance contracts introduced to Parliament before the end of 2019.

HELPING ADVISERS SECURE THEIR FUTURE

The Financial Services Legislation Amendment Act and its associated Code of Professional Conduct for Financial Advice Services form the basis of the new financial advice licencing regime, with the transitional licencing period commencing from November 2019.

We're committed to independent financial advice and are leading the industry with our support for advisers through a period of significant change. We're investing in professional development capabilities and resources to help them make the transition to the new regime.

The aim is to ensure they have sustainable businesses, continue to write and maintain business with us and ultimately deliver good outcomes for Kiwis.

An exciting development during 2019 was the launch of Building Better Businesses, a market-leading programme designed to help top-tier advisers secure their ongoing business success. Building Better Businesses identifies opportunities for advisers to extract greater value from their business and provides a tailored plan to help them get there.

These initiatives are starting to pay off. The 2019 annual Lewers industry survey showed impressive gains in adviser satisfaction with a Net Promoter Score of +32. Overall, we're rated number two in the market, and advisers scored us particularly highly in our underwriting, claims processing and product areas.

CONTINUING TO STRENGTHEN OUR CULTURE

The focus on improving our overall people performance through a customer-first approach has been a constant thread throughout the year.

Our ongoing work developing an 'above the line' culture is closely linked to the regulatory focus on culture and conduct – although our own culture programme, as discussed in last year's annual report, was already well underway before the regulators initiated their review in the 2019 financial year.

The first phase of the culture programme is now complete. The second phase is mostly people-led and 55 people – approximately one fifth of our entire staff – put their hands up to become Culture Ambassadors, a great outcome. With leadership capability critical to culture, our Executive team has also completed further development in this space.

The year saw a significant amount of change, with a number of restructures designed to drive operational efficiency undertaken across the business. As a result we finished the year with 257 staff compared to 279 in 2018 (including contractors and temporary staff).

Notable people movements included the retirement of our long-serving Chief Operations Officer Neale Watling on 30 June 2019. His replacement Kath Johnson joined us in August 2019. At the time of writing we're recruiting for a new Chief Customer Officer following the departure of Don Allerston in July 2019.

Despite all of the unprecedented change, a number of positive indicators show we're heading in the right direction:

- we retained a strong engagement score of 4.15 (out of 5) in our annual Gallup survey;
- we improved our gender balance at senior levels: 55% male and 45% female;
- we improved our gender pay equity at senior levels: females' salaries are 95.8% of males'; and
- 51% of advertised roles were filled by existing Fidelity Life staff.

PUSHING FORWARD WITH DIGITAL TRANSFORMATION

In 2019 we established and commenced delivery of our new technology roadmap, which aims to lift productivity, simplify our complex legacy systems and deliver a superior customer experience. We've named this transformational project 'Watson' in honour of the entrepreneurial spirit of our founders, Gordon and Shirley Watson.

Already we've proven our capabilities in robotic process automation and our robots – 15 at the time of writing – are delivering combined time savings of almost 1,000 days annually.

In last year's annual report we discussed exploring a more diverse channel mix. This is an integral part of 'Watson' and our early work in this space has delivered some useful insights into digital propositions.

We look forward to providing you with an update on 'Watson' at the annual meeting.

INDUSTRY RECOGNITION

Last year we noted our delight at winning the coveted ANZIIF New Zealand Life Insurance Company of the Year award in 2017 for the first time. So we were even more delighted to win this award in 2018 for the second consecutive year, as well as being named one of two finalists for the 2019 award. This gives us enormous confidence that we're on the right track.

These are truly exciting times for our industry. With the pressure coming on traditional business models due to legacy system constraints and regulation, the stakes are high as the industry faces into the most significant changes – technology, regulation and consumer-driven – in a generation. Fidelity Life is in good shape and I'm confident our current strategy positions us well to drive future growth.

We're committed to our goal of setting the business up for a sustainable and successful future, with our customers at the heart of everything we do. While there's plenty more work to do, I'm proud of what we've achieved so far on our transformation journey.

Nadine Tereora
CEO

WE'RE IN THE BUSINESS OF PAYING CLAIMS

2019 KEY TRENDS

Claims for the year ended 30 June 2019

We paid
$125.7m
in claims

Cancer accounted for
31%
of all accepted claims

We accepted
91%
of all claims

We accepted claims for almost
1,800
customers

Over
$1 billion
paid out in claims since 1973

INCOME PROTECTION HIGHLIGHTS

Accepted income protection claims rose
21%
over 2018

7%

Mental health conditions accounted for 7% of accepted income protection claims.

3 most common mental health conditions
Adjustment disorder
Anxiety
Depression

Income protection optional benefit claims

Specified Medical Condition
53 claims

Specific Injury Benefit
89 claims

2019 CLAIMS EXPERIENCE

LIFE COVER
709 CLAIMS ACCEPTED

YOUNGEST CLAIM **21**
OLDEST CLAIM **100**

$69.8m
CLAIMS PAID

MAIN CONDITIONS
- 34% CANCER
- 12% RESPIRATORY
- 17% HEART
- 7% NEUROLOGICAL

TRAUMA COVER
246 CLAIMS ACCEPTED

YOUNGEST CLAIM **14**
OLDEST CLAIM **74**

$19.5m
CLAIMS PAID

- 60% CANCER
- 14% NEUROLOGICAL
- 20% HEART

TRAUMA MULTI / LIFE CARE
119 CLAIMS ACCEPTED

YOUNGEST CLAIM **26**
OLDEST CLAIM **74**

$5.4m
CLAIMS PAID

- 58% CANCER
- 13% NEUROLOGICAL
- 23% HEART

TOTAL & PERMANENT DISABILITY
15 CLAIMS ACCEPTED

YOUNGEST CLAIM **42**
OLDEST CLAIM **65**

$1.8m
CLAIMS PAID

- 20% CANCER
- 13% HEART
- 20% NEUROLOGICAL

INCOME PROTECTION
710 CLAIMS ACCEPTED

YOUNGEST CLAIM **22**
OLDEST CLAIM **67**

$29.2m
CLAIMS PAID

- 53% MUSCULAR & LIMB
- 5% HEART
- 13% CANCER
- 5% NEUROLOGICAL
- 7% MENTAL HEALTH

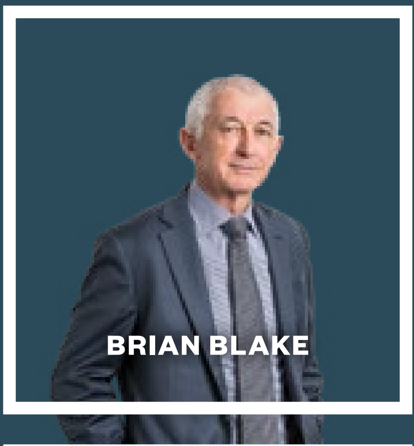
FINANCIAL SUMMARY

For the year ended 30 June

	2019	2018[1]	2017	2016	2015
Insurance premium revenue ($'000)	269,493	259,413	234,466	222,733	200,566
Investment income ($'000)	15,332	20,381	16,402	28,321	68,823
Claims expense ($'000)	125,715	107,822	104,268	102,066	96,416
Net profit after taxation ($'000)	18,254	14,118	5,190	34,022	23,806
Ordinary dividend per share[2]	-	$2.00	-	$3.48	$3.31
Special dividend per share	-	$3.00	-	-	-
Earnings per share	$8.73	$8.05	$3.61	$23.64	$16.54
Shareholders' equity ($'000)	337,336	320,971	238,577	236,880	206,915
Net policyholder (assets)/liabilities ($'000)	(55,882)	(14,516)	11,766	43,450	490,447
Total assets ($'000)	647,305	623,397	535,552	539,324	922,067
Shares on issue ('000)	2,091	2,091	1,439	1,439	1,439

[1] 2018 amounts have been restated to reflect reclassifications made in the current period. Refer to the notes to the Financial Statements for full details.
[2] Ordinary dividends declared in respect of each financial year have been paid in the succeeding financial year.

BOARD OF DIRECTORS



STATEMENT OF CORPORATE GOVERNANCE

For the year ended 30 June 2019

ROLE OF THE BOARD

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

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

BOARD MEMBERSHIP

Each shareholder who holds more than 20% of the ordinary shares in the Company (Large Shareholder) may appoint one Director for every complete 20% holding of ordinary shares. As at 30 June 2019, the New Zealand Superannuation Fund (41.1%) was eligible to appoint two Directors and the Trustees of the Fidelity Family Trust (31.5%) were eligible to appoint one Director. The balance of the Board is elected by the shareholders of the Company by ordinary resolution.

The Company's Constitution provides for a minimum of five Directors and a maximum of nine Directors; with at least two being ordinarily resident in New Zealand. The Board may appoint Directors to fill casual vacancies that occur or add persons to the Board up to the maximum number prescribed by the Constitution. A Director appointed by the Board holds office until the next annual meeting, at which time that Director is eligible for election by the shareholders. A Large Shareholder who appoints a Director may remove or replace that Director. Other Directors may be removed by a shareholder ordinary resolution.

As at 30 June 2019 the Board consisted of seven non-executive Directors, including a non-executive Chair. During financial year 2019 Carole Durbin retired from the Board on 16 November 2018 and the New Zealand Superannuation Fund appointed Hamish Rumbold to the Board on 1 August 2018. The process set out in the Company's Constitution was followed for Hamish Rumbold's appointment.

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

Each Large Shareholder may appoint one observer to the Board. Observers may attend and speak at Board meetings and receive all documents provided to Directors but do not have any right to vote at Board meetings. The New Zealand Superannuation Fund and the Trustees of the Fidelity Family Trust have each appointed an observer to the Board.

DELEGATION TO MANAGEMENT

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

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

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

RISK MANAGEMENT

Risk management is an integral part of Fidelity Life's business. The Group has systems to identify, and minimise, the impact of financial and operational risk on its business. The Board Committee duties have been developed to allow the Board to identify and manage the various business risks faced by the Group. In order to ensure that procedures are current and comprehensive, the responsibilities of each Committee are reviewed on a periodic basis.

The Group has in place an integrated framework of controls designed to safeguard the Group's assets and interests and to ensure the integrity of its reporting. The overall framework has been developed and guidelines formulated for risk management structures and processes in areas additional to financial risk.

DIRECTORS' INSURANCE AND INDEMNITIES

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

COMMITTEES

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

1. AUDIT & RISK COMMITTEE

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

On 16 November 2018 Carole Durbin retired from the Board and therefore retired from the Audit & Risk Committee. Effective 1 July 2018 Anne Blackburn ceased to be the Chair of the Audit & Risk Committee, having become the Chair of the Remuneration and Talent Committee, and Lindsay Smartt was appointed Chair of the Audit & Risk Committee.

MEMBERS AT 30 JUNE 2019:
Lindsay Smartt (Chair), Anne Blackburn, Simon Botherway, Jeff Meltzer and Brian Blake (ex-officio).

2. REMUNERATION AND TALENT COMMITTEE

The Committee is responsible for providing recommendations regarding the remuneration structures for the Group's Chief Executive Officer and senior executives. On 1 August 2018 Hamish Rumbold joined the Remuneration and Talent Committee.

MEMBERS AT 30 JUNE 2019:
Anne Blackburn (Chair), Hamish Rumbold and Brian Blake (ex officio).

3. NOMINATION COMMITTEE

The Committee is responsible for the planning of the Board's composition and the appointment of new Directors. On 16 November 2018 Carole Durbin retired from the Board and therefore retired from the Nomination Committee. On 1 August 2018 Hamish Rumbold was appointed to the Board and therefore joined the Nomination Committee.

MEMBERS: All Directors.

4. TECHNOLOGY ADVISORY COMMITTEE

The Committee is responsible for developing and overseeing the Company's digital strategy, providing input into the Company's technology delivery and promoting the Company's digital agility to respond to changing business requirements.

On 1 August 2018 Hamish Rumbold joined the Technology Advisory Committee. On 8 November 2018 Brian Blake joined the Technology Advisory Committee (ex officio).

MEMBERS AT 30 JUNE 2019: Alan Gourdie (chair), Simon Botherway, Hamish Rumbold and Brian Blake (ex officio).

5. TRANSACTION COMMITTEE

In financial year 2019, the Mergers & Acquisitions Committee was repurposed as the Transaction Committee. The Transaction Committee is responsible for investigating, evaluating and providing recommendations regarding potential corporate transaction activity. Hamish Rumbold joined the Transaction Committee on 13 November 2018.

MEMBERS AT 30 JUNE 2019:
Anne Blackburn (chair), Simon Botherway, Hamish Rumbold and Brian Blake (ex officio).

BOARD ATTENDANCE

Attendance at the scheduled and unscheduled formal meetings of the Board and its Committees for the period 1 July 2018 to 30 June 2019 was as follows:

Meetings	Board Scheduled	Board Unscheduled	Audit & Risk Scheduled	Audit & Risk Unscheduled	Remuneration and Talent Scheduled	Remuneration and Talent Unscheduled	Nomination Unscheduled	Technology Advisory Scheduled	Transaction Unscheduled
Meetings	11	2	8	1	3	2	1	10	2
Anne Blackburn	11	2	8	1	3	2	0	n/a	2
Brian Blake^	11	2	8	1	3	2	1	6	2
Simon Botherway	11	2	8	1	n/a	n/a	1	9	2
Carole Durbin*	5	1	4	1	n/a	n/a	1	n/a	n/a
Alan Gourdie	9	2	n/a	n/a	n/a	n/a	1	10	n/a
Jeff Meltzer	11	1	8	1	n/a	n/a	1	n/a	n/a
Hamish Rumbold+	10	2	n/a	n/a	3	2	0	8	2
Lindsay Smartt	10	2	8	1	n/a	n/a	1	n/a	n/a

Directors may attend all meetings by telephone.
+Hamish Rumbold was appointed to the Board effective 1 August 2018, joined the Remuneration and Talent Committee and Technology Advisory Committee on 1 August 2018 and joined the Transaction Committee on 13 November 2018.
*Carole Durbin retired from the Board on 16 November 2018. ^Brian Blake joined the Technology Advisory Committee on 8 November 2018.

