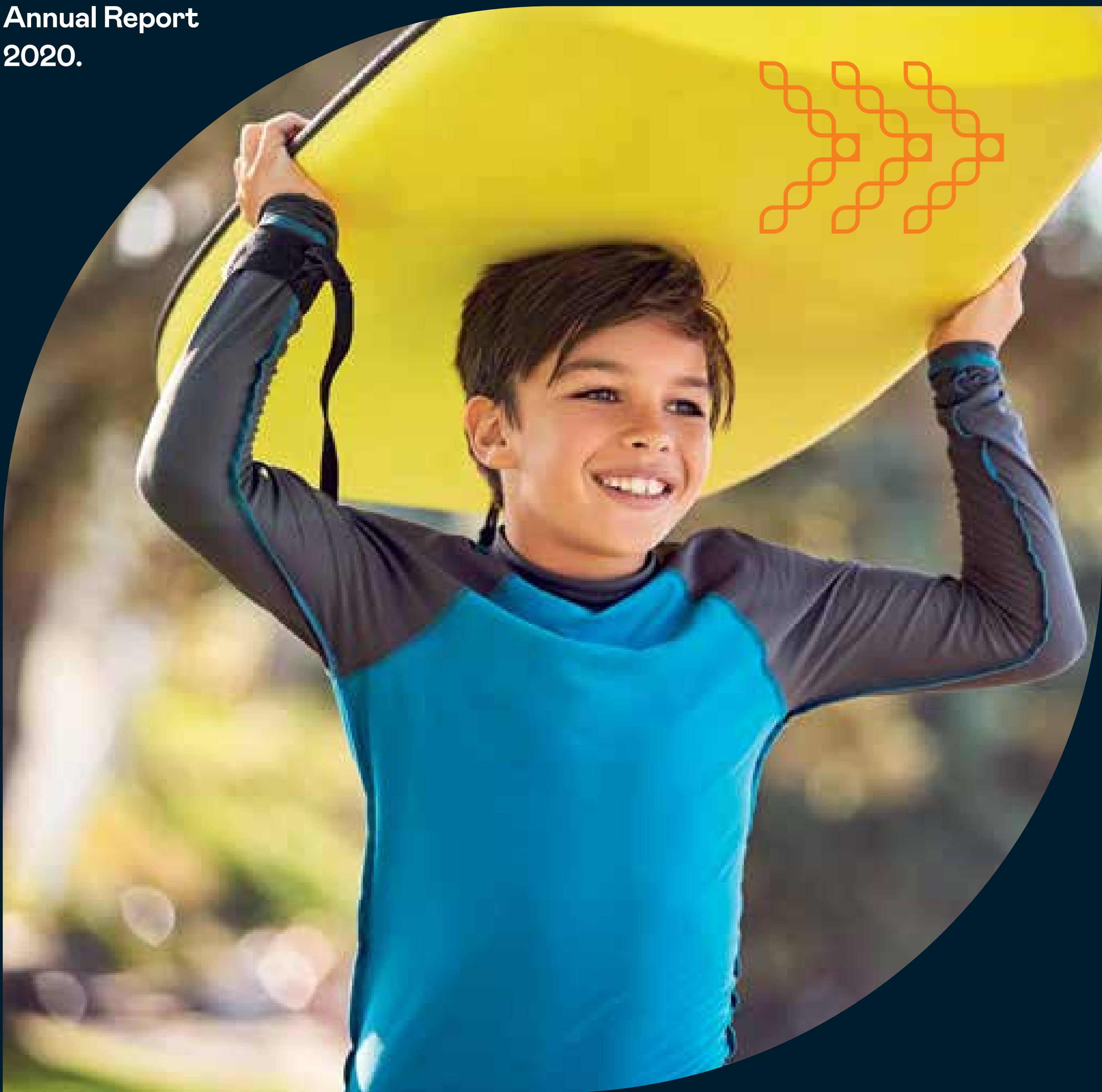
We're looking good.

Annual Report 2020.



fidelity life

Welcome to Fidelity Life's 2020 annual report.

Financial statements for the year ended 30 June 2020

Less than 40 per cent of New Zealanders have a life insurance policy,[1] which means under-insurance remains the burning issue our industry needs to address. Evolving consumer and regulatory expectations, legacy technology constraints, rising claims costs and increasing pressure on profitability and solvency are other challenges facing life insurers. And that's before we even get to COVID-19.

At Fidelity Life we're ambitious and customer-obsessed, and we're tackling our challenges head-on. But if there's one thing we're certain of, it's that incremental change won't be enough to secure a successful future.

So, in FY20 we launched our Winning Aspiration, a bold five-year transformation strategy which reimagines what life insurance can be for New Zealanders. Underpinned by a $25m investment in a new technology platform, it's all about delivering sustainable growth, building trust and continuing to deliver on our promise of protecting New Zealanders' way of life.

We've got a way to go yet but, so far, things are looking good.

[1] Financial Services Council: *Moments of Truth – Key Insights into the New Zealand Life Insurance Industry*, September 2019

Our Winning Aspiration.

We're well on our way.

Our 2025 Winning Aspiration transformation strategy is all about reimagining life insurance for New Zealanders. We're well on the way towards achieving our 2025 goals and delivering sustainable growth.

Simple

Digital First

Flexible

Project Watson will enable us to create an organisation fit for the future, carve out opportunities for innovation and deliver great experiences for our customers, advisers and our people.

Project Watson – the enabler of our transformation.

Project Watson is named for the innovative spirit of our founders, Gordon and Shirley Watson, and will deliver the new technology platform that enables our entire transformation.

Once completed, this new platform will drive innovation, productivity, resilience and improved support for our advisers and partners. Most importantly, though, it will allow us to develop simpler, more flexible products and continue delivering good outcomes for our customers.

In July 2020 we achieved another crucial transformation milestone when we completed the first phase of Project Watson, on time and on budget. Essentially the pilot phase for the project, this involved the successful migration of approximately 3,000 policies to a new Microsoft Dynamics 365 cloud platform.

We're now planning for the much larger phase two, which means migration of the majority of our policies onto the new platform. This work is expected to be completed in the first half of FY22.

Project Watson will allow us to reduce our operating costs, lift productivity and help make us more competitive. Ultimately we'll leave our 35-year-old legacy systems behind and move forward on a new, bespoke digital platform specifically built in New Zealand for New Zealanders.

Transforming our people capabilities.

One of our 2025 transformation goals is to be an employer of choice. We need to keep developing a high-performance culture based on supporting our people to learn and grow in a highly engaged environment.

We track our people's engagement through an annual Gallup survey. Our 2020 engagement score was 4.27 out of 5, a +0.12 lift on 2019. This puts us in the 65th percentile globally and in the 73rd percentile for New Zealand. Notably, our engagement ratio (the proportion of actively engaged to actively disengaged employees) more than doubled.

During FY20 our people focus was on developing specialist capabilities in data and analytics, and customer experience – both crucial components in our transformation.

Our newly established Data & Analytics team is already adding tremendous value to the business. This team is enabling better, faster decision-making based on real-time data and we're developing a deeper understanding of our customers.

Our growing Customer Experience team is headed by Chief Customer Officer Peter Doherty, who joined us in November 2019 from 2degrees. This 'customer-obsessed' team is responsible for creating compelling products, designing richer digital experiences for customers and advisers, and taking this competitive proposition to market under our strong New Zealand brand.

Our 2025 Winning Aspiration.

Reimagining life insurance for New Zealanders.

Transforming our working environment.

One of the most exciting developments of the year was reaching an agreement to sell our building at 81 Carlton Gore Road and lease space in a brand new office building currently under construction at 136 Fanshawe Street in Auckland's CBD.

Selling our building will allow us to be more efficient in the use of our capital – always an important consideration, especially as we enter a period of economic uncertainty. It will also free up valuable funds to continue investing in Project Watson. It's worth noting that the sale/lease agreement has no significant impact on our FY20 results.

We'll be able to accommodate the entire team on a single floor and fit it out according to our specifications, taking into account our culture, brand and our modern ways of working.

Moving to this strategic location, and the brand exposure that comes with it, will be another important milestone on our transformation journey, and the start of a new era for Fidelity Life. We plan to make the move in September 2021 – and look forward to showing you around!

Our five-year transformation.

Looking good in the worst of times.

Our customers are at the heart of our business and their wellbeing has remained our single-minded focus, even as we adapted to the challenges of operating under COVID-19 restrictions.

Matthew Ineleo
Customer Care Manager

Supporting our customers, advisers and people through COVID-19.

In responding to the pandemic, our aim from the outset has been to provide reassurance and continuity to our customers and advisers, and care for the wellbeing of our people.

Last year, in the early stages of our technology transformation, we moved all our IT infrastructure to the cloud, reducing risk and building resilience to cope with shocks.

The benefit of this investment became immediately obvious when New Zealand went into lockdown in March. With the exception of a small skeleton team who remained working safely in our office, all 267 of our people made a seamless transition to working from home. We're immensely proud of their adaptability, commitment and support for one another through these challenging times.

Our customers are at the heart of our business and their wellbeing has remained our single-minded focus, even as we adapted to the challenges of operating under COVID-19 restrictions.

At the time we entered lockdown, none of our policies had an exclusion for COVID-19 so customers' cover wasn't impacted.

Similarly, our ability to assess and pay claims continued with minimal disruption – and to date we've only received a handful of claims related to COVID-19. More information on our FY20 claims experience can be found on the following pages.

Working with advisers to support customers who may be experiencing financial hardship is always important, but especially so in times like these. We've let customers know about options for keeping their cover in place until they're able to get back on their feet. These include premium deferral, financial hardship provisions built into some of our policies and other assistance. As at the end of September we've been able to support the wellbeing of almost 600 customers.

COVID-19 has also increased attention on the sustainability of income protection products, a known issue globally and here in New Zealand. Reinsurers have suffered financial losses following COVID-19 and are responding by tightening their underwriting tolerances. Like others in the market, we've recently increased prices on some income protection covers and are conducting a thorough review of our income protection range.

Our efforts during FY20 are reflected in our customer net promoter score (NPS) results, a measure of advocacy and satisfaction. In particular, the higher scores from customers who've been through our claims process (+61) and from new customers (+33) are testament to the passion of our operations and customer-facing teams, and their commitment to continual improvement.

"Quick and simple online system, quick response time and good value policy."
Julie

"Dealing with Fidelity Life is hassle free and smooth-going. Excellent service!"
Stephen

"Always professional service with knowledge of any question asked, and good advice and direction given if needed."
Meredith

NPS
10

Customer names changed to protect privacy.

+61

Claims customer NPS*

+33

New customer NPS*

*Customer NPS as at 30 June 2020.

Good looking.

Our refreshed New Zealand brand.

Unveiled in March 2020, our refreshed brand is a key component of our customer-focused transformation. It conveys our pride in our 'New Zealand-ness' and takes inspiration from nature and the diverse people of New Zealand.

Our purpose:

Giving New Zealanders certainty to enjoy a more rewarding life.

Our brand promise:

Protecting your way of life.

What our new brand identity means.

The inspiration for our refreshed brand was New Zealanders' connection to nature with many seeing nature as a source of life. This helped drive many of the key elements:

Letters inspired by fern fronds and koru

'fi' forms an embrace, symbolising support

Overall sense of symmetry and visual harmony

'life' within the leaf represents nature

Awards and recognition.

ANZIIF New Zealand Insurance Industry Awards 2019

- **Winner** – New Zealand Life Insurance Company of the Year – 2017, 2018, 2019
- **Winner** – Young Insurance Professional of the Year: Ben Holloway, Head of Strategic Alliances

CIO Awards 2020

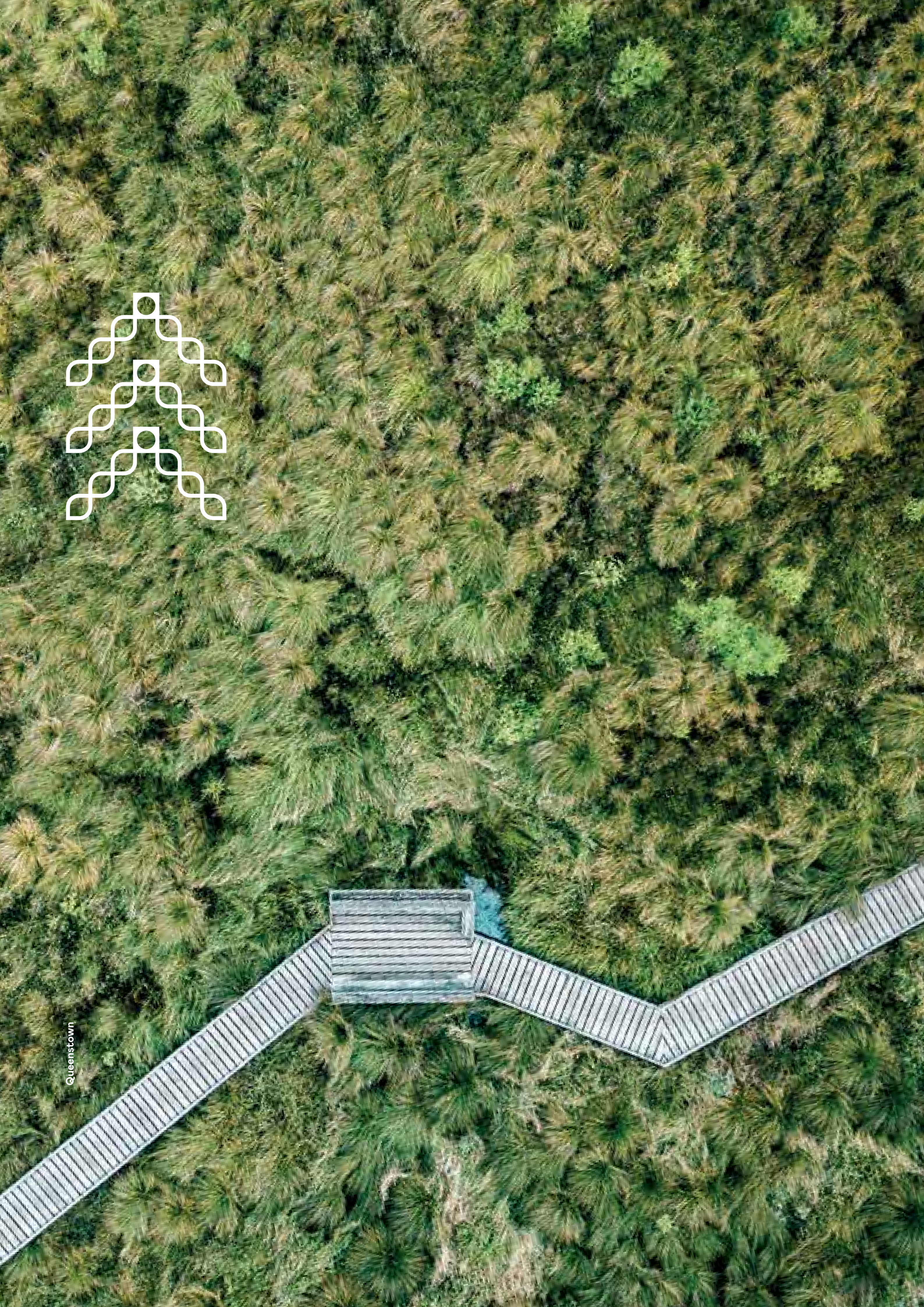
- **Finalist** – Best ICT Team Culture

CFO Awards 2020

- **Finalist** – Finance Team Culture & Talent Management Award

Accessibility Tick

- An independent endorsement of our commitment to being more accessible to, and inclusive of, people with disabilities



Queenstown

Highlights.

As at 30 June 2020.

Total assets

$678.1m

Market share (in-force retail and group)

11.5%

Shareholders' equity

$355.3m

Total comprehensive income

$17.9m

Claims paid in FY20

$139.7m

Number of staff

267

Claims paid since 1973

$1.1b

Looking back.

Chair's review.

Despite a complex and fast-changing market environment, and a global pandemic, we can look back on FY20 and be pleased with both our performance and the progress we've made on our transformation journey.

COVID-19 and the tragic large-scale loss of life experienced in many countries continue to have a chilling effect on global economies. Here in New Zealand we've been comparatively unscathed thanks to a decisive government health response, our relative isolation from the rest of the world and a community playing its part in helping to stop the spread.

On the economic front, while the pandemic has caused lasting damage in some sectors, so far our industry hasn't felt the impact we initially anticipated.

The investment we made last year in cloud technology meant we were able to seamlessly transition the entire company to work from home during the COVID-19 lockdown periods, with minimal disruption to customers and advisers.

Customer call volumes spiked by 44 percent in the early stages of March's Level 4 lockdown, but have since returned to normal levels. We haven't seen the expected increase in claims or lapsed policies, and we've been able to focus our efforts on supporting customers through these difficult times.

However, we remain cautious and vigilant. Reinsurers are taking a conservative approach to underwriting, particularly in relation to income protection cover, and we withdrew redundancy cover from sale. It's likely we haven't seen the full economic impact of COVID-19 yet, and economists are forecasting a downturn in the first six months of 2021.

We continue to engage proactively with our regulators. The Government delaying the launch of the new financial adviser licensing regime due to COVID-19 was the right call.

The outcomes of the Financial Markets Authority/Reserve Bank of New Zealand '(FMA/RBNZ)' conduct and culture review are being implemented across the industry, and we're confident in our own position. However, the failure to address high upfront commissions in the Financial Markets (Conduct of Institutions) Amendment Bill was a missed opportunity, in our view. In a highly competitive market like ours, without regulatory intervention it's unlikely anyone will significantly reduce upfront commission levels and risk losing market share.

The resignation of CEO Nadine Tereora in May 2020 was very disappointing but we've been able to quickly move on, promptly appointing Adrian Riminton (Chief Distribution Officer) and Simon Pennington (Chief Financial Officer) as joint acting CEOs.

Adrian and Simon adapted very quickly to their new roles and have maintained momentum while the search for a permanent CEO continues. We're making good progress with our search and we'll keep you posted.

Without a doubt the big positives for the year came from the pleasing progress we're making on our transformation. We launched our refreshed brand in March 2020 and successfully completed the first phase of our technology transformation – Project Watson – on time and on budget in July 2020.

The signing of an agreement in May 2020 to sell our building at 81 Carlton Gore Road and lease space in a new building at 136 Fanshawe Street was another key piece in our strategy to optimise capital usage.

Just as importantly, moving to a single floor in a brand new building – scheduled for September 2021 – will provide a healthy, modern and stimulating environment for our people, improve collaboration and productivity, and place our brand front and centre in a high-profile CBD location.

Encouraging financial performance in challenging times.

Despite the headwinds brought about by COVID-19, including increased pressure on new business, lapses and claims, and a fall in the commercial value of the 81 Carlton Gore Road building, the company still delivered an encouraging financial result.

While total comprehensive income fell to $17.9m from $20.7m in 2019, underlying profit rose sharply to $17.0m from $11.6m in 2019 as detailed in the table below:

Reconciliation of Underlying Profit[1]	2020 $m	2019 $m
Total comprehensive income (as reported)	17.9	20.7
Add-back/(deduct): revaluation of head-office building	2.2	(2.4)
Deduct: impact of Government bond rate changes	(3.1)	(6.7)
Underlying profit from insurance operations before bond rate impact	17.0	11.6

[1] Underlying profit is not a prescribed measure under applicable accounting standards and may therefore not be directly comparable to underlying profit as reported by other similar entities.

Continuing our journey towards a sustainable and successful future.

As we explained at our last annual meeting, we need to make urgent and fundamental changes to our business if we're to remain a competitive force in New Zealand's life insurance industry.

Our 2025 Winning Aspiration transformation strategy is bold and ambitious and requires significant investment, particularly in our brand and technology.

Given the current economic context, the RBNZ has clearly advised all insurers that protecting capital should take priority over paying dividends. It expects insurers to take steps to protect, if not build, their capital positions to ensure the industry remains in a strong position to support New Zealanders through COVID-19 and this time of economic uncertainty.

Our transformation will deliver a number of long-term benefits, including strengthening our capital position. In the meantime the Board will remain extremely prudent in managing our capital as we continue to invest in our transformation while managing economic uncertainty. FY21 will see the bulk of our Project Watson investment made and, at the same time, we need to prepare for claims and lapse increases as a consequence of a deteriorating economy. Between this and the RBNZ directive, the Board has decided not to pay a dividend this year.

The appointments of Nicola Greer and Mel Hewitson in recent months have strengthened the mix of backgrounds, experience, gender and skills on your Board. We're back to our full complement of eight Directors, and as a team we're focused on ensuring the company achieves our 2025 transformation goals, allowing us to deliver sustainable growth to our shareholders.