INDEPENDENCE

For the purpose of assessing the independence of any Director the Fidelity Life Board has adopted the RBNZ's Governance Guidelines Licenced Insurers (June 2011) (Guidelines), including legislation referenced in the Guidelines. The adoption of the Guidelines is also consistent with the Fidelity Life Constitution's definition of Independent Director.

When assessing Director independence, the Board and each Director will have regard to the scope and intent of the Guidelines in the context of the Constitution. It is noted that the Constitution regulation 11.1 states "For clarity, an Appointed Director may be an Independent Director". The Board has assessed the following Directors at 30 June 2019 to be Independent Directors: Anne Blackburn, Brian Blake, Simon Botherway, Alan Gourdie, Hamish Rumbold and Lindsay Smartt. Jeff Meltzer is not an Independent Director.

ETHICS

The Board has adopted the New Zealand Institute of Directors' "Code of Proper Practice for Directors". The Board acknowledges the need for the continued maintenance of a high standard of corporate governance practices and ethical conduct by all Directors and employees of the Group.

AVOIDING CONFLICTS OF INTEREST

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

DIRECTORS' REMUNERATION

The level of non-executive Directors' fees was last approved at the annual meeting on 16 November 2018 as $82,000 per Director and $164,000 for the Chair. No additional fees or extra benefits are paid for attendance at Board Committee or subsidiary company meetings.

OTHER INTERESTS IN FIDELITY LIFE SHARES

Jeff Meltzer is a Trustee of the Fidelity Family Trust which at 30 June 2019 held 657,936 (2018: 657,936) shares in Fidelity Life.

SUBSIDIARY COMPANY DIRECTORS

The Directors of the Company's subsidiaries are:

- Fidelity Capital Guaranteed Bond Limited – Jeff Meltzer
- Life and Advisory Services Limited – John Smith and Simon Pennington
- Fidelity Life Custodial Services Limited – Brian Blake and Alan Gourdie

DIRECTORS' SHAREHOLDINGS

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

	Direct Shareholdings (through Fidelity Life Custodial Services Limited)		Indirect Beneficial Shareholdings		Remuneration & Other Benefits
	AS AT 30 JUNE 2019	INCREASE/ (DECREASE) DURING THE YEAR	AS AT 30 JUNE 2019	INCREASE/ (DECREASE) DURING THE YEAR	DIRECTORS' FEES PAID IN THE YEAR ($)
Anne Blackburn	500	-	-	-	82,000
Brian Blake	-	-	-	-	164,000
Simon Botherway	-	-	-	-	82,000
Carole Durbin*	3,750	-	-	-	34,092
Alan Gourdie	-	-	-	-	82,000
Hamish Rumbold+	-	-	-	-	75,093
Jeff Meltzer	617	100	8,462	-	82,000
Lindsay Smartt	-	-	-	-	82,000

+Hamish Rumbold was appointed to the Board effective 1 August 2018.

* Carole Durbin retired from the Board on 16 November 2018.

OTHER INFORMATION

SHAREHOLDERS

The name and holdings of the ten largest shareholders of the Company as at 30 June 2019 was as follows:

Shareholders	Shares held
1. Guardians of New Zealand Superannuation	859,531
2. Whale MJ & Meltzer JP	657,936
3. Burgess GAJ & Burgess MS	292,237
4. FMG Insurance Limited	166,185
5. Fidelity Life Custodial Services Limited	92,123
6. Hamilton YD, Vanderwee JC, Hamilton RB & Hamilton GR	9,501
7. Ballynagarrick Investments Limited	6,050
8. Watterson MF	1,323
9. Burgess GAJ	1,267
10. Boote GA & Golden Balls Limited	1,200

AUDITOR

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

EVENTS AFTER BALANCE DATE

The Directors are not aware of any matter or circumstance since the end of the financial year, not otherwise dealt with in this report or attached financial statements that has significantly affected the operations of the Group.

CREDIT RATING

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

ANNUAL MEETING

The next annual meeting of Fidelity Life Assurance Company Limited will be held at Fidelity House, 81 Carlton Gore Road, Newmarket, Auckland on 15 November 2019 commencing at 2.00pm.

EMPLOYEE REMUNERATION

The number of employees or former employees of Fidelity Life (excluding non-executive Directors) whose remuneration and grossed-up benefits was within specified bands for the year ended 30 June 2019 was as follows:

	Number of employees	
REMUNERATION RANGES	2019	2018
$590,000 – $600,000	1	1
$440,000 – $450,000	0	3
$420,000 - $440,000	0	2
$370,000 – $380,000	1	0
$310,000 – $320,000	3	1
$290,000 – $300,000	2	1
$280,000 – $290,000	0	1
$270,000 – $280,000	1	0
$260,000 – $270,000	2	0
$240,000 – $250,000	1	0
$230,000 – $240,000	3	0
$220,000 – $230,000	3	1
$210,000 – $220,000	2	3
$200,000 – $210,000	1	2
$190,000 – $200,000	1	4
$180,000 – $190,000	5	1
$170,000 – $180,000	2	5
$160,000 – $170,000	6	5
$150,000 – $160,000	15	7
$140,000 – $150,000	8	8
$130,000 – $140,000	13	12
$120,000 – $130,000	14	15
$110,000 – $120,000	16	24
$100,000 – $110,000	13	22
	113	118

A- (Excellent)

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

SECURE

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

VULNERABLE

B, B- (Fair)
C++, C+ (Marginal)
C, C- (Weak)
D (Poor)

E (Under Regulatory Supervision)
F (In liquidation)
S (Suspended)

DIRECTORY/EXTERNAL SERVICES

BOARD OF DIRECTORS

Brian Blake BCA FACA CMA CMInstD
Chair: Hynds, Joylab Group, Joylab Holdings.
Director: Hynds Holdings.

Jeff Meltzer JP BCom FCA CMInstD AAMINZ
Chartered Accountant. Partner: Meltzer Mason.
Director: Philstic Labels.
Trustee: Fidelity Family Trust.

Anne Blackburn MA
Chair: Government Superannuation Fund Authority.
Director: Annuitas Management, Fisher Funds Management, TSB Bank, Warren and Mahoney.

Alan Gourdie Msc (Hons)
Director: Healthcare Applications, Moana New Zealand, Quantiful.
Trustee: Eden Park.

Simon Botherway BCom, CFA
Chair: Serko.
Director: Kermadec Global Opportunities, Marianas Capital.
Board: Guardians of New Zealand Superannuation.

Lindsay Smartt BA, FIAA, ASA, FNZSA, GAICD
Director (Australia): IOOF, IOOF Investment Management, St George Life, The Infants' Home, Westpac General Insurance, Westpac Lenders Mortgage Insurance, Westpac Life Insurance Services.

Hamish Rumbold BCom BProp
Chief Digital and Technology Officer: Kiwibank.
Director: Fresho.

COMPANY OFFICERS

Chief Executive:
Nadine Tereora
Appointed Actuary:
John Smith
Chief Financial Officer:
Simon Pennington
Company Secretary:
Marcus McClosky

SOLICITORS

DLA Piper, Simpson Grierson, Russell McVeagh.

BANKERS

ANZ Bank New Zealand Limited.
Westpac Banking Corporation, New Zealand Branch.

AUDITOR

PricewaterhouseCoopers.

INTERNAL AUDITOR

KPMG.

INVESTMENT MANAGERS

SuperLife Limited.
Nikko Asset Management New Zealand Limited.
Vanguard Investments Australia Limited.

REINSURERS

General Reinsurance Life Australia Limited.
Hannover Life Re of Australasia Limited.
John Hancock Life Insurance Company.
Munich Reinsurance Company of Australasia Limited.
RGA Reinsurance Company of Australia Limited.
Swiss Re Life and Health Australia Limited.
AXIS Re.

REINSURANCE BROKER

Aon Benfield.

REGISTERED OFFICE

Fidelity House, 81 Carlton Gore Road, Newmarket, Auckland 1023.
Telephone 09 373 4914
fidelitylife.co.nz

WELLINGTON OFFICE

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

SHARE REGISTRAR

Computershare Investor Services Limited
Private Bag 92119, Auckland 1142
159 Hurstmere Road, Takapuna, Auckland 0622

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

General enquiries can be addressed to:
enquiry@computershare.co.nz
Private Bag 92119, Auckland 1142
Telephone +64 9 488 8777

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

FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

for the year ended 30 June 2019

	NOTE	2019 $'000	2018 $'000
Revenue			
Insurance premium revenue	5	**269,493**	259,413
Insurance premium ceded to reinsurers	5	**(119,181)**	(117,261)
Net premium revenue		**150,312**	142,152
Investment income	6	**15,332**	20,381
Fee and commission revenue		**1,259**	3,967
Other income		**7,093**	6,905
Total revenue		**173,996**	173,405
Expenses			
Claims expense	7	**125,715**	107,822
Reinsurance recoveries	7	**(82,803)**	(73,192)
Net claims expense		**42,912**	34,630
Commission expenses	7	**57,368**	68,775
Loan loss allowance	14	**941**	-
Operating expenses	7	**58,517**	56,728
Net change in life insurance contract assets	18	**(22,240)**	(22,512)
Net change in life investment contract liabilities	19	**5,477**	11,492
Total expenses		**142,975**	149,113
Profit before tax from continuing operations		**31,021**	24,292
Income tax expense	8	**12,767**	10,174
Profit for the year attributable to the owners of the Company	4	**18,254**	14,118
Basic and diluted earnings per share	28	**8.73**	8.05

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2019

	NOTE	2019 $'000	2018 $'000
Profit for the year		**18,254**	14,118
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation movement, net of tax	8, 15	**2,443**	2,535
Other comprehensive income for the year, net of tax		**2,443**	2,535
Total comprehensive income for the year attributable to the owners of the Company		**20,697**	16,653

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2019

	NOTE	2019 $'000	2018 $'000
Assets			
Cash and cash equivalents	9	**12,501**	6,011
Restricted cash	10	**10,268**	10,087
Assets arising from reinsurance contracts	11	**19,889**	17,795
Financial assets at fair value through profit or loss	12	**302,475**	315,885
Derivative financial instruments	12	**897**	-
Life insurance contract assets	18	**220,295**	188,226
Loans and other receivables	13	**10,344**	18,132
Property, plant and equipment	15	**30,074**	26,887
Income tax assets	8	**3,613**	5,227
Deferred tax assets	8	**34,114**	32,098
Intangible assets	16	**2,835**	3,049
Total assets		**647,305**	623,397
Liabilities			
Payables and other financial liabilities	17	**55,544**	50,961
Current tax liabilities	8	**643**	20
Derivative financial instruments	12	**568**	756
Deferred tax liabilities	8	**86,067**	73,562
Life insurance contract liabilities ceded under reinsurance	18	**41,457**	31,628
Life investment contract liabilities	19	**122,956**	142,082
Deferred income	20	**2,734**	3,417
Total liabilities		**309,969**	302,426
Net assets		**337,336**	320,971
Equity			
Share capital	21	**81,586**	81,586
Retained earnings		**246,205**	232,283
Revaluation reserve		**9,545**	7,102
Total equity		**337,336**	320,971

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

For and on behalf of the Board
12 September 2019

B.G. Blake

BRIAN BLAKE
Chair

LINDSAY SMARTT
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2019

	NOTE	SHARE CAPITAL $'000	RETAINED EARNINGS $'000	REVALUATION RESERVE $'000	TOTAL EQUITY $'000
Balance at 1 July 2017		14,123	219,887	4,567	238,577
Profit for the year		-	14,118	-	14,118
Other comprehensive income		-	-	2,535	2,535
Total comprehensive income for the year		-	14,118	2,535	16,653
Transactions with owners					
Issue of share capital net of transaction costs	21	67,463	-	-	67,463
Dividends	21	-	(1,722)	-	(1,722)
Total transactions with owners		67,463	(1,722)	-	65,741
Balance at 30 June 2018		81,586	232,283	7,102	320,971
Balance at 1 July 2018 as previously reported		**81,586**	**232,283**	**7,102**	**320,971**
Impact of initial application of NZ IFRS 9	2	**-**	**(78)**	**-**	**(78)**
Impact of initial application of NZ IFRS 15	2	**-**	**(71)**	**-**	**(71)**
Restated balance as at 1 July 2018		**81,586**	**232,134**	**7,102**	**320,822**
Profit for the year		**-**	**18,254**	**-**	**18,254**
Other comprehensive income		**-**	**-**	**2,443**	**2,443**
Total comprehensive income for the year		**-**	**18,254**	**2,443**	**20,697**
Transactions with owners					
Dividends	21	**-**	**(4,183)**	**-**	**(4,183)**
Total transactions with owners		**-**	**(4,183)**	**-**	**(4,183)**
Balance at 30 June 2019		**81,586**	**246,205**	**9,545**	**337,336**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2019