The months ahead are really important – successfully completing Project Watson, the enabler of our transformation, in the first half of FY22 will give us a strong base to build from. It will allow us to use data and insights to develop compelling products, deliver great customer and adviser experiences, and reach new consumers through a strong New Zealand brand.

We really appreciate your continued patience, and trust that the good progress we've demonstrated in FY20 provides you with confidence that we're on track.

We look forward to updating you further at the annual meeting on 12 November 2020.

Finally, I'd like to congratulate the entire Fidelity Life team on winning the ANZIIF New Zealand Life Insurance Company of the Year Award for an impressive third consecutive year at the end of 2019 – another outstanding achievement.

Brian Blake
Chair

Brian Blake, Chair.

Our transformation will deliver a number of long-term benefits, including strengthening our capital position.

CEOs' review.

The 2020 financial year can be largely defined by two notable themes: the progress made on our transformation journey, and the emergence of COVID-19.

The fact we're on track with our transformation, maintained our customer and adviser service levels despite the disruptions of COVID-19 and consolidated our strong financial position – all while navigating an extremely complex environment – is something our whole team is very proud of.

Adrian Riminton, joint acting CEO.

Simon Pennington, joint acting CEO.

An encouraging financial performance.

While our total comprehensive income fell from $20.7m in 2019 to $17.9m in 2020, due largely to a smaller benefit from falling bond rates and COVID-19's impact on commercial property prices, underlying profit rose from $11.6m to $17.0m.

Key drivers were an $8.0m uplift in net premium revenue to $158.3m and a strong focus on managing operating expenses, which fell from $58.5m to $56.8m despite our large-scale technology transformation. This reflects our continued strategic focus on operational excellence, which is all about driving efficiencies right across the business.

Our performance was impacted by a $2.2m revaluation loss (after tax) on our building at 81 Carlton Gore Road and a $2.0m (after tax) impact from changes in actuarial assumptions to allow for an increase in the number and duration of income protection claims.

There was also a small increase to loan impairment provisions.

Shaping good regulatory outcomes.

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

The Government and regulators continued to forge ahead with their customer-focused change agenda during the year. We're continuing to proactively engage in the regulatory process to help shape positive outcomes for all and, once again, we devoted significant attention and resources to planning for and implementing regulatory change.

Last year's FMA/RBNZ review of life insurers' conduct and culture evolved with the release of the Financial Markets (Conduct of Institutions) Amendment Bill. Even though there's some uncertainty about the Bill's next steps due to the General Election, we continue to make positive progress on our conduct and culture journey. We'll shortly be introducing an online adviser product accreditation programme, an adviser quality assurance programme and we've also developed good customer outcomes principles to help ensure we continue to meet the needs of our customers.

Helping advisers transition to a new regime.

The other key regulatory focus for our industry is the new financial adviser licensing regime, deferred to now commence on 15 March 2021 due to COVID-19.

Our work in planning and implementing the legal, financial and administrative changes required to accommodate the new regime continues, and we're in regular dialogue with the FMA to ensure it understands the impact of these changes on our business and on advisers.

Advisers continue to value the support of our Professional Development team in helping them transition to the new regime, something which is reflected in our outstanding adviser NPS of +63. The latest findings from industry survey Lewers show we're also highly rated by advisers for underwriting, policy illustration software and new business processing, and claims – particularly our communications throughout the claims process.

Further enhancements to our adviser proposition will be announced from early 2021, including some exciting digital initiatives resulting from Project Watson designed to make it even easier for advisers to do business with us.

Looking ahead to FY21 and beyond.

One year into our five-year transformation journey, things are looking good.

We've built some real momentum with Project Watson, launched a uniquely New Zealand brand, introduced essential new people capabilities and delivered encouraging financial results. We're also demonstrating compassion and resilience as we support our customers, advisers and people through COVID-19.

However, we're facing an incredibly challenging environment. The economic outlook remains very uncertain and we're taking a cautious approach. In terms of headwinds, we're expecting a dampening effect on new business, further lapses as more New Zealanders face financial pressures and a rise in the number and duration of income protection claims.

In response, we've continued to take proactive steps, such as increasing our claims reserves, forming new alliances, revising our product offering and simplifying some of our reinsurance arrangements.

We're also planning for the new NZ IFRS 17 accounting standard due to come into effect from July 2023. The impact of NZ IFRS 17 on our industry will be significant and far-reaching and we'll be ramping up our work on this over the coming year.

But we're confident in our ability to face these challenges head-on. And with another big year ahead for Project Watson, there's also a lot to be excited about as we deliver on our Winning Aspiration strategy.

We remain firmly 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.

Adrian Riminton
Joint acting CEO

Simon Pennington
Joint acting CEO

+63

Adviser NPS*

Good customer outcomes principles.

Trust
We do the right thing and provide our customers with certainty.

Value
We offer quality products and services that are suitable.

Clarity
We provide products and services that are clear and easy to understand.

*Adviser NPS as at 30 June 2020.

We're in the business of paying claims.

We're there for our customers and their families when they need us most.

2020 by the numbers.

Claims for the year ended 30 June 2020.

We paid
$139.7m
in claims.

Cancer accounted for
32%
of accepted claims.

We accepted
92%
of all claims.

We accepted claims for more than
1,500
customers.

We've paid over
$1.1b
in claims since we were founded in 1973.

2020 claims experience.

Life cover

$75.6m
Claims paid

Claims accepted
599

21 Youngest claim
100 Oldest claim

- 31% Cancer
- 21% Heart
- 13% Respiratory

Trauma

$12.3m*
Claims paid

Claims accepted
246

30 Youngest claim
75 Oldest claim

- 49% Cancer
- 18% Heart
- 9% Neurological

Trauma Multi / Life Care

$9.4m*
Claims paid

Claims accepted
77

24 Youngest claim
76 Oldest claim

- 50% Cancer
- 15% Heart
- 7% Neurological
- 7% Stroke

Total & permanent disability

$7.6m*
Claims paid

Claims accepted
15

38 Youngest claim
65 Oldest claim

- 12% Neurological
- 12% Stroke

Income protection

$34.8m
Claims paid

Claims accepted
568

22 Youngest claim
69 Oldest claim

- 42% Muscular & limb
- 14% Cancer
- 7% Neurological
- 7% Spine
- 6% Mental health

*Estimated.

Financial summary.

For the years ended 30 June.

	2020	2019	2018	2017	2016
Insurance premium revenue ($'000)	**275,478**	269,493	259,413	234,466	222,733
Investment income ($'000)	**3,721**	15,332	20,381	16,402	28,321
Claims expense ($'000)	**139,720**	125,715	107,822	104,268	102,066
Net profit after taxation ($'000)	**20,111**	18,254	14,118	5,190	34,022
Ordinary dividend per share [1]	**-**	-	$2.00	-	$3.48
Special dividend per share	**-**	-	$3.00	-	-
Earnings per share	**$9.62**	$8.73	$8.05	$3.61	$23.64
Shareholders' equity ($'000)	**355,255**	337,336	320,971	238,577	236,880
Net policyholder (assets)/liabilities ($'000)	**(77,936)**	(55,882)	(14,516)	11,766	43,450
Total assets ($'000)	**678,114**	647,305	623,397	535,552	539,324
Shares on issue ('000)	**2,091**	2,091	2,091	1,439	1,439

[1] Ordinary dividends declared in respect of each financial year have been paid in the succeeding financial year.

Board of Directors.

Brian Blake

Simon Botherway

Alan Gourdie

Nicola Greer

Mel Hewitson

Jeff Meltzer

Hamish Rumbold

Lindsay Smartt

Statement of corporate governance.

For the year ended 30 June 2020.

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 percent of the ordinary shares in the Company (Large Shareholder) may appoint one Director for every complete 20 percent holding of ordinary shares.

As at 30 June 2020, the New Zealand Superannuation Fund (41.1 percent) was eligible to appoint two Directors and the Trustees of the Fidelity Family Trust (31.5 percent) 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 2020 the Board consisted of seven non-executive Directors, including a non-executive Chair. During FY20 Anne Blackburn retired from the Board on 30 November 2019.

On 28 April 2020, Nicola Greer was appointed to the Board to fill a casual vacancy. After the end of the financial year, on 6 August 2020 Mel Hewitson was appointed to the Board to fill a casual vacancy. The process set out in the Company's Constitution was followed for these appointments. In accordance with the Constitution, Nicola Greer and Mel Hewitson shall hold office only until the next annual meeting on 12 November 2020 and shall then be re-eligible for appointment by an ordinary resolution of the shareholders.

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 skillsets.

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 one observer to the Board.

Delegation to management.

The Board has formally delegated to the Chief Executive Officer(s) 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(s) 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 conduct, 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 and Officers' liability insurance which, together with a deed of indemnity, ensures 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 have 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 and Risk Committee.

The Committee provides independent oversight of the effectiveness of the Group's financial functions and reporting, 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 30 November 2019 Anne Blackburn retired from the Board and therefore retired from the Audit and Risk Committee. On 6 August 2020 Mel Hewitson joined the Audit and Risk Committee.

Members at 30 June 2020: Lindsay Smartt (Chair), Simon Botherway, Jeff Meltzer and Brian Blake (ex-officio).

2. Remuneration and HR Committee.

The Committee is responsible for providing recommendations regarding the remuneration structures for the Group's Chief Executive Officer(s) and senior executives.

On 30 November 2019 Anne Blackburn retired from the Board and therefore retired from the Remuneration and HR Committee. On 28 April 2020 Nicola Greer joined the Remuneration and HR Committee as the Chair. On 6 August 2020 Mel Hewitson joined the Remuneration and HR Committee.

Members at 30 June 2020: Nicola Greer (Chair), Hamish Rumbold and Brian Blake (ex officio).

3. Nomination Committee.

The Committee is responsible for planning the Board's composition and the appointment of new Directors.

On 30 November 2019 Anne Blackburn retired from the Board and therefore retired from the Nomination Committee. On 28 April 2020 Nicola Greer was appointed to the Board and therefore joined the Nomination Committee. On 6 August 2020 Mel Hewitson was appointed to the Board and therefore joined the Nomination Committee.

Members at 30 June 2020: 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 for promoting the Company's digital agility to respond to changing business requirements.

Members at 30 June 2020: Alan Gourdie (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 2019 to 30 June 2020 was as follows:

	Board Scheduled	Audit & Risk Scheduled	Audit & Risk Unscheduled	Nomination Unscheduled	Remuneration & HR Scheduled	Technology Advisory Scheduled
Meetings	11	8	1	4	3	8
Anne Blackburn+	5	3	-	1	2	n/a
Brian Blake	11	8	1	4	3	8
Simon Botherway	10	8	1	4	n/a	8
Alan Gourdie	9	n/a	n/a	3	n/a	8
Nicola Greer*	3	n/a	n/a	2	1	n/a
Jeff Meltzer	9	7	1	4	n/a	n/a
Hamish Rumbold	10	n/a	n/a	4	2	7
Lindsay Smartt	10	8	1	3	n/a	n/a

Directors may attend any meeting by phone.
+Anne Blackburn retired from the Board on 30 November 2019.
*Nicola Greer joined the Board and the Remuneration and HR Committee on 28 April 2020.

Independence.

For the purpose of assessing the independence of any Director, the Fidelity Life Board has adopted the RBNZ's Governance Guidelines Licensed 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 2020 to be Independent Directors: Brian Blake, Simon Botherway, Alan Gourdie, Nicola Greer, 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 15 November 2019 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 2020 held 657,936 (2019: 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 (through Fidelity Life Custodial Services Limited)		Remuneration & Other Benefits
Director	As at 30 June 2020	Increase/ (decrease) during the year	As at 30 June 2020	Increase/ (decrease) during the year	Directors' fees paid in the year ($)
Anne Blackburn+	500	-	-	-	34,092
Brian Blake	-	-	-	-	164,000
Simon Botherway	-	-	-	-	82,000
Alan Gourdie	-	-	-	-	82,000
Nicola Greer*	-	-	-	-	14,418
Hamish Rumbold	-	-	-	-	82,000
Jeff Meltzer	617	-	8,462	-	82,000
Lindsay Smartt	-	-	-	-	82,000

+Anne Blackburn retired from the Board on 30 November 2019.

*Nicola Greer joined the Board on 28 April 2020.

Other information.

Shareholders.

The name and holdings of the ten largest shareholders of the Company as at 30 June 2020 are 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	292,283
4. FMG Insurance Limited	166,185
5. Fidelity Life Custodial Services Limited	92,028
6. Hamilton YD, Vanderwee JC, Hamilton RB & Hamilton GR	9,376
7. Ballynagarrick Investments Limited	6,050
8. Watterson MF	1,776
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.

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 12 November 2020 commencing at 2.00pm.

Credit rating.

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

Employee remuneration.

The number of employees or former employees of Fidelity Life (excluding non-executive Directors) whose remuneration and grossed-up benefits were within specified bands for the year ended 30 June 2020 are as follows:

Remuneration ranges	Number of employees	
	2020	2019
$1,050,000 – $1,060,000	1	-
$590,000 – $600,000	-	1
$520,000 – $530,000	1	-
$490,000 – $500,000	1	-
$420,000 - $440,000	2	-
$370,000 – $380,000	-	1
$340,000 – $350,000	1	-
$330,000 – $340,000	1	-
$310,000 – $320,000	-	3
$300,000 – $310,000	1	-
$290,000 – $300,000	1	2
$270,000 – $280,000	-	1
$260,000 – $270,000	2	2
$250,000 – $260,000	1	-
$240,000 – $250,000	6	1
$230,000 – $240,000	-	3
$220,000 – $230,000	1	3
$210,000 – $220,000	3	2
$200,000 – $210,000	3	1
$190,000 – $200,000	1	1
$180,000 – $190,000	3	5
$170,000 – $180,000	6	2
$160,000 – $170,000	9	6
$150,000 – $160,000	7	15
$140,000 – $150,000	11	8
$130,000 – $140,000	12	13
$120,000 – $130,000	14	14
$110,000 – $120,000	17	16
$100,000 – $110,000	13	13
	118	**113**

A.M. Best's Financial Strength Rating (FSR) Scale.

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: Joylab Group, Joylab Holdings.

Jeff Meltzer *JP BCom FCA CMInstD AAMINZ*
Chartered Accountant. Partner: Meltzer Mason.
Director: Wellpark College of Natural Therapies.
Trustee: Fidelity Family Trust.

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

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

Lindsay Smartt *BA FIAA ASA FNZSA FAICD*
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.

Nicola Greer *MCom (Hons)*
Director: 26 Belfast Rd, Airways Corporation of New Zealand, Airways International, Awarua Holdings, Longhurst Commercial, Mike Greer Homes Pegasus Town, New Zealand Railways Corporation, Pegasus Preschools, Progressive Commercial, Progressive Preschools, South Port NZ.
Member: NZX Markets Disciplinary Tribunal.

Mel Hewitson *MA BSocSci CMInstD AIF*
(Joined the Board 6 August 2020)
Chair: Nominating Committee for Guardians of New Zealand Superannuation, Nominating Committee for Waikato-Tainui Group Investment Committee.
Director: Domain Name Commission, Ngāti Whātua Ōrākei Whai Maia, Simplicity NZ, Trust Investments Management.
Trustee: Auckland Foundation, Foundation North.
Independent Member: FINDEX Advice Services NZ Limited Investment Committee.

Company officers.

Joint acting CEO and Chief Financial Officer: Simon Pennington

Joint acting CEO and Chief Distribution Officer: Adrian Riminton

Appointed Actuary: John Smith

Company Secretary: Marcus McClosky

Solicitors.

DLA Piper, Simpson Grierson, Russell McVeagh.

Bankers.

ANZ Bank New Zealand Limited.
Westpac Banking Corporation.
ASB Bank Limited.
Bank of New Zealand.

Auditor.

PricewaterhouseCoopers.

Internal auditor.

KPMG.

Investment managers.

Mercer (NZ) Ltd (commenced September 2020).
Mint Asset Management Limited (commenced June 2020).
Nikko Asset Management New Zealand Limited.
SuperLife 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
Phone +64 9 373 4914
fidelitylife.co.nz

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
Phone +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 2020.

	Note	2020 $'000	2019 $'000
Revenue			
Insurance premium revenue	5	**275,478**	269,493
Insurance premium ceded to reinsurers	5	**(117,187)**	(119,181)
Net premium revenue		**158,291**	150,312
Investment income	6	**3,721**	15,332
Fee and commission revenue		**232**	1,259
Other income	5	**15,867**	7,093
Total revenue		**178,111**	173,996
Expenses			
Claims expense	7	**139,720**	125,715
Reinsurance recoveries	7	**(92,705)**	(82,803)
Net claims expense		**47,015**	42,912
Commission expenses	7	**53,420**	57,368
Loan loss allowance movement	15	**(471)**	941
Operating expenses	7	**56,796**	58,517
Net change in life insurance contract assets	20	**(12,108)**	(22,240)
Net change in life investment contract liabilities	21	**826**	5,477
Total expenses		**145,478**	142,975
Profit before tax		**32,633**	31,021
Income tax expense	8	**12,522**	12,767
Profit for the year attributable to the owners of the Company	4	**20,111**	18,254
Basic and diluted earnings per share	30	**9.62**	8.73

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 2020.

	Note	2020 $'000	2019 $'000
Profit for the year		**20,111**	18,254
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation movement, net of tax	8, 17	**–**	2,443
Revaluation movement, net of tax (asset held for sale)	8, 9, 17	**(2,180)**	–
Other comprehensive income for the year, net of tax		**(2,180)**	2,443
Total comprehensive income for the year attributable to the owners of the Company		**17,931**	20,697

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 2020.

	Note	2020 $'000	2019 $'000
Assets			
Cash and cash equivalents	10	**188,057**	12,501
Restricted cash	11	**–**	10,268
Assets arising from reinsurance contracts	12	**24,980**	19,889
Assets classified as held for sale	9, 17	**25,746**	–
Financial assets at fair value through profit or loss	13	**134,019**	302,475
Derivative financial instruments	13	**903**	897
Life insurance contract assets	20	**249,404**	220,295
Loans and other receivables	14	**9,110**	10,344
Property, plant and equipment	17	**944**	30,074
Right-of-use assets	16	**426**	–
Income tax assets	8	**4,088**	3,613
Deferred tax assets	8	**31,215**	34,114
Intangible assets	18	**9,222**	2,835
Total assets		**678,114**	647,305
Liabilities			
Payables and other financial liabilities	19	**53,764**	55,544
Lease liabilities	16	**400**	–
Current tax liabilities	8	**–**	643
Derivative financial instruments	13	**–**	568
Deferred tax liabilities	8	**95,176**	86,067
Life insurance contract liabilities ceded under reinsurance	20	**58,458**	41,457
Life investment contract liabilities	21	**113,010**	122,956
Deferred income	22	**2,051**	2,734
Total liabilities		**322,859**	309,969
Net assets		**355,255**	337,336
Equity			
Share capital	23	**81,586**	81,586
Retained earnings	2	**266,304**	246,205
Revaluation reserve		**7,365**	9,545
Total equity		**355,255**	337,336

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

For and on behalf of the Board
9 September 2020

Brian Blake
Chair

Lindsay Smartt
Director

Consolidated statement of changes in equity.

For the year ended 30 June 2020.

	Note	Share capital $'000	Retained earnings $'000	Revaluation reserve $'000	Total equity $'000
Balance 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	23	–	(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

	Note	Share capital $'000	Retained earnings $'000	Revaluation reserve - (asset held for sale) $'000	Total equity $'000
Balance at 1 July 2019 as previously reported		**81,586**	**246,205**	**9,545**	**337,336**
Impact of initial application of NZ IFRS 16	2	**–**	**(12)**	**–**	**(12)**
Restated balance as at 1 July 2019		**–**	**246,193**	**9,545**	**337,324**
Profit for the year		**–**	**20,111**	**–**	**20,111**
Other comprehensive income	8	**–**	**–**	**(2,180)**	**(2,180)**
Total comprehensive income for the year		**–**	**20,111**	**(2,180)**	**17,931**
Balance at 30 June 2020		**81,586**	**266,304**	**7,365**	**355,255**

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 2020.