	NOTE	2019 $'000	2018 $'000
Cash flows from operating activities			
Premiums from life insurance contracts		**268,381**	259,941
Deposits from life investment contracts		**4,602**	5,231
Reinsurance received		**84,154**	84,921
Interest received		**545**	3,516
Dividends and distributions received		**8,592**	10,868
Other investment (losses)		**(21)**	(32)
Other income		**7,725**	9,544
Benefits paid under life insurance contracts		**(123,367)**	(111,937)
Benefits paid under life investment contracts		**(29,213)**	(18,000)
Reinsurance premiums paid		**(118,330)**	(114,513)
Commission paid		**(61,718)**	(74,330)
Payments to suppliers and employees		**(51,421)**	(55,570)
Income tax paid		**(932)**	(1,273)
Net cash (outflows) from operating activities		**(11,003)**	(1,634)
Cash flows from investing activities			
Net proceeds from sales/(purchases) of financial assets		**23,258**	(56,578)
Purchase of intangible assets		**(942)**	(421)
Purchase of property, plant and equipment		**(732)**	(373)
Proceeds from sale of property, plant and equipment		**92**	149
Net cash inflows/(outflows) from investing activities		**21,676**	(57,223)
Cash flows from financing activities			
Proceeds from issue of ordinary shares, net of transaction costs	21	**-**	59,401
Ordinary dividends paid	21	**(4,183)**	(1,722)
Net cash inflows/(outflows) from financing activities		**(4,183)**	57,679
Net increase/(decrease) in cash and cash equivalents		**6,490**	(1,178)
Cash and cash equivalents at the beginning of the year		**6,011**	7,189
Cash and cash equivalents at the end of the year	9	**12,501**	6,011

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

for the year ended 30 June 2019

RECONCILIATION OF NET PROFIT AFTER TAX TO CASH FLOWS FROM OPERATING ACTIVITIES

	2019 $'000	2018 $'000
Net profit after tax	**18,254**	14,118
Non-cash items		
Gains on sale of property, plant and equipment	**(47)**	(45)
Fair value gains on investments	**(6,555)**	(4,313)
Depreciation of property, plant and equipment	**895**	1,181
Amortisation of acquired value of in-force business	**(683)**	(683)
Amortisation of intangibles	**1,051**	1,070
Other movements	**105**	143
Bad and doubtful debts	**1,360**	12
Total non-cash items	**(3,874)**	(2,635)
Changes in working capital		
Decrease in life insurance and life investment contract assets and liabilities	**(41,366)**	(23,790)
(Increase)/decrease in other assets	**(763)**	6,309
Increase in income tax balances	**11,835**	8,900
Increase/(decrease) in other liabilities	**4,582**	(2,888)
Increase/(decrease) in derivatives	**329**	(1,648)
Total changes in working capital	**(25,383)**	(13,117)
Cash flows from operating activities	**(11,003)**	(1,634)

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

1. GENERAL INFORMATION

Fidelity Life Assurance Company Limited ('Fidelity Life') (the 'Company') and its subsidiaries (together called the 'Group') are financial services companies that provide insurance and investment management services. The Company and its subsidiaries are for-profit entities.

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is 81 Carlton Gore Road, Newmarket, Auckland, New Zealand.

These consolidated financial statements have been approved for issue by the Board of Directors (the 'Board') on 12 September 2019. The directors do not have the power to amend the consolidated financial statements once issued.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

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

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

STATEMENT OF COMPLIANCE

The consolidation financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice ('GAAP'). They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and authoritative notices that are applicable to entities that apply NZ IFRS. The consolidated financial statements also comply with International Financial Reporting Standards ('IFRS').

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

STATUTORY FUND

IPSA requires that a life insurer keep at least one statutory fund in respect of its life insurance business. The Company has established one statutory fund 'Fidelity Life Statutory Fund Number 1' (the 'Statutory Fund'). The activities of the Statutory Fund are reported in aggregate with non-statutory fund amounts in these consolidated financial statements. For details of the Statutory Fund refer to note 29.

PRINCIPLES OF CONSOLIDATION

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

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

FOREIGN CURRENCY TRANSLATION

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

GOODS AND SERVICES TAX (GST)

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

ACCOUNTING POLICIES

Accounting policies that summarise the measurement basis used and that are relevant to the understanding of the consolidated financial statements are provided throughout the accompanying notes. The accounting policies adopted have been applied consistently throughout the periods presented in these consolidated financial statements.

a) New and amended standards adopted by the Group

A number of new or amended standards became applicable in the current reporting period which has led to the Group having to change its accounting policies. The Group has elected the modified retrospective approach for transition which recognises a cumulative adjustment in opening retained earnings without restating the comparative figures as a result of adopting the following standards:

- NZ IFRS 9: Financial Instruments; and
- NZ IFRS 15: Revenue from Contracts with Customers.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NZ IFRS 9 FINANCIAL INSTRUMENTS

Impact of Adoption

(i) Classification of financial assets and financial liabilities

NZ IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which the assets are managed and the contractual terms of the cash flows. On 1 July 2018, the Group's management assessed which business models applied to the financial assets held by the Group and classified them into the appropriate categories prescribed by NZ IFRS 9. Based on this assessment, no material classification or measurement changes have arisen (refer to note 12).

(ii) Derivatives and hedging activities

Prior to 1 July 2018, the Group classified foreign currency forwards and interest rate swaps as held-for-trading derivatives and accounted for them at fair value through profit or loss ('FVPL') and did not use these instruments for hedge accounting purposes. Subsequent to adoption of NZ IFRS 9, the Group continued not to apply hedge accounting rules to its derivative contracts (refer to note 12).

(iii) Impairment of financial assets

NZ IFRS 9 replaces the 'incurred loss' model in NZ IAS 39 with a forward looking 'expected credit loss' ('ECL') model. Applying this new ECL model, the Group recognised an additional $109,000 impairment provision against its mortgage and loan balances on 1 July 2018 (refer to note 14). In accordance with the transitional provisions in NZ IFRS 9, comparative figures have not been restated but rather a cumulative adjustment has been made to opening retained earnings.

In summary, the following adjustments were made to the amounts recognised in the balance sheet at the date of initial application (1 July 2018):

BALANCE SHEET (EXTRACT)	NZ IAS 39 CARRYING AMOUNT 30 JUN 2018 $'000	REMEASUREMENTS $'000	NZ IFRS 9 CARRYING AMOUNT 1 JUL 2018 $'000
Mortgage and loan balances – impairment	(200)	(109)	(309)

The total impact on the Group's retained earnings as at 1 July 2018 is as follows:

	30 JUN 2018 $'000
Closing retained earnings 30 June – NZ IAS 39 / NZ IAS 18	**232,283**
Increase in impairment provision	(109)
Increase in deferred tax assets relating to impairment provisions	31
Adjustment to retained earnings from adoption of NZ IFRS 9 on 1 July 2018	(78)
Opening retained earnings 1 July – after NZ IFRS 9 restatement (before NZ IFRS 15 restatement)	**232,205**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NZ IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

Impact of Adoption

The Group adopted the new accounting standard NZ IFRS 15: Revenue from Contracts with Customers for the current reporting period.

The adoption of the standard did not result in a material change in the reported results or the position of the Group.

In accordance with the transitional provisions in NZ IFRS 15, the Group has elected the modified retrospective approach for transition which recognises a cumulative adjustment in opening retained earnings without restating the comparative figures. The following adjustments were made to the amounts recognised in the balance sheet at the date of initial application (1 July 2018):

BALANCE SHEET (EXTRACT)	NZ IAS 18 CARRYING AMOUNT 30 JUN 2018 $'000	REMEASUREMENTS $'000	NZ IFRS 15 CARRYING AMOUNT 1 JUL 2018 $'000
Refund liabilities			
Adjustment for lapses	-	(99)	(99)

The total impact on the Group's retained earnings as at 1 July 2018 is as follows:

	2018 $'000
Retained earnings – after NZ IFRS 9 restatement	**232,205**
Recognition of refund liability	(99)
Increase in deferred tax assets	28
Adjustment to retained earnings from adoption of NZ IFRS 15	(71)
Opening retained earnings 1 July – after NZ IFRS 9 and NZ IFRS 15 restatement	**232,134**

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

NZ IFRS 16: LEASES

NZ IFRS 16 was issued in February 2016. Once effective, it will result in almost all leases being recognised on the balance sheet as the distinction between operating and finance leases will be removed. Under the new standard, an asset (the right to use a leased item) and a financial liability (to pay rentals) will be recognised. The only exceptions will be for short-term and low-value leases.

The Group has reviewed all of its leasing arrangements in light of the new standard. The standard will primarily affect the accounting for the Group's operating leases.

As at the reporting date, the Group has non-cancellable operating lease commitments of $644,000 (see note 26). The Group's leasing activities are not material and hence the Group does not expect any significant impact on the financial statements. However, additional disclosures will be required from the next financial year.

The standard is mandatory for the annual reporting period beginning 1 July 2019. The Group will apply the standard from its mandatory adoption date of 1 July 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

NZ IFRS 17: INSURANCE CONTRACTS

This standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts that fall within the scope of the standard. NZ IFRS 17 is mandatory for the Group's consolidated financial statements and is expected to apply for periods beginning on or after 1 January 2022. It will replace the current standard, NZ IFRS 4: Insurance Contracts. The Group is still assessing the impact on the Group's results.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(a) Life insurance and life investment contract assets and liabilities

Liabilities and assets arising from life insurance, and related reinsurance, and life investment contracts are calculated at each reporting date using mathematical and statistical models. These policyholder liabilities and asset valuations are made by suitably qualified members of the New Zealand Society of Actuaries on the basis of actuarial methods set out in Professional Standards issued by the New Zealand Society of Actuaries, a full member of the International Actuarial Association. The methodology takes into account the risks and uncertainties of the particular classes of business written.

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

- The cost of providing benefits and administering these contracts;
- Mortality and morbidity experience on life insurance products;
- Persistency (or discontinuance) experience, which affects the Group's ability to recover the cost of acquiring new business over the lives of the contracts;
- Long term interest rates which affect the rate at which cash flows are discounted; and
- Other factors such as regulation, competition, the performance of the capital markets and general economic conditions.

Actual experience will vary from the policyholder liabilities and assets calculated at the reporting date.

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

(b) Deferred tax

Significant judgement is required in determining the Group's deferred tax liabilities and tax assets. In arriving at the deferred tax amounts, the Group has made an assessment of anticipated tax assets and liabilities based on estimates of when additional taxes will be due and benefits will arise. In respect of deferred tax on carried forward tax losses, this has included an assessment of the likelihood of future taxable profits arising in the foreseeable future and of shareholder continuity being maintained during that period.

Where the expected tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the reported profit or loss and current and deferred tax amounts in the period in which such determination is made.

Refer to note 8 for the deferred tax accounting policy.

CHANGES TO COMPARATIVES

Discontinued operations

In the prior reporting period, the investment linked business, including risk policies that form part of this business, was classified as held for sale and was included as discontinued operations. In the current reporting period, this business ceased to meet the requirements of NZ IFRS 5 necessary to be classified as held for sale due to the discontinuation of the sales process. Accordingly, the amounts relating to discontinued operations in the prior reporting period have been reclassified from their respective line items in the consolidated income statement back to continuing operations. The assets and liabilities relating to the previously discontinued business have also been reclassified from their respective line items in the consolidated statement of financial position to continued operations. This has resulted in $142,681,000 (2017: $144,058,000) being reclassified from 'financial assets held for sale' to 'financial assets at fair value through profit or loss' and $142,082,000 (2017: $143,359,000) being reclassified from 'financial liabilities held for sale' to 'life investment contract liabilities' as at 30 June 2018. The consolidated statement of cash flows is not impacted by the reclassification. The related notes on the consolidated statement of financial position have been reclassified accordingly.

Reinsurance Receivables

Certain reinsurance receivables which had previously been classified under 'Other receivables' in the Group's financial accounts have been reclassified to 'Assets arising from reinsurance contracts' in the consolidated statement of financial position in the current reporting period. The balance as at 30 June 2019 is $2,858,000. Accordingly, the comparative 'Assets arising from reinsurance contracts' and 'Other receivables' balances have increased and decreased, respectively by $4,592,000 (2017: $5,648,000). These reclassifications were made to better reflect the nature of those relevant receivables as assets related to reinsurance.

Other changes

Certain comparatives have been reclassified to ensure consistency with the presentation in the current year. Notable changes have been footnoted throughout the financial statements. All reclassifications and restatements have had no impact on net profit after taxation.

3. ACTUARIAL METHODS AND POLICIES

The actuarial reports on the policy contract values and solvency calculations for the year ended 30 June 2019 were prepared by the Chief Actuary, Nicholas Smart, M.Com, FNZSA, FIAA and for the year ended 30 June 2018 were prepared by the Valuation Actuary, Darren Fleming BSc(Hons), FNZSA, FIA, with both year's reports reviewed by the Appointed Actuary John Smith M.Sc. FNZSA, FIAA. Messrs Smart and Smith are satisfied as to the accuracy of the data from which the amount of the policyholder liabilities and assets have been determined.