	Note	2020 $'000	2019 $'000
Cash flows from operating activities			
Premiums from life insurance contracts		**276,196**	268,381
Deposits from life investment contracts		**4,086**	4,602
Reinsurance received		**97,993**	84,154
Interest received		**700**	545
Interest paid on lease liabilities		**(24)**	–
Dividends and distributions received		**6,514**	8,592
Other investment (losses)		**(45)**	(21)
Other income		**7,507**	7,725
Benefits paid under life insurance contracts		**(139,387)**	(123,367)
Benefits paid under life investment contracts		**(14,859)**	(29,213)
Reinsurance premiums paid		**(119,199)**	(118,330)
Commission paid		**(56,375)**	(61,718)
Payments to suppliers and employees		**(55,169)**	(51,421)
Income tax paid		**(779)**	(932)
Short term and low value lease payments		**(39)**	–
Net cash inflows/(outflows) from operating activities		**7,120**	(11,003)
Cash flows from investing activities			
Net proceeds from sales of financial assets		**166,121**	23,258
Purchase of intangible assets		**(8,158)**	(942)
Purchase of property, plant and equipment		**(564)**	(732)
Proceeds from sale of property, plant and equipment		**1,364**	92
Net cash inflows from investing activities		**158,763**	21,676
Cash flows from financing activities			
Principal element of lease liabilities		**(327)**	–
Proceeds from issue of ordinary shares	11	**10,000**	–
Ordinary dividends paid	23	**–**	(4,183)
Net cash inflows/(outflows) from financing activities		**9,673**	(4,183)
Net increase in cash and cash equivalents		**175,556**	6,490
Cash and cash equivalents at the beginning of the year		**12,501**	6,011
Cash and cash equivalents at the end of the year	10	**188,057**	12,501

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

Consolidated statement of cash flows (continued).

For the year ended 30 June 2020.

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

	2020 $'000	2019 $'000
Net profit after tax	**20,111**	18,254
Non-cash items		
Loss/(gains) on sale of property, plant and equipment	**42**	(47)
Fair value gains on investments	**(2,635)**	(6,555)
Depreciation of property, plant and equipment and right-of-use assets	**1,186**	895
Amortisation of acquired value of in-force business	**(683)**	(683)
Amortisation of intangibles	**1,651**	1,051
Other movements	**124**	105
Bad and doubtful debts	**(363)**	1,360
Total non-cash items	**(678)**	(3,874)
Changes in working capital		
Decrease in life insurance and life investment contract assets and liabilities	**(30,350)**	(41,366)
Decrease/(increase) in other assets	**1,642**	(763)
Increase in income tax balances	**11,742**	11,835
(Decrease)/increase in other liabilities	**(1,176)**	4,582
Increase in derivatives	**5,829**	329
Total changes in working capital	**(12,313)**	(25,383)
Cash flows from operating activities	**7,120**	(11,003)

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

Notes to the consolidated financial statements.

For the year ended 30 June 2020.

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 9 September 2020. The directors do not have the power to amend the consolidated financial statements once issued.

2. Summary of significant accounting policies

Basis of preparation

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

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

Statement of compliance

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

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

Statutory fund

IPSA requires that a life insurer keep at least one statutory fund in respect of its life insurance business. The Company has established one statutory fund 'Fidelity Life Statutory Fund Number 1' (the 'Statutory Fund'). The activities of the Statutory Fund are reported in aggregate with non-statutory fund amounts in these consolidated financial statements. For details of the Statutory Fund refer to note 31.

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.

2. Summary of significant accounting policies (continued)

a) New and amended standards adopted by the Group

A new standard NZ IFRS 16 Leases 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 standard:

Adjustments recognised on adoption of NZ IFRS 16 Leases

On adoption of NZ IFRS 16 Leases, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of NZ IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The Group's weighted average incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 4.39%.

	2019 $'000
Operating lease commitments disclosed as at 30 June	**644**
Discounted using the lessee's incremental borrowing rate at the date of initial application	610
Add: Adjustment using updated lease term and amount	36
Lease liability recognised as at 1 July	**646**
Of which are:	
Current lease liabilities	247
Non-current lease liabilities	399
	646

The associated right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. Please refer to note 16 for the details of recognised right-of-use assets.

The total impact on the Group's retained earnings as at 1 July 2019 is as follows:

	2019 $'000
Closing retained earnings 30 June – NZ IAS 17	**246,205**
Difference between right-of-use assets and lease liabilities taken to retained earnings	(17)
Increase in deferred tax assets relating to retained earnings adjustment	5
Adjustment to retained earnings from adoption of NZ IFRS 16 on 1 July 2019	(12)
Opening retained earnings 1 July – after NZ IFRS 16 restatement	**246,193**

Practical expedients applied

In applying NZ IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a lease term of less than 12 months as short-term leases; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

2. Summary of significant accounting policies (continued)

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

NZ IFRS 17: Insurance contracts

This standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts that fall within the scope of the standard. NZ IFRS 17 is mandatory for the Group's consolidated financial statements and is expected to apply for periods beginning on or after 1 July 2023. It will replace the current standard, NZ IFRS 4: Insurance Contracts. The Group is still assessing the impact on the Group's results.

Critical accounting estimates and judgements

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

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

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

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

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

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

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

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

(b) Deferred tax

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

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

Refer to note 8 for the deferred tax accounting policy.

(c) Reinsurance recapture

During the year, the Group reached an agreement with a reinsurer to take back the risks initially ceded to the reinsurer within a reinsurance arrangement. The key commercial terms and risks transferred were determined to be agreed with the reinsurer on 30 June 2020 with the risk transfer effected as at 31 March 2020. In the consolidated income statement, the settlement of the recapture has led to the recognition of reinsurance recapture contract income of $8.1 million in "other income" and a loss of $7.3 million in relation to "net change in life insurance contract assets". In the consolidated statement of financial position, the recapture has led to the recognition of $6.3m of "assets arising from reinsurance contracts" and the de-recognition of $7.3m of "life insurance contract liabilities ceded under reinsurance". The transaction did not have a material impact on total profit after tax and the other financial impacts of the recapture were deemed immaterial to the financial statements for the year ended 30 June 2020.

There were judgements applied by the Group in relation to the timing of recognition of the transaction and associated disclosures in the financial statements, given the absence of a formal written agreement at balance date. Due to the lack of explicit guidance in NZ IFRS 4 Insurance Contracts, the Group followed the guidance in NZ IFRS 4 dealing with portfolio transfers and recognised the transaction on the date that control over the recaptured book was transferred to the Group (determined to be 30 June 2020).

2. Summary of significant accounting policies (continued)

Critical accounting estimates and judgements (continued)

Significant changes during the year

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

COVID-19 global pandemic

In March 2020, the World Health Organisation designated COVID-19 to be a pandemic, threatening the health and well-being of a large number of people across multiple countries. The global outbreak has caused escalating levels of societal uncertainty. In response to the pandemic, New Zealand entered a Government-directed 'Alert Level 4' lockdown at 11:59pm on 25 March 2020. The Government's Alert Level system dictates the level of business activity and societal interaction that can take place. At Alert Level 4, the highest alert level, strong border restrictions were put in place with only essential services permitted to trade. People were required to remain at home, venturing out only to access the most essential goods and services. At 11:59pm on 27 April 2020 New Zealand moved down to Alert Level 3 under which regional travel was allowed and some businesses, including construction and food retailing, were permitted to operate as long as strict social-distancing practices were adopted. At 11:59m on 13 May 2020, the country moved down to Alert Level 2, making a significant step towards pre-pandemic normality. Under Alert Level 2 national travel was allowed, schools re-opened and businesses were able to trade, albeit restrictions remained in place around social-distancing and mass gatherings and contact tracing measures were required to be followed. On 8 June 2020 the Government announced that there were no active COVID-19 cases and the country moved down to Alert Level 1 at 11:59pm on the same day, lifting all restrictions apart from border control measures. Please refer to note 29 for details on how COVID-19 has impacted the business post-balance date.

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

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

- Review of actuarial models and policies including how life insurance and investment contract liabilities and assets are calculated as detailed in notes 3, 20 and 21;
- Decisions on capital management as detailed in note 24;
- Exposures to, and the policies and procedure for managing financial risks as detailed in note 26.

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

Balance sheet item	COVID-19 assessment	Note
Assets classified as held for sale	Asset held for sale is held at the lower of carrying amount and fair value less costs of sale. An independent valuation was obtained as at 30 June 2020. The market value was used as the basis of the valuation, reflecting any COVID-19 related impact to the property market.	9, 17
Financial assets at fair value through profit or loss and derivative financial instruments	COVID-19 has adversely impacted financial markets. Financial assets and liabilities at fair value through profit or loss ("FVPL") and derivatives are recorded at fair value.	13
Loans and other receivables	The Group has updated the provision for impairment for the increase in expected credit losses ('ECL').	14, 15
Deferred tax	Updated forecasting has not indicated a significant deterioration in future taxable income against which the Group can utilise the deferred tax asset.	8
Intangible assets	A review of intangible assets was undertaken in the current financial year and there is no evidence that there has been a decline in the value of these assets resulting from COVID-19.	18
Life insurance contract assets and liabilities	The Group has allowed for an uplift in morbidity and discontinuance rates in calculating life insurance contract balances.	3, 20
Life investment contract liabilities	Life investment contracts are recorded at fair value.	3, 21

Notes to the consolidated financial statements (continued).

For the year ended 30 June 2020.

3. Actuarial methods and policies

The actuarial reports on the policy contract values and solvency calculations for the years ended 30 June 2020 and 30 June 2019 were prepared by the Chief Actuary, Nicholas Smart, M.Com, FNZSA, FIAA and reviewed by the Appointed Actuary John Smith M.Sc. FNZSA, FIAA. Messrs Smart and Smith are satisfied as to the accuracy of the data from which the amount of the policyholder liabilities and assets 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	**As at 30 June 2020**	As at 30 June 2019
Discounted cash flows on renewable risk plans and level premium risk plans based on 10 year NZ Government bond rate – gross interest rate	**0.91%**	1.57%
Non-participating assurances – net interest rate	**0.66%**	1.13%
Claim reserves and provisions for investment guarantees – gross interest rate	**0.91%**	1.57%
Annuities – net interest rate	**0.66%**	1.13%
Participating plans with reversionary bonuses. Derived from expected after-tax return on the assets backing the participating fund	**0.70%**	1.80%

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. (2019: 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% (2019: 28%). Life insurance assets and liabilities are calculated gross of tax with a separate liability being held for tax.