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

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

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

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

DISCOUNT RATES

Policyholder liability discount rates

	AT 30 JUNE 2019	AT 30 JUNE 2018
Discounted cash flows on renewable risk plans and level premium risk plans based on 10 year NZ Government bond rate – gross interest rate	**1.57%**	2.85%
Non-participating assurances – net interest rate	**1.13%**	2.05%
Claim reserves and provisions for investment guarantees – gross interest rate	**1.57%**	2.85%
Annuities – net interest rate	**1.13%**	2.05%
Participating plans with reversionary bonuses. Derived from expected after-tax return on the assets backing the participating fund	**1.80%**	2.50%

PROFIT CARRIERS

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

PRODUCT TYPE	CARRIER
Risk	Expected claims payments
Savings business	Funds under management/investment management expenses
All other policies	Bonuses

MAINTENANCE EXPENSES

Future maintenance expenses of policies are based on an analysis of existing and projected costs and product margins. Where those expenses relate to life insurance, trauma and disability insurance it has been assumed that those expenses increase at the same rate that premiums increase – according to age rather than the inflation rate. Future inflation has been assumed to be 2.0% p.a. (2018: 2.0%) for determining future expenses and inflation linked increases in benefits and premiums.

TAX

The rates of tax enacted or substantially enacted at the date of the valuation are assumed to continue into the future. The corporate tax rate used is 28% (2018: 28%). Life insurance assets and liabilities are calculated gross of tax with a separate liability being held for tax.

3. ACTUARIAL METHODS AND POLICIES (CONTINUED)

MORTALITY RATES

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

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

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

The mortality assumption for Yearly Renewable Term ('YRT') policies has been increased by 5% since 30 June 2018. The age rating for annuitant mortality has been strengthened and changed from being an age related table to a fixed age reduction of 30 months for all annuitants.

MORBIDITY RATES

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

The proportions are based on recent experience and industry trends. Adjustments have been made at 30 June 2019 to reflect the most recent experience against the latest reinsurance tables.

RATES OF DISCONTINUANCE

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

	2019			2018		
	POLICY YEAR 1	POLICY YEAR 5	POLICY YEAR 10	POLICY YEAR 1	POLICY YEAR 5	POLICY YEAR 10
Yearly Renewable Term: Lump sum	**9.5% - 18%**			10.0% - 20.0%		
Yearly Renewable Term: Income Protection	**9.5% - 19%**			9.5% - 23.0%		
Whole of Life and Endowments including participating contracts	**3.0%**			3.0%		
Level Term	**4.0% - 14.0%**			4.0% - 20.0%		
Automatic acceptance with premiums limited to ten years	**1.0% - 20.0%**			1.0% - 20.0%		
Automatic acceptance with level or reviewable premiums	**3.5% - 40.0%**			3.5% - 40.0%		

A rate of 1% for each year over age 60 (2018: 1% each year over age 70) which is capped at 5% from age 65 onwards is assumed in addition to the above rates.

SURRENDER VALUES

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

PARTICIPATING BUSINESS

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

	AT 30 JUNE 2019	AT 30 JUNE 2018
Participating business – policies with-profit assurances	**Assumed that the current bonus allocation will continue indefinitely. The bonus is equal to conservative portfolio return on cash deposits. Cash bonus on premium paid has ceased.**	Assumed that the current bonus allocation will continue indefinitely. The bonus is equal to conservative portfolio return on cash deposits. Cash bonus on premium paid has ceased.
Participating plans with reversionary bonuses – supportable bonus rate	**0.0% of the sum assured and reversionary bonus.**	0.741% of the sum assured and reversionary bonus.
Participating plans with reversionary bonuses – current bonus declaration	**0.000%**	0.741%
Policyholder's share of the surplus in the participating pool	**83.3%**	83.3%

3. ACTUARIAL METHODS AND POLICIES (CONTINUED)

PROFIT MARGINS

Profit margins have been incorporated for existing product categories to release those profits arising in the future which are not in relation to the provision of the original acquisition cost as and when those profits are released. Profit margins were adjusted to ensure that there was no capitalisation of future profits arising from changes to demographic assumptions and rates used in the projection. However, changes to economic and financial assumptions are capitalised.

CHANGES TO UNDERLYING ASSUMPTIONS

Assumptions used for measuring life insurance contract liabilities and assets are reviewed each year. Where the review leads to a change in assumptions, the change is deemed to have occurred from the end of the year.

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

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

	2019		2018	
ASSUMPTION CHANGE	EFFECT ON FUTURE PROFIT MARGINS $'000	EFFECT ON LIFE INSURANCE CONTRACT ASSETS $'000	EFFECT ON FUTURE PROFIT MARGINS $'000	EFFECT ON LIFE INSURANCE CONTRACT ASSETS[1] $'000
Discontinuance rates	**14,907**	**-**	(30,775)	-
Premium rates	**-**	**-**	17,975	-
Mortality / Morbidity rates	**(12,161)**	**-**	2,803	-
Reinsurance rate increases	**-**	**-**	(11,077)	-
Renewal expenses	**(16)**	**-**	2,186	-
Other modelling changes	**(18,565)**	**(198)**	(5,396)	(79)
Claims termination rates	**-**	**-**	-	916
Discount rates	**35,099**	**9,798**	2,505	641
Total	**19,264**	**9,600**	(21,779)	1,478

1. The 2018 figures have been restated for consistency.

ASSETS BACKING LIFE INSURANCE AND LIFE INVESTMENT BUSINESS

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

4. SOURCES OF PROFIT

	2019 $'000	2018 $'000
Profit for the year arose from		
Life insurance contracts		
Planned margins of revenues over expenses	**18,697**	19,081
Difference between actual and assumed experience	**(7,106)**	(7,826)
Effects of changes in underlying economic and financial assumptions	**9,985**	652
Interest on deferred acquisition costs	**5,938**	6,150
	27,514	18,057
Life investment contracts – liabilities		
Difference between actual and assumed experience	**(62)**	810
Effects of changes in underlying assumptions	**(187)**	(12)
	(249)	798
Investment earnings on assets in excess of policyholder liabilities	**3,404**	5,020
Shareholder tax	**(11,407)**	(9,460)
Non-statutory fund (before tax)	**(1,008)**	(297)
Profit after tax	**18,254**	14,118

5. REVENUE

ACCOUNTING POLICIES

Insurance premium revenue

(i) Life insurance contracts

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

(ii) Life investment contracts

Amounts received under life investment contracts are separated into their fee and deposit components. The fee component is recognised as income on an accruals basis and the deposit component is recognised as an increase in the liability for life investment contracts.

Insurance premium ceded to reinsurers

Premiums ceded to reinsurers under reinsurance contracts are recorded as an outwards reinsurance expense and recognised when they become due and payable in accordance with the terms and conditions of the reinsurance contracts. Where reinsurance is paid in advance the expense is recognised over the period of indemnity of the relevant contract and a portion is treated at balance date as a prepayment. Where the reinsurance premium is paid in arrears the outstanding amount at balance date is treated as a payable.

Other income

Other income is primarily composed of reinsurance treaty policy administration fees. Revenue is recognised in profit and loss when it has been earned.

5. REVENUE (CONTINUED)

	2019 $'000	2018 $'000
Net premium revenue		
Insurance premium revenue	**269,493**	259,413
Insurance premium ceded to reinsurers	**(119,181)**	(117,261)
Total net premium revenue	**150,312**	142,152

6. INVESTMENT INCOME

ACCOUNTING POLICIES

Interest income is recognised using the effective interest method.

Dividend and distribution income is recognised when the right to receive payment is established. Dividends from equity securities are recorded as revenue on the ex-dividend date.

Fair value gains and losses on financial assets at fair value through profit or loss are recognised through the consolidated income statement.

	2019 $'000	2018 $'000
Dividends and distributions	**8,443**	7,358
Net realised and unrealised gains	**5,427**	12,257
Total unit trusts	**13,870**	19,615
Interest received on investments at fair value through profit or loss	**727**	2,908
Net realised and unrealised gains	**-**	1,284
Total cash, loans and debt securities	**727**	4,192
Net realised and unrealised gains/(losses)	**756**	(3,394)
Total derivatives	**756**	(3,394)
Other investment (losses)	**(21)**	(32)
Total investment income	**15,332**	20,381

7. EXPENSES

A. INSURANCE CLAIMS AND RELATED REINSURANCE

ACCOUNTING POLICIES

Claims

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

Reinsurance recoveries

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

Claim and reinsurance recoveries are as follows:

	2019 $'000	2018 $'000
Death, disabilities and income protection claims	**123,222**	105,925
Maturities	**126**	128
Surrenders	**1,236**	612
Annuities	**1,131**	1,157
Total claims	**125,715**	107,822
Less: Reinsurance recoveries	**(82,803)**	(73,192)
Total net claims expense	**42,912**	34,630

B. COMMISSION AND OPERATING EXPENSES

ACCOUNTING POLICIES

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

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

(i) Acquisition costs

Policy acquisition costs comprise the costs of acquiring new business, including commission, advertising, policy issue and underwriting costs, agency expenses and other sales costs.

Where the overall product profitability of new life insurance business written during the year is expected to support the recovery of acquisition costs incurred in that year, these costs are effectively deferred as an element of life insurance contract assets and amortised over the life of the policies written. Unamortised acquisition costs are a component of life insurance assets. Amortisation of acquisition costs is recognised in the consolidated income statement as a component of net change in life insurance contract assets at the same time as policy margins are released.

Commission that varies with and is directly related to securing new life investment contracts is capitalised as a deferred acquisition cost asset along with an administration and marketing allowance. All other acquisition costs are recognised as expenses in the consolidated income statement when incurred. The deferred acquisition cost asset is subsequently amortised over the life of the contracts and is recognised in the consolidated income statement as part of net change in life investment contract assets.

(ii) Maintenance costs

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

(iii) Investment management expenses

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

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight line basis over the period of the lease.

7. EXPENSES (CONTINUED)

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

	2019 $'000	2018 $'000
Life insurance contracts		
Acquisition costs		
Commission expenses	**28,584**	40,346
Operating expenses	**24,963**	23,812
Maintenance costs		
Commission expenses	**28,147**	25,507
Operating expenses	**30,720**	28,671
	112,414	118,336
Life investment contracts		
Maintenance costs		
Commissions	**514**	587
Other expenses	**519**	1,138
Investment management expenses	**313**	126
	1,346	1,851
Non Statutory Fund		
Commission expenses	**123**	2,335
Operating expenses	**2,943**	2,981
Total commission and operating expenses	**116,826**	125,503

7. EXPENSES (CONTINUED)

Included within other operating expenses are the following:

	2019 $'000	2018 $'000
Salaries and wages and other employee costs	**32,042**	29,865
Restructure costs	**1,606**	120
Remuneration of auditor (appointed auditor: PricewaterhouseCoopers)		
Audit of statutory financial statements	**382**	398
Additional audit fees in relation to prior year	**13**	30
Audit of solvency return	**41**	40
Tax compliance services	**21**	39
Tax advisory services	**8**	29
Due diligence services[1]	**-**	42
Custodial control engagement	**16**	21
Other services[2]	**5**	186
Total remuneration of auditor	**486**	785
Directors' fees	**683**	641
Other professional fees	**2,300**	1,156
Operating lease costs[3]	**314**	278
Depreciation (note 15)	**895**	1,181
Amortisation (note 16)	**1,051**	1,070

1. Due diligence services costs in relation to the issue of shares were deducted from share capital in the prior financial year to the extent they were incremental costs directly attributable to the equity transaction in accordance with NZ IAS 32. The comparative information has been restated.
2. Other services include software training for the current financial year. Robotic Process automation consulting and workshop facilitation costs are included for the previous financial year.
3. Operating lease costs include rental of commercial office space and office equipment and the lease of motor vehicles.

8. TAXATION

ACCOUNTING POLICIES

Current and deferred income tax

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

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

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

Deferred tax assets are offset against deferred tax liabilities to the extent they relate to income taxes which are legally able to be offset against each other.

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

	2019 $'000	2018 $'000
Profit before tax	**31,021**	24,292
Tax at the New Zealand income tax rate of 28% (2018: 28%)	**8,686**	6,802
Tax effect of non-taxable income	**(1,199)**	(3,444)
Tax effect of non-deductible expenses	**5,391**	6,736
Benefit of imputation credits received	**(116)**	(192)
Prior period adjustment	**5**	272
Income tax expense reported in the consolidated income statement	**12,767**	10,174
Comprising:		
Current tax	**3,227**	696
Deferred tax	**9,540**	9,478
	12,767	10,174
Tax expense attributed to policyholders	**1,360**	714
Tax expense attributed to shareholders	**11,407**	9,460
	12,767	10,174

8. TAXATION (CONTINUED)

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

	2019			2018		
	BEFORE TAX $'000	DEFERRED TAX EXPENSE $'000	AFTER TAX $'000	BEFORE TAX $'000	DEFERRED TAX EXPENSE $'000	AFTER TAX $'000
Fair value gains on revaluation of land and building	**3,393**	**(950)**	**2,443**	3,521	(986)	2,535
	3,393	**(950)**	**2,443**	3,521	(986)	2,535

Income tax assets

	2019 $'000	2018 $'000
Income tax prepaid[1]	**3,551**	3,551
Current tax asset	**4**	1,608
Tax benefit recognised on acquired policies	**58**	68
Total income tax assets	**3,613**	5,227

1. The income tax prepaid amount will be utilised to meet the Company's future shareholder income tax liabilities once tax losses carried forward have been exhausted. The Company cannot request a refund for the amount and it will not be utilised in the next financial year.

Current tax liabilities

	2019 $'000	2018 $'000
Current tax liabilities	**(643)**	(20)
Total current tax liabilities	**(643)**	(20)

Deferred tax assets

The balance comprises temporary differences attributable to:

	INTANGIBLE ASSETS $'000	PAYABLES AND OTHER FINANCIAL LIABILITIES $'000	UNUSED TAX LOSSES $'000	TOTAL $'000
Balance at 1 July 2017	3,503	1,620	27,144	32,267
Movement through the consolidated income statement	(89)	(455)	375	(169)
Balance at 30 June 2018	**3,414**	**1,165**	**27,519**	**32,098**
Restatement due to adoption of NZ IFRS 9 and 15	**-**	**58**	**-**	**58**
Adjusted balance as at 30 June 2018	**3,414**	**1,223**	**27,519**	**32,156**
Movement through the consolidated income statement	**(723)**	**875**	**1,806**	**1,958**
Balance at 30 June 2019	**2,691**	**2,098**	**29,325**	**34,114**

8. TAXATION (CONTINUED)

Deferred tax liabilities

The balance comprises temporary differences attributable to:

	FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS $'000	PROPERTY, PLANT AND EQUIPMENT $'000	LIFE INSURANCE CONTRACT ASSETS $'000	DEFERRED ACQUISITION COSTS[1] $'000	DEFERRED INCOME $'000	TOTAL $'000
Balance at 1 July 2017	325	1,585	1,096	57,653	2,607	63,266
Movement through the consolidated income statement	240	(162)	(181)	7,570	1,843	9,310
Movement through other comprehensive income	-	986	-	-	-	986
Balance at 30 June 2018	**565**	**2,409**	**915**	**65,223**	**4,450**	**73,562**
Movement through the consolidated income statement	**(104)**	**(1,648)**	**258**	**8,893**	**4,156**	**11,555**
Movement through other comprehensive income	**-**	**950**	**-**	**-**	**-**	**950**
Balance at 30 June 2019	**461**	**1,711**	**1,173**	**74,116**	**8,606**	**86,067**

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

Imputation credits

	2019 $'000	2018 $'000
Imputation credits available for use in subsequent reporting periods based on a tax rate of 28%	**8**	2

9. CASH AND CASH EQUIVALENTS

ACCOUNTING POLICY

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

Statement of cash flows

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

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

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

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

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

Cash and cash equivalents comprise:

	2019 $'000	2018 $'000
Bank balances	**12,501**	6,011
Total cash and cash equivalents	**12,501**	6,011

10. RESTRICTED CASH

	2019 $'000	2018 $'000
Restricted cash	**10,268**	10,087
Total restricted cash	**10,268**	10,087

Restricted cash comprises $10,000,000, plus accrued interest at 1.9% p.a. after fees, which is held in escrow to support warranties and indemnities until 5 July 2019 in a trust account maintained by Russell McVeagh as part of a Subscription Agreement with Guardians of New Zealand Superannuation as Manager and Administrator of the New Zealand Superannuation Fund ("NZ Super"). This balance is therefore not available for general use by entities within the Group. The escrow amount was subsequently released in full on 8 July 2019 (refer to note 27).

11. ASSETS ARISING FROM REINSURANCE CONTRACTS

ACCOUNTING POLICY

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

	2019 $'000	2018 $'000
Life insurance contracts reinsurance assets		
Balance at 1 July	**17,795**	18,489
Reinsurance claims made to reinsurers	**63,290**	59,323
Payments received from reinsurers	**(61,196)**	(60,017)
Balance at 30 June (expected to be recovered within 12 months)	**19,889**	17,795

12. FINANCIAL INSTRUMENTS

ACCOUNTING POLICIES

Accounting policy applicable prior to 1 July 2018

Basis of measurement and recognition

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

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

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

Some of these categories require measurement at fair value. Fair value represents the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the reporting date. Where available, quoted market prices are used as a measure of fair value. Where quoted values do not exist, fair values are estimated using present values or other market accepted valuation techniques, using methods and assumptions that are based on market conditions and risks existing at balance date.

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

Held for trading

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

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

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

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

Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Financial liabilities at fair value through profit or loss

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

Offsetting financial assets and financial liabilities

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

12. FINANCIAL INSTRUMENTS (CONTINUED)

ACCOUNTING POLICIES (CONTINUED)

Accounting policy applicable from 1 July 2018

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

(i) Classification

From 1 July 2018, the Group classifies its financial assets into the following measurement categories:

- those to be measured at amortised cost;
- those to be measured subsequently at fair value, either through other comprehensive income ('FVOCI') or through profit or loss ('FVPL').

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

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

Amortised Cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as being measured at FVPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

FVPL

The Group classifies the following financial assets at FVPL:

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

Business model assessment

The Group must make an assessment of the objective of the business model in which a financial asset is held at a portfolio level as this best reflects the way the business is managed. The information considered includes:

- the stated policies and objectives for the portfolio and operation of those policies in practice; and
- how the performance of the portfolio is evaluated and reported to the Group's management.

Assessment whether contractual cash flows are solely payments of principal and interest

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

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

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

Recognition of gains or losses

FVPL

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

Amortised Cost

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

12. FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL INSTRUMENTS BY CATEGORY

Financial assets

	FAIR VALUE THROUGH PROFIT OR LOSS $'000	AMORTISED COST $'000	TOTAL $'000
At 30 June 2019			
Cash and cash equivalents	-	12,501	12,501
Restricted cash	-	10,268	10,268
Assets arising from reinsurance contracts	-	19,889	19,889
Financial assets at fair value through profit or loss	302,475	-	302,475
Derivative financial instruments (held for trading)	897	-	897
Loans and other receivables	-	7,452	7,452
	303,372	50,110	353,482

	ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS $'000	LOANS AND OTHER RECEIVABLES $'000	TOTAL $'000
At 30 June 2018			
Cash and cash equivalents	-	6,011	6,011
Restricted cash	-	10,087	10,087
Assets arising from reinsurance contracts	-	17,795	17,795
Financial assets at fair value through profit or loss	315,885	-	315,885
Loans and other receivables	-	14,141	14,141
	315,885	48,034	363,919

12. FINANCIAL INSTRUMENTS (CONTINUED)

FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Financial liabilities

	LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS $'000	LIABILITIES AT AMORTISED COST $'000	TOTAL $'000
At 30 June 2019			
Payables and other financial liabilities	-	49,987	49,987
Derivative financial instruments (held for trading)	568	-	568
Life Investment Contract Liabilities	122,956	-	122,956
	123,524	49,987	173,511

	LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS AND HELD FOR TRADING $'000	LIABILITIES AT AMORTISED COST $'000	TOTAL $'000
At 30 June 2018			
Payables and other financial liabilities	-	47,521	47,521
Derivative financial instruments (held for trading)	756	-	756
Life Investment Contract Liabilities	142,082	-	142,082
	142,838	47,521	190,359

FAIR VALUES OF FINANCIAL INSTRUMENTS

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

Level 1: Fair values are determined using quoted market prices where an active market exists.

Level 2: Where quoted market prices are not available or markets are considered inactive, fair values have been estimated using present value or other techniques based on market conditions existing at balance date. The valuation techniques rely on market observable inputs.

Level 3: Fair values are estimated using inputs that are not based on observable market data.

12. FINANCIAL INSTRUMENTS (CONTINUED)

FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000	TOTAL FAIR VALUE $'000
At 30 June 2019				
Assets				
Financial assets at fair value through profit or loss				
Debt securities – Unitised funds	-	**230,013**	-	**230,013**
Equity securities – Unitised funds	-	**72,462**	-	**72,462**
Financial assets at fair value through profit or loss	-	**302,475**	-	**302,475**
Derivative financial instruments				
Forward currency contracts	-	**897**	-	**897**
Total derivative financial instruments	-	**897**	-	**897**
Total financial assets at fair value	-	**303,372**	-	**303,372**
Liabilities				
Derivative financial instruments				
Interest rate swaps	-	**568**	-	**568**
Life Investment Contract Liabilities	-	-	**122,956**	**122,956**
Total financial liabilities at fair value	-	**568**	**122,956**	**123,524**
At 30 June 2018				
Assets				
Financial assets at fair value through profit or loss				
Debt securities – Unitised funds	-	260,086	-	260,086
Equity securities – Unitised funds	-	55,799	-	55,799
Financial assets at fair value through profit or loss	-	315,885	-	315,885
Liabilities				
Derivative financial instruments				
Forward currency contracts	-	756	-	756
Life Investment Contract Liabilities	-	-	142,082	142,082
Total financial liabilities at fair value	-	756	142,082	142,838

The notional principal amounts of outstanding derivatives at 30 June 2019 were:

- forward currency contracts $56,665,423 (2018: $65,412,164)
- interest rate swaps $75,000,000 (2018: nil)

12. FINANCIAL INSTRUMENTS (CONTINUED)

FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	BALANCE AT THE BEGINNING OF THE YEAR $'000	NET FAIR VALUE GAINS $'000	PURCHASES/ DEPOSITS $'000	WITHDRAWALS/ DISPOSALS $'000	BALANCE AT THE END OF THE YEAR $'000
2019					
Liabilities classified as level 3					
Life investment contract liabilities	**142,082**	**4,852**	**4,601**	**(28,579)**	**122,956**
2018					
Liabilities classified as level 3					
Life investment contract liabilities	143,359	11,114	5,428	(17,819)	142,082

13. LOANS AND OTHER RECEIVABLES

ACCOUNTING POLICY

Loans and other receivables are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost less any provision for impairment.

Impairment

Accounting policy applicable prior to 1 July 2018

A provision for impairment is established when there is evidence that the Group will not be able to collect all amounts due. When a receivable is uncollectable, it is written off against the provision.

Accounting policy applicable from 1 July 2018

NZ IFRS 9 replaces the 'incurred loss' model in NZ IAS 39 with a forward-looking 'expected credit loss' ('ECL') model. The Group recognises a loss allowance for the ECLs on financial assets measured at amortised cost subject to NZ IFRS 9 impairments, being loan receivables, cash, cash equivalents and restricted cash.

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

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

(i) Stage 1: 12-month ECL

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

(ii) Stage 2: Lifetime ECL – not credit impaired

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

(iii) Stage 3: Lifetime ECL – credit impaired

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

The loss allowances which are measured as 12-month ECLs are:

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

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

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

13. LOANS AND OTHER RECEIVABLES (CONTINUED)

ACCOUNTING POLICY (CONTINUED)

In assessing whether there has been a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportable forward-looking information. The following indicators are incorporated:

- internal credit rating;
- actual or expected significant adverse changes in financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- significant changes in the value of the collateral supporting the obligation;
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers;

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

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

The Group considers a financial asset to be in default when:

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

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group considers this to be BBB- or higher per rating agency. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). In all cases, the maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECL

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

Write-off

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

	NOTE	2019 $'000	2018 $'000
Mortgages and loans			
Mortgage and loan balances	14	**3,119**	8,305
Less provision for impairment	14	**(1,249)**	(200)
Loan receivables net of expected credit losses		**1,870**	8,105
Trade and other receivables			
Prepayments		**2,892**	3,991
Sundry receivables		**244**	774
Outstanding premiums		**5,338**	5,262
Total Trade and Other receivables		**8,474**	10,027
Total loans and other receivables		**10,344**	18,132
Due:			
Within 12 months		**8,644**	14,609
Later than 12 months		**1,700**	3,523
		10,344	18,132

14. IMPAIRMENT ON FINANCIAL ASSETS

The following table shows the loan receivables subject to the expected credit loss model:

	2019 $'000	2018 $'000
Gross carrying amount of mortgages and loans	3,119	8,305
Loan loss allowance	(1,249)	(200)
Loan receivables net of expected credit losses	1,870	8,105

(a) Gross carrying amounts of mortgages and loans as at 30 June 2019

	STAGE 1 COLLECTIVE ASSESSED $'000	STAGE 2 COLLECTIVE ASSESSED $'000	STAGE 3 INDIVIDUALLY ASSESSED $'000	TOTAL $'000
Balance at end of the period	1,310	-	1,809	3,119

(b) Mortgages and loans by expected credit loss allowance

	STAGE 1 COLLECTIVE ASSESSED $'000	STAGE 2 COLLECTIVE ASSESSED $'000	STAGE 3 INDIVIDUALLY ASSESSED PROVISIONS $'000	TOTAL $'000
Opening loss allowance as at 1 July 2018 (restated for NZ IFRS 9)	74	33	202	309
Individual financial assets transferred to/(from) stage 3 individually assessed provisions	-	-	1,011	1,011
Other changes	(38)	(33)	-	(71)
Closing loss allowance as at 30 June 2019	36	-	1,213	1,249

While cash and cash equivalents and restricted cash are also subject to the impairment requirements of NZ IFRS 9, the identified impairment loss was immaterial.

15. PROPERTY, PLANT AND EQUIPMENT

ACCOUNTING POLICIES

Property, plant and equipment

Land and buildings are carried at fair value based on an annual valuation by an external independent valuer, less any subsequent depreciation for buildings.

All other property, plant and equipment is stated at cost less accumulated depreciation and impairment. The cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation

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

The rates are as follows:

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

Impairment of assets

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use.