Mortality rates

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

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

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

3. Actuarial methods and policies (continued)

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 2020 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:

	2020	2019
Yearly Renewable Term: Lump sum	**7.0% - 20.0%**	9.5% - 18.0%
Yearly Renewable Term: Income protection	**7.0% - 50.0%**	9.5% - 19.0%
Whole of Life and Endowments including participating contracts	**3.0%**	3.0%
Level term	**3.0% - 15.0%**	4.0% - 14.0%
Automatic acceptance with premiums limited to ten years	**3.0% - 40.0%**	1.0% - 20.0%
Automatic acceptance with level or reviewable premiums	**3.0% - 40.0%**	3.5% - 40.0%

The discontinuance rates for 2019 have a separate adjustment factor by age that is not included in the table. The 2020 rates are at a more granular level and incorporate the effects of age on discontinuance.

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 2020	At 30 June 2019
Participating business – policies with-profit assurances	**Assumed that the current bonus allocation will continue indefinitely. The bonus is equal to conservative portfolio return on cash deposits.**	Assumed that the current bonus allocation will continue indefinitely. The bonus is equal to conservative portfolio return on cash deposits.
Participating plans with reversionary bonuses – supportable bonus rate	**0.0% of the sum assured and reversionary bonus.**	0.0% of the sum assured and reversionary bonus.
Participating plans with reversionary bonuses – current bonus declaration	**0.0%**	0.0%
Policyholder's share of the surplus in the participating pool	**83.3%**	83.3%

COVID-19 and resulting economic slowdown

Additional assumptions have been applied for a limited period of time to allow for the expected impact of COVID-19. These additional assumptions include an increase in discontinuances and higher claims for Income Protection. The effect of the assumptions can be seen in the future profit margins and life insurance contracts assets.

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.

3. Actuarial methods and policies (continued)

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:

	2020		2019	
	Effect on future profit margins $'000	**Effect on life insurance contract assets $'000**	Effect on future profit margins $'000	Effect on life insurance contract assets $'000
Assumption change				
Discontinuance rates	**1,230**	**–**	14,907	–
Premium rates	**73,710**	**–**	–	–
Mortality/Morbidity rates	**3,814**	**–**	(12,161)	–
Renewal expenses	**(104)**	**–**	(16)	–
Other modelling changes	**(20,538)**	**(6,639)**	(18,565)	(198)
COVID-19 assumptions	**(20,194)**	**(2,790)**	–	–
Discount rates	**26,620**	**7,368**	35,099	9,798
Total	**64,538**	**(2,061)**	19,264	9,600

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').

Notes to the consolidated financial statements (continued).

For the year ended 30 June 2020.

4. Sources of profit

	2020 $'000	2019 $'000
Profit for the year arose from		
Life insurance contracts		
Planned margins of revenues over expenses	**19,767**	18,697
Difference between actual and assumed experience	**4,360**	(7,106)
Effects of changes in underlying economic and financial assumptions	**7,486**	9,985
Interest on life insurance contract assets and liabilities	**3,298**	5,938
	34,911	27,514
Life investment contracts – liabilities		
Difference between actual and assumed experience	**(98)**	(62)
Effects of changes in underlying assumptions	**(119)**	(187)
	(217)	(249)
Investment earnings on assets in excess of policyholder liabilities	**786**	3,404
Shareholder tax	**(13,757)**	(11,407)
Non-statutory fund (before tax)	**(1,612)**	(1,008)
Profit after tax	**20,111**	18,254

5. Revenue

Accounting policies

Insurance premium revenue

(i) Life insurance contracts

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

(ii) Life investment contracts

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

Insurance premium ceded to reinsurers

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

Other income

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

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

5. Revenue (continued)

	2020 $'000	2019 $'000
(a) Net premium revenue		
Insurance premium revenue	**275,478**	269,493
Insurance premium ceded to reinsurers	**(117,187)**	(119,181)
Total net premium revenue	**158,291**	150,312
(b) Other income		
Reinsurance recapture[1]	**9,317**	–
Reinsurance treaty policy administration fees	**5,579**	6,094
Other income	**971**	999
Total other income	**15,867**	7,093

[1] During the current financial year, the Group agreed on a final settlement which will terminate a quota share arrangement with a reinsurer (see note 12).

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.

	2020 $'000	2019 $'000
Dividends and distributions	**6,430**	8,443
Net realised and unrealised gains	**2,146**	5,427
Total unit trusts	**8,576**	13,870
Interest received on investments at fair value through profit or loss	**445**	727
Total cash, loans and debt securities	**445**	727
Net realised and unrealised (losses)/gains	**(5,255)**	756
Total derivatives	**(5,255)**	756
Other investment (losses)	**(45)**	(21)
Total investment income	**3,721**	15,332

7. Expenses

(a) Insurance claims and related insurance

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.

	2020 $'000	2019 $'000
Claim and reinsurance recoveries are as follows:		
Death, disabilities and income protection claims	**137,320**	123,222
Maturities	**211**	126
Surrenders	**960**	1,236
Annuities	**1,229**	1,131
Total claims	**139,720**	125,715
Less: Reinsurance recoveries	**(92,705)**	(82,803)
Total net claims expense	**47,015**	42,912

(b) Commission and operating expenses

Accounting policies

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

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

(i) *Acquisition costs*

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

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

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

(ii) *Maintenance costs*

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

(iii) *Investment management expenses*

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

7. Expenses (continued)

(b) Commission and operating expenses (continued)

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

	2020 $'000	2019 $'000
Life insurance contracts		
Acquisition costs		
Commission expenses	**23,575**	28,584
Operating expenses	**26,515**	24,963
Maintenance costs		
Commission expenses	**29,442**	28,147
Operating expenses	**29,104**	30,720
	108,636	112,414
Life investment contracts		
Maintenance costs		
Commissions	**403**	514
Other expenses	**332**	519
Investment management expenses	**444**	313
	1,179	1,346
Non Statutory Fund		
Commission expenses	**–**	123
Operating expenses	**(70)**	2,943
Total commission and operating expenses	**109,745**	116,826

7. Expenses (continued)

(b) Commission and operating expenses (continued)

Included within other operating expenses are the following:

	2020 $'000	2019 $'000
Salaries and wages and other employee costs	**32,544**	32,042
Restructure costs	**36**	1,606
Remuneration of auditor (appointed auditor: PricewaterhouseCoopers)		
Audit of statutory financial statements	**442**	382
Additional audit fees in relation to prior year	**–**	13
Audit of solvency return	**42**	41
Tax compliance services	**20**	21
Tax advisory services	**–**	8
Custodial control assurance engagement	**17**	16
Other services[1]	**–**	5
Total remuneration of auditor	**521**	486
Directors' fees	**623**	683
Other professional fees	**4,399**	2,300
Operating lease costs[2]	**–**	314
Depreciation (note 17)[3]	**865**	895
Amortisation (note 18)	**1,651**	1,051

[1] Other services include software training for the previous financial year.

[2] Operating lease costs include rental of commercial office space and office equipment and the lease of motor vehicles for the previous financial year. From 1 July 2019, the Group has recognised right-of-use assets for these leases except for short-term and low-value leases (see notes 2 and 16 for further information).

[3] Depreciation excludes right-of-use asset depreciation. For right-of-use asset depreciation, please refer to note 16.

8. Taxation

Accounting policies

Current and deferred income tax

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

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

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

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

8. Taxation (continued)

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

	2020 $'000	2019 $'000
Profit before tax	**32,633**	31,021
Tax at the New Zealand income tax rate of 28% (2019: 28%)	**9,137**	8,686
Tax effect of non-taxable income	**(1,425)**	(1,199)
Tax effect of non-deductible expenses	**5,056**	5,391
Benefit of imputation credits received	**(234)**	(116)
Prior period adjustment	**(12)**	5
Income tax expense reported in the consolidated income statement	**12,522**	12,767
Comprising:		
Current tax	**(289)**	3,227
Deferred tax	**12,811**	9,540
	12,522	12,767
Tax expense attributed to policyholders	**(1,245)**	1,360
Tax expense attributed to shareholders	**13,767**	11,407
	12,522	12,767

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

	2020 $'000			2019 $'000		
	Before tax	**Deferred tax expense**	**After tax**	Before tax	Deferred tax expense	After tax
Fair value (loss)/gains on revaluation of land and building	**(2,174)**	**609**	**(1,565)**	3,393	(950)	2,443
Remeasurement of assets classified as held for sale	**(854)**	**239**	**(615)**	–	–	–
	(3,028)	**848**	**(2,180)**	3,393	(950)	2,443

	2020 $'000	2019 $'000
Income tax assets		
Income tax prepaid[1]	**3,593**	3,551
Current tax asset	**494**	4
Tax benefit recognised on acquired policies	**1**	58
Total income tax assets	**4,088**	3,613

[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.

	2020 $'000	2019 $'000
Current tax liabilities		
Current tax liabilities	**–**	643
Total current tax liabilities	**–**	643

8. Taxation (continued)

Deferred tax assets

The balance comprises temporary differences attributable to:

	Note	Intangible assets $'000	Payables and other financial liabilities $'000	Unused tax losses $'000	IFRS 16 (Right-of-use asset/lease liability) $'000	Total $'000
Balance at 1 July 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**
Restatement due to adoption of NZ IFRS 16	2	**–**	**–**	**–**	**5**	**5**
Adjusted balance as at 30 June 2019		**2,691**	**2,098**	**29,325**	**5**	**34,119**
Movement through the consolidated income statement		**59**	**(395)**	**(2,563)**	**(5)**	**(2,904)**
Balance at 30 June 2020		**2,750**	**1,703**	**26,762**	**–**	**31,215**

Deferred tax liabilities

The balance comprises temporary differences attributable to:

	Financial assets at fair value through profit or loss $'000	Property, plant and equipment / Assets classified as held for sale $'000	Life insurance contract assets $'000	Deferred acquisition costs[1] $'000	Deferred income $'000	IFRS 16 (Right-of-use asset/lease liability) $'000	Total $'000
Balance at 1 July 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**
Movement through the consolidated income statement	**493**	**(74)**	**601**	**7,672**	**1,258**	**7**	**9,957**
Movement through other comprehensive income	**–**	**(848)**	**–**	**–**	**–**	**–**	**(848)**
Balance at 30 June 2020	**954**	**789**	**1,774**	**81,788**	**9,864**	**7**	**95,176**

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

Imputation credits

	2020 $'000	2019 $'000
Imputation credits available for use in subsequent reporting periods based on a tax rate of 28%	**30**	8

9. Assets classified as held for sale

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

	June 2019 $'000
Owner occupied building – 81 Carlton Gore Road	
Carrying value of the property (before remeasurement)	29,203

	Initial measurement May 2020 $'000	Subsequent measurement June 2020 $'000
Asset held for sale - 81 Carlton Gore Road		
Fair value as per independent valuation	26,600	**26,300**
Less: costs of sale	(554)	**(554)**
Measured at fair value less costs of sale	26,046	**25,746**

Revaluation of property

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

The property was re-measured on 30 June 2020 at $26,300,000 (2019: $29,000,000) based on an independent valuation by Bayleys Valuations Limited. The market value was used as the basis for the valuation. Due to COVID-19 there is significant market uncertainty around commercial property prices with the valuation used current at balance date only. The market value may change significantly and unexpectedly over a relatively short period of time.

Primary assumptions used in valuing the property

	June 2020 $'000	June 2019 $'000
Capitalisation rate[1]	**6.00%**	4.70%
Discount rate[1]	**7.38%**	5.00%

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

	2020 $'000	2019 $'000
Cost	**18,186**	18,186
Accumulated depreciation	**(3,900)**	(3,537)
Net book amount	**14,286**	14,649

Leases committed not yet commenced

During the year ended 30 June 2020, the Group signed a lease agreement for new premises at 136 Fanshawe Street, Auckland ('Fanshawe property'). The new lease is expected to commence in September 2021 (see note 28 (c)). The Group was offered an underwrite option in order to facilitate the new lease.

Sale and lease back

In the event the Carlton Gore Road property is settled prior to the Fanshawe property completion date, the Group intends to lease back the Carlton Gore Road property until completion between July and August 2021. There is no impact on the consolidated income statement or the consolidated statement of financial position.

10. Cash and cash equivalents

Accounting policy

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

Statement of cash flows

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

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

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

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

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

Cash and cash equivalents comprise:

	2020 $'000	2019 $'000
Bank balances	**35,526**	12,501
Deposits at call[1]	**152,531**	–
Total cash and cash equivalents	**188,057**	12,501

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

11. Restricted cash

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

	2020 $'000	2019 $'000
Restricted cash	**–**	10,268
Total restricted cash	**–**	10,268

Under a Subscription Agreement with Guardians of New Zealand Superannuation as Manager and Administrator of the New Zealand Superannuation Fund, $10,000,000 was placed in escrow on 5 January 2018 to support various warranties and indemnities. On 8 July 2019 the escrow amount including interest was released in full (the release of the escrow amount, excluding interest is shown as 'proceeds from issue of ordinary shares' in the consolidated statement of cash flows).

12. Assets arising from reinsurance contracts

Accounting policy

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

	2020 $'000	2019 $'000
Life insurance contracts reinsurance assets		
Balance at 1 July	**19,889**	17,795
Reinsurance claims made to reinsurers	**72,512**	63,290
Payments received from reinsurers	**(73,721)**	(61,196)
Reinsurance recapture receivable[1]	**6,300**	–
Balance at 30 June (expected to be recovered within 12 months)	**24,980**	19,889

[1] During the current financial year, the Group agreed on a final settlement to terminate a quota share arrangement with one of the Group's reinsurers (see note 5).

13. Financial instruments

Accounting policies

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

(i) Classification

The Group classifies its financial assets into the following measurement categories:

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

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

(ii) Recognition and derecognition

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

(iii) Measurement

Amortised Cost

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

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

FVPL

The Group classifies the following financial assets at FVPL:

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

13. Financial instruments (continued)

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.

Financial instruments by category

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

	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

13. Financial instruments (continued)

Financial instruments by category

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

	Fair value through profit or loss $'000	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

Fair values of financial instruments

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

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

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

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total fair value $'000
At 30 June 2020				
Assets				
Financial assets at fair value through profit or loss				
Debt securities – Unitised funds	–	66,384	–	66,384
Equity securities – Unitised funds	–	67,635	–	67,635
Financial assets at fair value through profit or loss	–	134,019	–	134,019
Derivative financial instruments				
Forward currency contracts	–	903	–	903
Total derivative financial instruments	–	903	–	903
Total financial assets at fair value	–	134,922	–	134,922
Liabilities				
Derivative financial instruments				
Life investment contract liabilities	–	–	113,010	113,010
Total financial liabilities at fair value	–	–	113,010	113,010

13. 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 swap	–	568	–	568
Life investment contract liabilities	–	–	122,956	122,956
Total financial liabilities at fair value	–	568	122,956	123,524

The notional principal amounts of outstanding derivatives at 30 June 2020 were:

- forward currency contracts $55,444,277 (2019: $56,665,423).
- interest rate swaps $Nil (2019: $75,000,000). The interest rate swap contract was terminated on 31 October 2019.

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
2020					
Liabilities classified as level 3					
Life investment contract liabilities	**122,956**	**680**	**4,085**	**(14,711)**	**113,010**
2019					
Liabilities classified as level 3					
Life investment contract liabilities	142,082	4,852	4,601	(28,579)	122,956

14. Loans and other receivables

Accounting policy

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

Impairment

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

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

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

i) Stage 1: 12-month ECL

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

ii) Stage 2: Lifetime ECL – not credit impaired

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

iii) Stage 3: Lifetime ECL – credit impaired

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

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

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

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

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

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

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

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

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

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

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

14. Loans and other receivables (continued)

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	2020 $'000	2019 $'000
Mortgages and loans			
Mortgage and loan balances	15	**1,524**	3,119
Less provision for impairment	15	**(778)**	(1,249)
Loan receivables net of expected credit losses		**746**	1,870
Trade and other receivables			
Prepayments		**3,478**	2,892
Sundry receivables		**66**	244
Outstanding premiums		**4,820**	5,338
Total trade and other receivables		**8,364**	8,474
Total loans and other receivables		**9,110**	10,344
Due:			
Within 12 months		**8,582**	8,644
Later than 12 months		**528**	1,700
		9,110	10,344

15. Impairment on financial assets

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

(a) Gross carrying amounts of mortgages and loans

	Stage 1 Collective assessed $'000	Stage 2 Collective assessed $'000	Stage 3 Individually assessed $'000	Total $'000
Balance at 1 July 2018	7,866	241	198	8,305
Movement in gross carrying amounts of loans and mortgages	(6,556)	(241)	1,611	(5,186)
Balance at 1 July 2019	**1,310**	**–**	**1,809**	**3,119**
Movement in gross carrying amounts of loans and mortgages	**(584)**	**–**	**(922)**	**(1,506)**
Amounts written off	–	–	**(89)**	**(89)**
Balance as at 30 June 2020	**726**	**–**	**798**	**1,524**

(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	74	33	202	309
Individual financial assets transferred to/(from) stage 3 individually assessed provisions	–	–	1,011	1,011
Other changes	(38)	(33)	–	(71)
Opening loss allowance as at 1 July 2019	**36**	**–**	**1,213**	**1,249**
Release of provisions due to repayments/ amounts written off	**–**	**–**	**(514)**	**(514)**
Other changes	**50**	**–**	**(7)**	**43**
Closing loss allowance as at 30 June 2020	**86**	**–**	**692**	**778**

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

16. Leases

The Group's leasing activities and how these are accounted for

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

Until the previous financial period, leases of property, plant and equipment were classified as either finance or operating leases. As at 30 June 2019, the Group did not have any finance leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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

16. Leases (continued)

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

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

To determine the incremental borrowing rate, the Group:

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

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

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

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

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

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

Extension and termination options are included in a number of leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Approximately 28% of the total lease payments made in the current financial period were as a result of exercising the extension option.

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

	Office $'000	IT equipment $'000	Motor vehicle $'000	Total $'000
Right-of-use assets				
Balance at 1 July 2019	117	275	238	630
Additions	117	–	–	117
Depreciation charge for the period	(149)	(66)	(106)	(321)
Balance as at 30 June 2020	**85**	**209**	**132**	**426**
Lease liabilities				
Balance at 1 July 2019	125	279	242	646
Additions	81	–	–	81
Interest expense	5	11	8	24
Lease payments	(164)	(73)	(114)	(351)
Balance as at 30 June 2020	**47**	**217**	**136**	**400**
Current	47	72	79	198
Non Current	–	145	57	202
	47	217	136	400

16. Leases (continued)

Amounts recognised in profit and loss (included in 'Operating expenses')

	$'000
Interest on lease liabilities	24
Variable lease payment not included in the measurement of lease liabilities	16
Depreciation charges on right-of-use of assets	321
Expense relating to short-term leases	2
Expense relating to leases of low-value assets	37
Total cash outflow for leases	367

Leases committed not yet commenced

During the year ended 30 June 2020, the Group signed a lease agreement for new premises at 136 Fanshawe Street, Auckland ("Fanshawe property"). The new lease is expected to commence in September 2021 (see note 28 (c)). The Group was offered an underwrite option in order to facilitate the new lease.

17. 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.

17. 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 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 1 July 2019				
Cost or fair value	29,000	1,270	5,933	36,203
Accumulated depreciation	–	(1,099)	(5,030)	(6,129)
Net book amount	29,000	171	903	30,074
Year ended 30 June 2020				
Opening net book amount	**29,000**	**171**	**903**	**30,074**
Additions	**–**	**76**	**489**	**565**
Revaluation	**(2,174)**	**–**	**–**	**(2,174)**
Depreciation	**(429)**	**(36)**	**(400)**	**(865)**
Disposals	**–**	**(8)**	**(48)**	**(56)**
Transferred to asset held for sale (note 9)	**(26,397)**	**(203)**	**–**	**(26,600)**
Closing net book amount	**–**	**–**	**944**	**944**
At 30 June 2020				
Cost or fair value	**26,397**	**1,338**	**6,374**	**34,109**
Accumulated depreciation	**–**	**(1,135)**	**(5,430)**	**(6,565)**
Transferred to asset held for sale (note 9)	**(26,397)**	**(203)**	**–**	**(26,600)**
Net book amount	**–**	**–**	**944**	**944**

18. 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.

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.

Intangible assets can be analysed as follows:

	Software $'000	Internally developed software $'000	Software under development $'000	Total $'000
At 1 July 2018				
Cost	2,119	15,754	7,616	25,489
Accumulated amortisation	(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 1 July 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

18. Intangible assets (continued)

	Software $'000	Internally developed software $'000	Software under development $'000	Total $'000
Year ended 30 June 2020				
Opening net book amount	30	2,796	9	2,835
Additions	387	–	7,771	8,158
Amortisation	(86)	(1,565)	–	(1,651)
Other movements	–	–	(120)	(120)
Closing net book amount	331	1,231	7,660	9,222
At 30 June 2020				
Cost	2,506	16,776	15,307	34,589
Accumulated amortisation/impairment	(2,175)	(15,545)	(7,647)	(25,367)
Net book amount	331	1,231	7,660	9,222

In 2019 the Group began work on developing a new policy administration system to replace several legacy systems. The first phase of the system development commenced during the current financial year, with deployment completed in July 2020. The second phase is expected to be completed in the next financial year.