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Property, plant and equipment can be analysed as follows:

	OWNER-OCCUPIED PROPERTY MEASURED AT FAIR VALUE $'000	BUILDING FIT-OUT AND IMPROVEMENTS $'000	PLANT AND EQUIPMENT $'000	TOTAL $'000
At 1 July 2017				
Cost or fair value	23,000	1,154	5,587	29,741
Accumulated depreciation	-	(1,030)	(4,432)	(5,462)
Net book amount	23,000	124	1,155	24,279
Year ended 30 June 2018				
Opening net book amount	23,000	124	1,155	24,279
Additions	-	20	368	388
Revaluation	3,521	-	-	3,521
Depreciation	(621)	(35)	(525)	(1,181)
Disposals	-	-	(120)	(120)
Closing net book amount	25,900	109	878	26,887
At 1 July 2018				
Cost or fair value	25,900	1,174	5,514	32,588
Accumulated depreciation	-	(1,065)	(4,636)	(5,701)
Net book amount	25,900	109	878	26,887
Year ended 30 June 2019				
Opening net book amount	**25,900**	**109**	**878**	**26,887**
Additions	**174**	**96**	**464**	**734**
Revaluation	**3,393**	**-**	**-**	**3,393**
Depreciation	**(467)**	**(34)**	**(394)**	**(895)**
Disposals	**-**	**-**	**(45)**	**(45)**
Closing net book amount	**29,000**	**171**	**903**	**30,074**
At 30 June 2019				
Cost or fair value	**29,000**	**1,270**	**5,933**	**36,203**
Accumulated depreciation	**-**	**(1,099)**	**(5,030)**	**(6,129)**
Net book amount	**29,000**	**171**	**903**	**30,074**

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

REVALUATION OF PROPERTY

The owner-occupied property is a commercial office building located in Auckland. The valuation of the property is measured at fair value at each reporting date. The methodology used to value the property includes significant unobservable inputs (level 3 of the fair value hierarchy).

The property was valued on 30 June 2019 at $29,000,000 (2018: $25,900,000), by P R Amesbury (ANZIV, SPINZ) an independent registered valuer in the firm of Barratt-Boyes Jefferies Lawton Limited. The open market value was used as the basis for the valuation.

PRIMARY ASSUMPTIONS USED IN VALUING THE PROPERTY

	2019	2018
Capitalisation rate[1]	**4.70%**	5.33%
Discount rate[1]	**5.00%**	6.00%

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

REVALUED PROPERTY HISTORIC COST

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

	2019 $'000	2018 $'000
Cost	**18,186**	18,013
Accumulated depreciation	**(3,537)**	(3,122)
Net book amount	**14,649**	14,891

16. INTANGIBLE ASSETS

ACCOUNTING POLICIES

Software

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

Internally developed software

Costs associated with developing identifiable and unique software controlled by the Group, including employee and contractor costs, are capitalised and treated as intangible assets when the products will generate probable future economic benefits. Amortisation commences once the software is available for use.

Software under development

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

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

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

Software costs are amortised over the useful life of 3 to 10 years on a straight-line basis.

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

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

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

Impairment

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

16. INTANGIBLE ASSETS (CONTINUED)

Intangible assets can be analysed as follows:

	SOFTWARE $'000	INTERNALLY DEVELOPED SOFTWARE $'000	SOFTWARE UNDER DEVELOPMENT $'000	AVIF $'000	TOTAL $'000
At 1 July 2017					
Cost	2,064	14,887	8,261	6,054	31,266
Accumulated amortisation	(1,999)	(11,950)	(7,422)	(6,054)	(27,425)
Net book amount	65	2,937	839	-	3,841
Year ended 30 June 2018					
Opening net book amount	65	2,937	839	-	3,841
Additions	32	-	389	-	421
Transfer in/out	24	867	(891)	-	-
Amortisation	(61)	(1,009)	-	-	(1,070)
Other movements	-	-	(143)	-	(143)
Closing net book amount	60	2,795	194	-	3,049
At 30 June 2018					
Cost	2,119	15,754	7,616	-	25,489
Accumulated amortisation/impairment	(2,059)	(12,959)	(7,422)	-	(22,440)
Net book amount	60	2,795	194	-	3,049
Year ended 30 June 2019					
Opening net book amount	**60**	**2,795**	**194**	**-**	**3,049**
Additions	**-**	**-**	**942**	**-**	**942**
Transfer in/out	**-**	**1,022**	**(1,022)**	**-**	**-**
Amortisation	**(30)**	**(1,021)**	**-**	**-**	**(1,051)**
Other movements	**-**	**-**	**(105)**	**-**	**(105)**
Closing net book amount	**30**	**2,796**	**9**	**-**	**2,835**
At 30 June 2019					
Cost	**2,119**	**16,776**	**7,536**	**-**	**26,431**
Accumulated amortisation/impairment	**(2,089)**	**(13,980)**	**(7,527)**	**-**	**(23,596)**
Net book amount	**30**	**2,796**	**9**	**-**	**2,835**

17. PAYABLES AND OTHER FINANCIAL LIABILITIES

ACCOUNTING POLICIES

Payables

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

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

Provisions

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

	2019 $'000	2018 $'000
Creditors and accruals	**6,102**	5,673
Claims notified	**18,171**	15,822
Income in advance	**624**	1,551
Reinsurance liabilities	**25,714**	26,026
Employee entitlements	**4,933**	1,889
Total payables and other financial liabilities	**55,544**	50,961
Due:		
Within 12 months	**52,044**	47,722
Later than 12 months	**3,500**	3,239
	55,544	50,961

18. LIFE INSURANCE CONTRACT LIABILITIES AND ASSETS

ACCOUNTING POLICIES

Life insurance contracts are those contracts that transfer significant insurance risk. Contracts that contain a discretionary participation feature are also classified as life insurance contracts. A participating contract is eligible for a share of the value of future planned shareholder profit margins and an allowance for future supportable bonuses.

The methodology used to determine the value of life insurance contract liabilities and assets is referred to as Margin on Services ('MoS'), as set out in New Zealand Society of Actuaries Professional Standard No 20: Determination of Life Insurance Policyholder Liabilities ('PS20').

MoS is designed to recognise profits on life insurance policies as services are provided to policyholders and income is received. Under MoS, the planned profit margins are deferred and amortised over the life of the contract, whereas losses are recognised immediately.

Life insurance contract assets and liabilities are generally determined as the present value of all future expected payments, expenses, taxes and profit margins, reduced by the present value of all future expected premiums.

The movement in life insurance contract liabilities and assets is recognised in the consolidated income statement.

18. LIFE INSURANCE CONTRACT LIABILITIES AND ASSETS (CONTINUED)

	2019 $'000	2018 $'000
Movement in life insurance contract liabilities / (assets)		
Opening balance at 1 July	**(188,226)**	(166,479)
Premiums received	**269,257**	259,123
Liabilities released for payments on death, surrender and other terminations in the year	**(125,715)**	(107,823)
Commission and other expenses	**(116,965)**	(116,686)
Other movements	**(58,646)**	(53,869)
Reclassification – Family Income Benefits annuities	**-**	(2,492)
Closing balance at 30 June	**(220,295)**	(188,226)
Life insurance contract liabilities ceded under reinsurance		
Opening balance at 1 July	**31,628**	34,886
Movement in consolidated income statement	**9,829**	(3,258)
Closing balance at 30 June	**41,457**	31,628
Net of reinsurance life insurance contract liabilities / (assets)	**(178,838)**	(156,598)
Due:		
Within 12 months	**1,053**	1,200
Later than 12 months	**(179,891)**	(157,798)
	(178,838)	(156,598)
Life insurance contract assets contain the following components*		
Future policy benefits	**1,568,275**	1,218,180
Future expenses	**601,000**	484,265
Reinsurance policy liability	**41,457**	31,628
Planned margins of revenues over expenses	**268,654**	234,978
Future revenues	**(2,658,224)**	(2,125,649)
	(178,838)	(156,598)
Life insurance contracts with a discretionary participation feature that have a guaranteed element	**35,978**	36,176

* The 2018 figures have been restated to reflect a revised view of projected cashflows.

19. FINANCIAL LIABILITIES (LIFE INVESTMENT CONTRACT LIABILITIES)

ACCOUNTING POLICIES

Life investment contracts are those contracts with no significant insurance risk, but which give rise to a financial liability.

Life investment contracts issued by the Group are unit-linked and are measured at fair value. The fair value of a unit-linked contract is determined by using the current unit values that reflect the fair values of the financial assets backing the contract, multiplied by the number of units attributed to the contract holder.

	2019 $'000	2018 $'000
Movement in life investment contract liabilities		
Opening balance at 1 July	**142,082**	143,359
Contributions received	**4,837**	5,718
Fees deducted from account balances	**(236)**	(290)
Liabilities released for payments on death, surrender and other terminations in the year	**(28,579)**	(17,819)
Investment return credited to policyholders	**5,699**	11,831
Other movements	**(847)**	(717)
Closing balance at 30 June	**122,956**	142,082
Due:		
Within 12 months	**37,308**	49,173
Later than 12 months	**85,648**	92,909
	122,956	142,082
Life investment contracts with a guaranteed element	**99,784**	107,391

20. DEFERRED INCOME

	2019 $'000	2018 $'000
Opening balance at 1 July	**3,417**	4,100
Amortisation	**(683)**	(683)
Closing balance at 30 June	**2,734**	3,417

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

21. SHARE CAPITAL AND DIVIDENDS

ACCOUNTING POLICIES

Share capital

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

Dividends

Ordinary dividends are recognised as a movement in equity in the year within which they are paid.

Where a dividend is declared after balance date, but prior to the issue of the financial statements, disclosure of the declaration is made but no liability is recognised for the amount.

SHARE CAPITAL

	2019 SHARES	2018 SHARES	2019 $'000	2018 $'000
Share capital at the beginning of the year	**2,091,440**	1,439,267	**81,586**	14,123
Issued for cash	**-**	652,173	**-**	75,000
Less: Transaction costs arising on share issues	**-**	-	**-**	(7,537)
Closing balance	**2,091,440**	2,091,440	**81,586**	81,586

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

DIVIDENDS PAID

	2019 PER SHARE	2018 PER SHARE	2019 $'000	2018 $'000
Ordinary shares				
Special dividend	**-**	3.00	**-**	1,722
Final dividend	**2.00**	-	**4,183**	-
Total dividend paid	**2.00**	3.00	**4,183**	1,722

22. CAPITAL MANAGEMENT

The objectives of the Group with regard to capital management are to:

(i) Maintain a level of target surplus which creates a buffer over minimum regulatory capital while still allowing for efficient use of capital;

(ii) Maintain a strong capital base to cover the inherent risks of the business; and

(iii) Support the future development and growth of the business to maximise shareholder value.

The Board has the ultimate responsibility for managing capital and compliance with the Solvency Standard for Life Insurance Business 2014 issued by RBNZ. The Board approves the capital policy and minimum capital levels and limits. Minimum capital levels are set based on maintaining a target surplus in excess of solvency margin requirements under the Solvency Standard.

The Company has two life funds, the Statutory Fund and the Non Statutory Fund. Under its licence, it is a requirement that actual solvency capital must at all times exceed the higher of $5 million or the minimum solvency capital. The solvency margin in each life fund must also be at least $0.

During the years ended 30 June 2019 and 30 June 2018, the Company complied with all capital licensing requirements.

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

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

The solvency position of the Company is as follows:

	2019			2018		
	STATUTORY FUND $'000	NON-STATUTORY FUND $'000	TOTAL $'000	STATUTORY FUND $'000	NON-STATUTORY FUND $'000	TOTAL $'000
Actual solvency capital	**246,419**	**52,445**	**298,864**	225,848	53,118	278,966
Minimum solvency capital	**229,213**	**18,924**	**248,137**	196,177	6,894	203,071
Solvency margin	**17,206**	**33,521**	**50,727**	29,671	46,224	75,895
Solvency ratio	**108%**	**277%**	**120%**	115%	771%	137%

23. DISAGGREGATED INFORMATION

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

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

	INVESTMENT LINKED $'000	NON-INVESTMENT LINKED $'000	TOTAL STATUTORY FUND $'000
2019			
Investment assets	**112,462**	**147,465**	**259,927**
Other assets	**10,494**	**87,583**	**98,077**
Policy liabilities	**122,956**	**(178,838)**	**(55,882)**
Liabilities other than policy liabilities	**-**	**135,087**	**135,087**
Shareholders' retained earnings	**-**	**278,798**	**278,798**
Insurance premium revenue and contributions received	**4,602**	**269,493**	**274,095**
Investment income	**8,300**	**6,136**	**14,436**
Claims expense and investment contracts payments	**28,579**	**125,715**	**154,294**
Other operating expenses	**1,346**	**112,414**	**113,760**
Investment revenues paid or allocated to policyholders	**5,699**	**-**	**5,699**
Profit before tax	**1,111**	**30,917**	**32,029**
(Loss) / profit after tax	**(249)**	**19,199**	**18,950**
2018			
Investment assets	131,880	134,872	266,752
Other assets	10,201	89,005	99,206
Policy liabilities	142,082	(156,598)	(14,516)
Liabilities other than policy liabilities	-	122,472	122,472
Shareholders' retained earnings	-	257,405	257,405
Insurance premium revenue and contributions received	5,428	259,413	264,841
Investment income	13,074	6,568	19,642
Claims expense and investment contracts payments	17,819	107,823	125,642
Other operating expenses	1,851	118,336	120,187
Investment revenues paid or allocated to policyholders	11,831	-	11,831
Profit before tax	1,512	22,539	24,051
Profit after tax	798	13,516	14,314
Capital receipts / (distributions)	-	29,500	29,500

24. RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK

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

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

The Group has a formalised risk management programme which is supported by six key components:

i. The risk management policy purpose is to communicate why risk management is important to the Group and describe the approach to managing risk. The policy states the objectives of the risk management framework and strategy; and identifies who is responsible for the various risk management activities, including oversight, implementation and assessment of effectiveness, monitoring and reporting.

ii. The risk management framework details how the Group ensures that effective risk management is real and reflected in the operational activities of the Group. The risk management framework considers risks at a strategic and operational level.

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

iv. The corporate risk register allows the Audit and Risk Committee and Risk Management Committee to critically evaluate if the risk management process is effectively identifying and addressing exposures. The risk register continuously evolves as risks are identified, monitored and treated.

v. The risk appetite statement is reviewed annually by the Board. The risk appetite statement is used as a guide to the level of risk the Group is prepared to accept.

vi. An internal audit function whose purpose is to provide independent and objective assurance on the adequacy and effectiveness of controls set up by management.

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

An Asset and Liability Committee ('ALCO') was set up in FY18. The ALCO, which reports to and is directly accountable to the Board of Directors, comprises the Chief Executive Officer, the Chief Financial Officer, the Appointed Actuary, the Chief Risk Officer, one Director and an independent actuarial advisor.

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

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

A. MARKET RISK

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

For each of the major components of market risk, the Group has put in place procedures to set out how each risk should be managed and monitored, and the approach to setting an appropriate risk appetite. The management of market risk is undertaken by ALCO. ALCO oversees the selection of wholesale managers, construction of wholesale mandates and asset allocation within the permitted guidelines of the Statement of Investment Policy and Objectives ('SIPO').

(i) Currency risk

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

Foreign currency risk arises as the Group has invested in international shares and international bonds which are denominated in foreign currencies. As at 30 June 2019 foreign currency denominated assets amounted to 11.2% (2018: 12.5%) of total assets. The market value of these assets is therefore affected by movements in the New Zealand dollar relative to the currency in which the asset is denominated.

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

24. RISK MANAGEMENT (CONTINUED)

A. MARKET RISK (CONTINUED)

(ii) Price risk

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

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

Most price risk is borne by policyholders of life investment contracts who have selected the investment portfolio that invests in a particular mix of assets. However, the Group derives fee income based on the value of the underlying funds; hence revenues are sensitive to changes in market value. For assets which are not contractually linked to policy liabilities, the Group is exposed to equity price risk.

(iii) Interest rate risk

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

Fair value interest rate risk

Fair value interest rate risk arises from the potential for a change in interest rates to cause a fluctuation in the fair value of financial instruments and life insurance contract liabilities and assets.

Cash flow interest rate risk

Cash flow interest rate risk is the potential for a change in interest rates to change interest expense and interest income in future periods.

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

The Group manages its interest rate risk by using interest rate swaps. Interest rate swaps are derivative instruments that the Group enters into with New Zealand registered banks to receive floating rate interest (90 day bank bills) in exchange for paying a fixed rate of interest based on a margin over government bonds. The intention of entering into interest rate swap agreements is to reduce the profit and loss volatility associated with changes in the discount rate.

Sensitivity to market risk

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

		2019		2018	
MARKET RISKS		IMPACT ON POST-TAX PROFIT $'000	IMPACT ON EQUITY $'000	IMPACT ON POST-TAX PROFIT $'000	IMPACT ON EQUITY $'000
Currency rates	Increase by 10%	**123**	**123**	20	20
	Decrease by 10%	**(100)**	**(100)**	(17)	(17)
Equity prices	Increase by 10%	**429**	**429**	1,182	1,182
	Decrease by 10%	**(429)**	**(429)**	(1,182)	(1,182)
Interest rates	Increase by 1%	**3,974**	**3,974**	(36)	(36)
	Decrease by 1%	**(4,316)**	**(4,316)**	36	36

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

24. RISK MANAGEMENT (CONTINUED)

B. INSURANCE RISK

Insurance risk is risk, other than financial risk, that is transferred from the holder of an insurance contract to the insurer. The Group's objectives in managing risks arising from its insurance business are:

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

Controls implemented to manage insurance risk include:

- Premium rates are set based on the expected incidence of claims, costs of running the insurance pool (including commission to sales intermediaries) and a contingency margin to cover the variability risk and cost of capital that provide solvency support for the insurance pool.
- Underwriting decisions are made in accordance with the procedures detailed in the Group's underwriting manual.
- Claim management procedures are in place to assist in the timely and correct payment of claims in accordance with policy conditions.
- Reinsurance that caps the total amount payable on each claim to a predefined amount of risk is used to control the exposure of the Group to variation in the incidences of claims and concentration of risk. The Group holds a catastrophe reinsurance treaty to limit large losses arising from concentrations of risk due to geographical exposure or single events. The Group also holds a pandemic reinsurance treaty to limit the net exposures to pandemic events. The Group actively manages its exposure under its retention agreements with its reinsurers. Levels of retained risk are increased or decreased to reflect changes in the Group's retention risk profile.

Terms and conditions of insurance contracts

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

TYPE OF CONTRACT	DETAIL OF CONTRACT TERMS AND CONDITIONS	NATURE OF COMPENSATION FOR CLAIMS	KEY VARIABLES THAT AFFECT THE TIMING AND UNCERTAINTY OF FUTURE CASH FLOWS
Non-participating life insurance contracts with fixed and guaranteed terms	Benefits paid on death, ill health, disability or maturity that are fixed and guaranteed and not at the discretion of the insurer. Premiums may be guaranteed through the life of the contract, guaranteed for a specific term or variable at the insurer's discretion.	Benefits, defined by the life insurance contract, are determined by the contract and are not directly affected by the performance of underlying assets or the performance of contracts as a whole.	• Mortality • Morbidity • Discontinuance rates
Life insurance contracts with discretionary participating benefits	These policies include a clearly defined initial guaranteed sum assured which is payable on death. The guaranteed amount is a multiple of the amount that is increased throughout the duration of the policy by the addition of regular bonuses annually which once added are not removed. Regular bonuses are added retrospectively.	Benefits arising from the discretionary participation feature are based on the performance of a specified pool of contracts or a specified type of contract.	• Mortality • Morbidity • Market risk • Discontinuance rates • Market returns on underlying assets
Life annuity contracts	These policies provide regular payments to the life assured.	The amount of the payment is set at inception of the policy.	• Longevity • Market returns on underlying assets

24. RISK MANAGEMENT (CONTINUED)

B. INSURANCE RISK (CONTINUED)

Sensitivity analysis

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

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

		2019	2018
		IMPACT ON POST-TAX PROFIT $'000	IMPACT ON POST-TAX PROFIT $'000
Discount rate	Increase by 0.25%	**(1,272)**	(544)
	Decrease by 0.25%	**1,238**	543
Mortality / morbidity	Increase by 10%	**-**	(32)
	Decrease by 10%	**(15)**	51
Discontinuance	Increase by 10%	**77**	92
	Decrease by 10%	**(80)**	(131)
Expenses	Increase by 10%	**(3)**	(3)
	Decrease by 10%	**3**	3

VARIABLE	IMPACT OF A MOVEMENT IN THE UNDERLYING VARIABLE
Mortality risk	For insurance contracts providing death benefits, greater mortality rates would lead to higher levels of claims, increasing associated claims cost and therefore reducing profit and shareholders' equity.
Morbidity risk	The cost of health-related claims depends on both the incidence of policyholders being diagnosed with a critical illness or becoming temporarily or permanently disabled and the duration for which they remain temporarily or permanently disabled. Higher than expected incidence and duration would be likely to increase claim costs, reducing profit and shareholders' equity.
Discontinuance risk	The impact of the discontinuance rate assumption depends on a range of factors including the type of contract, the surrender value basis (where applicable) and the duration in-force.

24. RISK MANAGEMENT (CONTINUED)

C. LIQUIDITY RISK

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

The Group is exposed to daily calls on its available cash resources from maturing policies, policy claims, surrenders and cashing in or switching between investment portfolios.

Through the application of a liquidity management policy the Group seeks to maintain sufficient resources to meet its obligations as they fall due including adverse scenarios for voluntary withdrawals by policyholders.

Investment durations are matched with the expected time frames of liabilities to ensure that liabilities are adequately covered.

Each investment portfolio has a small proportion of non-linked funds to provide immediate liquidity for any policyholder that wishes to withdraw funds or switch portfolios.

Maturity analysis

The table below shows the maturity of the contractual undiscounted cash flows of the Group's financial assets and liabilities. Where the counterparty has discretion in requesting immediate payment without exit penalty, liabilities have been classified according to the earliest time period in which the Group may be required to pay. Cash flows on derivative financial instruments are analysed on a gross basis, unless they are settled net. Life insurance contract liabilities / (assets) cash flows are in relation to maturity values payable.

	2019					
	LESS THAN 1 YEAR $'000	BETWEEN 1 & 2 YEARS $'000	BETWEEN 2 & 5 YEARS $'000	OVER 5 YEARS $'000	TOTAL $'000	CARRYING AMOUNT $'000
Financial assets						
Cash and cash equivalents	12,501	-	-	-	12,501	12,501
Restricted cash	10,268	-	-	-	10,268	10,268
Assets arising from reinsurance contracts	19,889	-	-	-	19,889	19,889
Financial assets at fair value through profit or loss	302,475	-	-	-	302,475	302,475
Derivative financial instruments	897	-	-	-	897	897
Loans and other receivables	5,686	111	476	1,832	8,105	7,452
	351,716	111	476	1,832	354,135	353,482
Financial liabilities						
Payables and other financial liabilities	49,987	-	-	-	49,987	49,987
Derivative financial instruments	-	-	-	568	568	568
Financial liabilities Life investment contracts	37,308	10,713	22,837	52,098	122,956	122,956
	87,295	10,713	22,837	52,666	173,511	173,511
Life insurance contract liabilities / (assets) net of reinsurance	1,053	612	2,281	5,389	9,335	(178,838)

24. RISK MANAGEMENT (CONTINUED)

C. LIQUIDITY RISK (CONTINUED)

Maturity analysis (continued)

	2018					
	LESS THAN 1 YEAR $'000	BETWEEN 1 & 2 YEARS $'000	BETWEEN 2 & 5 YEARS $'000	OVER 5 YEARS $'000	TOTAL $'000	CARRYING AMOUNT $'000
Financial assets						
Cash and cash equivalents	6,011	-	-	-	6,011	6,011
Restricted cash	-	10,087	-	-	10,087	10,087
Assets arising from reinsurance contracts	17,795	-	-	-	17,795	17,795
Financial assets at fair value through profit or loss	315,885	-	-	-	315,885	315,885
Loans and other receivables	15,005	986	773	4,052	20,816	18,132
	354,696	**11,073**	**773**	**4,052**	**370,594**	**367,910**
Financial liabilities						
Payables and other financial liabilities	47,521	-	-	-	47,521	47,521
Derivative financial instruments	756	-	-	-	756	756
Financial liabilities Life investment contracts	49,173	9,270	24,701	58,938	142,082	142,082
	97,450	**9,270**	**24,701**	**58,938**	**190,359**	**190,359**
Life insurance contract liabilities / (assets) net of reinsurance	**1,200**	**997**	**2,594**	**5,806**	**10,597**	**(156,598)**

D. CREDIT RISK

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

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

The Group manages its exposure to credit risk by investing and transacting with high credit quality financial institutions.

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

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

24. RISK MANAGEMENT (CONTINUED)

D. CREDIT RISK (CONTINUED)

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

	2019				
	AAA+ TO A- $'000	BBB+ TO BBB- $'000	BB+ TO B- $'000	UNRATED $'000	TOTAL $'000
Cash and cash equivalents	12,501	-	-	-	12,501
Restricted cash	-	-	-	10,268	10,268
Assets arising from reinsurance contracts	19,889	-	-	-	19,889
Derivatives	897	-	-	-	897
Mortgages and loans	-	-	-	3,119	3,119
	33,287	-	-	13,387	46,674

	2018				
	AAA+ TO A- $'000	BBB+ TO BBB- $'000	BB+ TO B- $'000	UNRATED $'000	TOTAL $'000
Cash and cash equivalents	6,011	-	-	-	6,011
Restricted cash	-	-	-	10,087	10,087
Assets arising from reinsurance contracts	17,795	-	-	-	17,795
Mortgages and loans	-	-	-	8,733	8,733
	23,806	-	-	18,820	42,626

Included in the consolidated statement of financial position are unitised funds of $237,194,000 (2018: $173,089,000) which are unrated. Unitised products are invested within the guidelines of the Group's SIPO. The SIPO requires investments to be well diversified, sets exposure limits for each class of asset and credit rating. The Group closely monitors collateral held for the mortgages classified as credit-impaired. Those collateral related to mortgages are held in order to mitigate potential losses.

Concentration of credit risk

Concentration of credit risk exists if a number of counterparties are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions.

The concentration of credit risk on financial assets is generally the carrying amount, net of any provision for impairment.
The Group does not expect any investment or reinsurance counterparties to fail to meet their obligations given their high credit ratings.

25. RELATED PARTIES

SUBSIDIARIES

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

COMPANY	NATURE OF ACTIVITIES	CLASS OF SHARES	OWNERSHIP 2019	OWNERSHIP 2018
Fidelity Capital Guaranteed Bond Limited	Non-trading investment company	Ordinary	**100%**	100%
Life and Advisory Services Limited	Investment services	Ordinary	**100%**	100%
Fidelity Life Custodial Services Limited	Custodial/Trustee services	Ordinary	**100%**	100%

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

RELATED PARTY TRANSACTIONS

(a) Key management personnel compensation

The key management personnel are all the Directors of the Company and the executives with the greatest authority for the strategic direction and management of the Company.

	2019 $'000	2018 $'000
Short-term benefits	**5,578**	5,679
Total	**5,578**	5,679

(b) Transactions with related parties

The following transactions occurred with related parties:

	2019 $'000	2018 $'000
Secured loans to shareholders		
Balance as at 1 July	**672**	1,169
Loan repayments received – secured loans	**(672)**	(497)
Balance as at 30 June	**-**	672
Interest revenue from secured loans	**19**	57
Commission paid to related parties comprise:		
Shareholders as at 30 June who held agency agreements with the Group	**4,295**	3,616
	4,295	3,616

25. RELATED PARTIES (CONTINUED)

RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Outstanding balances

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

	2019 $'000	2018 $'000
Loans receivable from shareholders	-	672
Advisor accounts payable to shareholders	**(10)**	(15)

(d) Terms and conditions

Commissions paid to shareholders

Commissions paid to shareholders who hold agency agreements with the Group are paid at standard rates applicable to other commission agents.

Loans made to shareholders

Loans secured by mortgages over properties or other assets are made to shareholders during the normal course of business. The average annual interest rate was 5.9% (2018: 5.9%) on a mixture of fixed and floating rates. The loans are for periods of up to 25 years.

26. CONTINGENT LIABILITIES AND COMMITMENTS

There are no material contractual capital commitments at balance date for the acquisition of property, plant and equipment or intangible assets. (2018: nil).

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

	2019 $'000	2018 $'000
Within one year	**278**	1,344
Later than one year but not later than five years	**366**	3,820
	644	5,164

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

	2019 $'000	2018 $'000
Within one year	**263**	263
Later than one year but not later than five years	**788**	1,051
Later than five years	**438**	438
	1,489	1,752

27. EVENTS OCCURRING AFTER BALANCE DATE

Restricted cash of $10,000,000 which was held in escrow to support warranties and indemnities as part of a Subscription Agreement with NZ Super was fully released on 8 July 2019.

28. EARNINGS PER SHARE

(i) Basic earnings per share

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

	2019 $'000	2018 $'000
Total profit for the year attributable to the owners of the Company	**18,254**	14,118

	2019 SHARES	2018 SHARES
Weighted average number of ordinary shares on issue	**2,091,440**	1,753,739

	2019 $	2018 $
Basic earnings per share	**8.73**	8.05

(ii) Diluted earnings per share

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

29. STATUTORY FUND

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

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

29. STATUTORY FUND (CONTINUED)

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

	2019 $'000	2018 $'000
Income statement		
Insurance premium revenue	**269,493**	259,413
Insurance premium ceded to reinsurers	**(119,181)**	(117,261)
Investment income	**14,436**	19,379
Other income	**7,190**	6,729
Claims expense	**(125,715)**	(107,822)
Reinsurance recoveries	**82,803**	73,192
Commission and operating expenses	**(113,760)**	(120,188)
Net change in life insurance contract assets	**22,240**	22,512
Net change in life investment contract liabilities	**(5,477)**	(11,492)
Income tax expense	**(13,079)**	(10,273)
Profit for the year attributable to the owners of the Company (non-participating)	**18,950**	14,189
Assets		
Cash and cash equivalents	**6,512**	4,994
Assets arising from reinsurance contracts	**19,889**	17,795
Financial assets at fair value through profit or loss	**259,927**	266,752
Derivative financial instruments	**897**	-
Life insurance contract assets	**220,295**	188,226
Loans and other receivables	**6,883**	15,421
Property, plant and equipment	**30,074**	26,887
Deferred tax assets	**31,573**	29,384
Intangible assets	**2,835**	3,049
Other assets	**-**	1,676
Total assets	**578,885**	554,184
Liabilities		
Payables and other financial liabilities	**46,873**	45,334
Derivative financial instruments	**-**	756
Deferred tax liabilities	**86,067**	73,562
Life insurance contract liabilities ceded under reinsurance	**41,457**	31,628
Life investment contract liabilities	**122,956**	142,082
Deferred income	**2,734**	3,417
Total liabilities	**300,087**	296,779
Net assets	**278,798**	257,405

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

Independent auditor's report

To the shareholders of Fidelity Life Assurance Company Limited

We have audited the consolidated financial statements which comprise:

- the consolidated statement of financial position as at 30 June 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the accompanying consolidated financial statements of Fidelity Life Assurance Company Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2019, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

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

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

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

Our firm carries out other services for the Group in the areas of assurance, tax compliance, tax advisory and training services. In addition, our Firm has insurance arrangements with the Group covering partners and employees within the Firm. Those arrangements were contracted on normal terms within the ordinary course of trading activities of the Group. Certain partners and employees of our firm may also individually deal with the Group on normal terms within the ordinary course of trading activities of the Group. These matters have not impaired our independence as auditor of the Group.

PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
T: +64 9 355 8000, F: +64 9 355 8001, pwc.co.nz

pwc

Our audit approach

Overview

An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall Group materiality: $ 2.69 million, which represents approximately 1% of insurance premium revenue.

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

We have determined that there are three key audit matters:

- Measurement of life insurance contract assets and life insurance contract liabilities ceded under reinsurance
- Information Technology (IT) systems
- Recoverability of the deferred tax asset on tax losses

Materiality

The scope of our audit was influenced by our application of materiality.

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

Audit scope

We designed our audit by assessing the risks of material misstatement in the consolidated financial statements and our application of materiality. 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 consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in

pwc

the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
(1) Measurement of life insurance contract assets and life insurance contract liabilities ceded under reinsurance	

As at 30 June 2019 the Group has life insurance contract assets of $220 million (30 June 2018: $188 million), life insurance contract liabilities ceded under reinsurance of $41 million (30 June 2018: $32 million).
 	
The Directors' valuation of these balances involves complex and subjective judgements about future events, both internal and external to the business, for which small changes in assumptions can result in material impact to the measurement of these balances.
 	
We considered this a key audit matter due to the subjective actuarial judgements made by the Directors. The key actuarial assumptions include:
 	
• The cost of providing benefits and administering these contracts (maintenance expenses);
• Mortality and morbidity experience on life insurance products;
• Persistency (or discontinuance) experience, which affects the Group's ability to recover the cost of acquiring new business over the lives of the contracts;
• Bonus rates per annum for classes of participating business; and
• Long-term interest rates which affect the rate at which cash flows are discounted (discount rates).
 	
The Directors perform a liability adequacy test (at individual related product level) to ensure that any deficiency in the measurement of life insurance contract liabilities are appropriately recognised at the reporting date. This involves a
	Together with PwC actuarial experts, we:
	
	• Assessed the reasonableness of the key actuarial assumptions including the amount, timing and duration of all future payments and premiums, rates of discontinuance, mortality and morbidity rates, maintenance expenses, bonus rates and discount rates. Our assessment of the assumptions included:
	  ○ Obtaining an understanding of, and testing, the controls in place to determine the assumptions;
	  ○ Examining the approach used by management to derive the assumptions by applying our industry knowledge and experience;
	  ○ Challenging the key assumptions used by management against past experience, market observable data (as applicable) and our experience of market practice.
	• Assessed the valuation methodologies used by applying our industry knowledge and experience to compare whether the methodologies and changes to those are consistent with recognised actuarial practices and expectations derived from market experience.
	• Checked the calculation of the liability adequacy test and assessed the outcome in order to ascertain whether the insurance contract liabilities are adequate in the context of a valuation on the best estimate assumptions at reporting date.
	
	Policy data is a key input to the actuarial estimates. Accordingly, we:
	
	• Evaluated the design effectiveness and tested the operating effectiveness of controls over underwriting and policy administration processes; and

pwc

Key audit matter	How our audit addressed the key audit matter
comparison of the amount of life insurance contract liabilities against the estimated future cash flows calculated based on best estimate assumptions. Any deficiencies in the measurement of life insurance contract liabilities are recognised through the consolidated statement of comprehensive income. Refer to the following notes in the Group's consolidated financial statements: Note 2 for critical accounting estimates and judgements and Note 3 for actuarial methods and policies.	• Tested the completeness and accuracy of data between source and actuarial valuation systems.
(2) Information Technology (IT) systems	
We focused on this area because the Group has a complex network of IT systems, including multiple administration systems feeding the general ledger, requiring a significant extent of audit effort. The Group has a number of key controls in place, including key data reconciliations, as well as controls preventing unauthorised access to systems and data.	To obtain assurance on the information feeding into the general ledger from the different administration systems, we executed the following procedures: • Through the involvement of our IT experts, we evaluated the design effectiveness and tested the operating effectiveness of certain controls over the continued integrity of the IT systems that are relevant to financial reporting. • We carried out direct tests, on a sample basis, of system functionality in order to assess the operation of key system enforced access controls. • On a targeted basis, we tested key data reconciliations as well as the accuracy and completeness of data transfers between the administration systems and the general ledger and, where applicable, assessed the reasonableness of reconciling items.
(3) Recoverability of the deferred tax asset on tax losses	
The Group has a deferred tax asset balance of $34 million, of which $29 million relates to deferred tax assets arising from past tax losses. We considered recoverability of the deferred tax asset a key audit matter because: • significant management judgement is involved in forecasting future taxable profits and the period over which it is	Together with our actuarial and tax specialists, we assessed the recoverability of the deferred tax asset on tax losses by: • assessing the reasonableness of the forecasted taxable profits by comparing prior years actual results with the forecasted financial results. • considering forecasted taxable profits arising from the forecasted financial results and the period over

Key audit matter	How our audit addressed the key audit matter
probable such losses will be utilised; and • the utilisation of the tax losses is subject to shareholder continuity being maintained from the time the losses were generated until the time the losses are utilised. Refer to the following notes in the Group's consolidated financial statements: Note 2 for critical accounting estimates and judgements and Note 8 for deferred tax assets.	which it is probable that sufficient taxable profits will be generated to utilise the losses; and • considering whether shareholder continuity was maintained at balance date and whether any known future events indicated shareholder continuity may not be maintained until the time the losses are utilised.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not and will not express any form of assurance conclusion on the other information. At the time of our audit, there was no other information available to us.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of the Directors for the consolidated financial statements

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

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

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

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

pwc

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

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

This description forms part of our auditor's report.

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
13 September 2019

Auckland

APPOINTED ACTUARY'S REVIEW OF FIDELITY LIFE ASSURANCE COMPANY LIMITED

at 30 June 2019

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

In relation to the Financial Statements for Fidelity Life Assurance Company Limited for the year ended 30 June 2019 and as that date, I confirm the following:

Appointed Actuary: John Laurence Smith

Work undertaken: The review of the actuarial information contained in, or used in the preparation of, financial statements of the insurer and group was conducted in accordance with the Solvency Standard for Life Insurance Business (RBNZ, December 2014).

Scope and limitations: The actuarial information reviewed was:

(a) information relating to an insurer's calculations of premiums, claims, reserves, dividends, insurance and annuity rates, and technical provisions; and

(b) information relating to assessments of the probability of uncertain future events occurring and the financial implications for the insurer if those events do occur; and

(c) information specified in the Solvency Standard for Life Insurance Business as actuarial information for the purposes of this review.

There were no restrictions on the scope of my investigation.

The return is provided as a statutory disclosure by Fidelity Life Assurance Company Limited (and is the same for both the insurer and group). No warranty is provided to third parties for any other purpose.

Relationship with insurer: I am a permanent full-time employee of Fidelity Life Assurance Company Limited. I do not own any shares in Fidelity Life Assurance Company Limited.

Information: I obtained all information and explanations that I required.

Actuarial Opinion: In my actuarial opinion and from an actuarial perspective:

(i) the actuarial information contained in the insurer and group financial statements at and in the year to 30 June 2019 has been appropriately included in those statements;

(ii) the actuarial information used in the preparation of the insurer and group financial statements at and in the year to 30 June 2019 has been used appropriately.

Solvency margin: In my actuarial opinion and from an actuarial perspective:

Fidelity Life Assurance Company Limited (licensed insurer) is maintaining the solvency margin calculated under the solvency standard for life insurance business (IPSA 21 (2)(b))

Statutory Funds: In my actuarial opinion and from an actuarial perspective:

Fidelity Life Assurance Company Limited (licensed insurer) will maintain the solvency margin in respect of the Fidelity Life Statutory Fund No. 1 calculated under the solvency standard for life insurance business (IPSA 21 (2)(c)).

JOHN SMITH
Appointed Actuary

29 October 2019

FIDELITY LIFE

Fidelity House
81 Carlton Gore Road
Newmarket
Auckland 1023

09 373 4914

0800 88 22 88

fidelitylife.co.nz

WHY CHOOSE FIDELITY LIFE

Founded by **kiwis** for kiwis

Cornerstone stake held by **NZ Super Fund**

Committed to financial advisers and face-to-face advice

Rated **A-** **(Excellent)** for financial strength*

ANZIIF Life Insurance Company of the year **2017 – 2018**

Over **$1 billion** paid out in claims since 1973

*Fidelity Life has an A- (Excellent) financial strength rating from A.M. Best. The rating scale that this forms part of is available for inspection at our offices. For more information please visit fidelitylife.co.nz/about-fidelity-life/our-financial-strength.