19. 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.

	2020 $'000	2019 $'000
Creditors and accruals	5,085	6,102
Claims notified	18,504	18,171
Contract liability	1,350	–
Income in advance	868	624
Reinsurance liabilities	22,820	25,714
Employee entitlements	5,137	4,933
Total payables and other financial liabilities	53,764	55,544
Due:		
Within 12 months	49,997	52,044
Later than 12 months	3,767	3,500
	53,764	55,544

20. 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.

Movement in life insurance contract liabilities/(assets)

	2020 $'000	2019 $'000
Opening balance at 1 July	**(220,295)**	(188,226)
Premiums received	**275,478**	269,257
Liabilities released for payments on death, surrender and other terminations in the year	**(139,720)**	(125,715)
Commission and other expenses	**(109,745)**	(116,965)
Other movements	**(55,122)**	(58,646)
Closing balance at 30 June	**(249,404)**	(220,295)
Life insurance contract liabilities ceded under reinsurance		
Opening balance at 1 July	**41,457**	31,628
Movement in consolidated income statement	**17,001**	9,829
Closing balance at 30 June	**58,458**	41,457
Net of reinsurance life insurance contract liabilities/(assets)	**(190,946)**	(178,838)
Due:		
Within 12 months	**630**	1,053
Later than 12 months	**(191,576)**	(179,891)
	(190,946)	(178,838)
Life insurance contract assets contain the following components		
Future policy benefits	**1,668,451**	1,568,275
Future expenses	**652,480**	601,000
Reinsurance policy liability	**58,458**	41,457
Planned margins of revenues over expenses	**340,341**	268,654
Future revenues	**(2,910,676)**	(2,658,224)
	(190,946)	(178,838)
Life insurance contracts with a discretionary participation feature that have a guaranteed element	**36,027**	35,978

Notes to the consolidated financial statements (continued).

For the year ended 30 June 2020.

21. 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.

Movement in life investment contract liabilities

	2020 $'000	2019 $'000
Opening balance at 1 July	**122,956**	142,082
Contributions received	**4,284**	4,837
Fees deducted from account balances	**(199)**	(236)
Liabilities released for payments on death, surrender and other terminations in the year	**(14,711)**	(28,579)
Investment return credited to policyholders	**1,354**	5,699
Other movements	**(674)**	(847)
Closing balance at 30 June	**113,010**	122,956
Due:		
Within 12 months	**35,359**	37,308
Later than 12 months	**77,651**	85,648
	113,010	122,956
Life investment contracts with a guaranteed element	**94,226**	99,784

22. Deferred income

	2020 $'000	2019 $'000
Opening balance at 1 July	**2,734**	3,417
Amortisation	**(683)**	(683)
Closing balance at 30 June	**2,051**	2,734

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

23. 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.

Notes to the consolidated financial statements (continued).

For the year ended 30 June 2020.

23. Share capital and dividends (continued)

Share capital

	2020 Shares	2019 Shares	2020 $'000	2019 $'000
Share capital at the beginning of the year	**2,091,440**	2,091,440	**81,586**	81,586
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

	2020 Per share	2019 Per share	2020 $'000	2019 $'000
Ordinary shares				
Final dividend	–	2.00	–	4,183
Total dividend paid	–	2.00	–	4,183

24. 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 ("Solvency Standard"). 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. The solvency margin of the Statutory Fund must be at least $17m (2019: $0) and the Non Statutory fund must be at least $0.

During the years ended 30 June 2020 and 30 June 2019, 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:

	2020			2019		
	Statutory Fund $'000	Non-Statutory Fund $'000	Total $'000	Statutory Fund $'000	Non-Statutory Fund $'000	Total $'000
Actual solvency capital	**283,647**	**32,210**	**315,857**	246,419	52,445	298,864
Minimum solvency capital	**254,585**	**3,347**	**257,932**	229,213	18,924	248,137
Solvency margin	**29,062**	**28,863**	**57,925**	17,206	33,521	50,727
Solvency ratio	**111%**	**962%**	**122%**	108%	277%	120%

25. 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
2020			
Investment assets	**110,983**	**175,567**	**286,550**
Other assets	**2,027**	**96,819**	**98,846**
Policy liabilities	**113,010**	**(190,946)**	**(77,936)**
Liabilities other than policy liabilities	**–**	**142,729**	**142,729**
Shareholders' retained earnings	**–**	**320,603**	**320,603**
Insurance premium revenue and contributions received	**4,086**	**275,478**	**279,564**
Investment income	**4,701**	**1,096**	**5,797**
Claims expense and investment contracts payments	**14,711**	**139,720**	**154,431**
Other operating expenses	**1,180**	**108,637**	**109,817**
Investment revenues paid or allocated to policyholders	**1,354**	**–**	**1,354**
(Loss)/profit before tax	**(1,463)**	**35,942**	**34,479**
Profit after tax	**(217)**	**21,714**	**21,497**
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	32,028
(Loss)/profit after tax	(249)	19,199	18,950

26. 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, the purpose of which is to communicate why risk management is important and describe the Group's approach to managing risk. Risk management is the cultures, capabilities and practices integrated with the Group's strategy (and its execution), that the Group rely on to manage risk in creating, preserving and realising value. Risk Management is a critical business discipline that reduces uncertainty in the achievement of the Group's objectives; it also strengthens and complements other corporate governance initiatives. Risk and Compliance is part of the cultural fabric of the Group.

ii. The risk management framework details how the Group ensures that effective risk management is real and reflected in the operational activities of the Group. The risk management framework considers risks at a strategic and operational level. The Group's Risk Management Framework follows the principles of AS/NZ ISO 31000 Risk Management Principles and Guidelines. The risk management programme of work is regularly reviewed to ensure it continues to effectively manage the Group's risks.

iii. The risk and compliance 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 Risk Management Committee to critically evaluate if the risk management process is effectively identifying and addressing exposures. The risk register continuously evolves as risks are identified, monitored and treated. The identified risks are owned by a member of the Executive team for transparency and accountability with second line assurance provided by Risk & Compliance regarding controls identified.

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

vi. An internal audit function whose purpose is to provide independent and objective assurance on the adequacy and effectiveness of controls has been set up by the Group. This is presently an outsourced function provided by KPMG. The internal audit function follows an agreed program of work which is reviewed at least annually to ensure appropriate subjects for audit are identified and agreed.

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

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

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

During the financial year the Group took a holistic approach to managing the dynamic risks and issues arising from the fast moving COVID-19 situation. The Group responded quickly to the COVID-19 related risks and impacts on the business. Business Continuity Plans were triggered as required to ensure the Group maintained business continuity for all stakeholders during Government Alert Levels.

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

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

26. Risk management (continued)

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

A. Market risk

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

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

(i) Currency risk

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

Foreign currency risk arises as the Group has invested in international shares and international bonds which are denominated in foreign currencies. As at 30 June 2020 foreign currency denominated assets amounted to 10.4% (2019: 11.2%) of total assets. The market value of these assets is therefore affected by movements in the New Zealand dollar relative to the currency in which the asset is denominated.

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

(ii) Price risk

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

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

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

(iii) Interest rate risk

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

Fair value interest rate risk

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

Cash flow interest rate risk

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

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

The Group manages its interest rate risk by regular monitoring of its exposure and assessing whether it is appropriate to adopt interest rate swaps given strategic objectives.

26. Risk management (continued)

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:

		2020 $000		2019 $000	
		Impact on post-tax profit	**Impact on equity**	Impact on post-tax profit	Impact on equity
Currency rates	Increase by 10%	**158**	**158**	123	123
	Decrease by 10%	**(130)**	**(130)**	(100)	(100)
Equity prices	Increase by 10%	**819**	**819**	429	429
	Decrease by 10%	**(819)**	**(819)**	(429)	(429)
Interest rates	Increase by 1%	**(1,061)**	**(1,061)**	3,974	3,974
	Decrease by 1%	**1,061**	**1,061**	(4,316)	(4,316)

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

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.

26. Risk management (continued)

B. Insurance risk (continued)

Terms and conditions of insurance contracts

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

Type of contract	Detail of contract terms and conditions	Nature of compensatioon 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

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:

		2020 Impact on post-tax profit $'000	2019 Impact on post-tax profit $'000
Discount rate	Increase by 0.25%	**(828)**	(1,272)
	Decrease by 0.25%	**890**	1,238
Mortality / morbidity	Increase by 10%	**75**	–
	Decrease by 10%	**(97)**	(15)
Discontinuance	Increase by 10%	**229**	77
	Decrease by 10%	**(338)**	(80)
Expenses	Increase by 10%	**(37)**	(3)
	Decrease by 10%	**37**	3

26. Risk management (continued)

B. Insurance risk (continued)

Variable	Impact of a movement in the underlying variable
Mortality risk	For insurance contracts providing death benefits, greater mortality rates would lead to higher levels of claims. This is offset by annuities where greater mortality leads to lower levels of claims.
Morbidity risk	The cost of health-related claims depends on both the incidence of policyholders being diagnosed with a critical illness or becoming temporarily or permanently disabled and the duration for which they remain temporarily or permanently disabled. Higher than expected incidence and duration would be likely to increase claim costs, reducing profit and shareholders' equity.
Discontinuance risk	The impact of the discontinuance rate assumption depends on a range of factors including the type of contract, the surrender value basis (where applicable) and the duration in-force.

C. Liquidity risk

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

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

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

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

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

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.

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

26. Risk management (continued)

Maturity analysis (continued)

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)

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.

26. Risk management (continued)

D. Credit risk (continued)

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

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

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

Included in the consolidated statement of financial position are unitised funds of $134,019,000 (2019: $237,194,000) 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.

27. Related parties

Subsidiaries

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

			Ownership	
Company	**Nature of activities**	**Class of shares**	**2020**	**2019**
Fidelity Capital Guaranteed Bond Limited	Non-trading investment company	Ordinary	100%	100%
Life and Advisory Services Limited	Investment services[1]	Ordinary	100%	100%
Fidelity Life Custodial Services Limited	Custodial/Trustee services	Ordinary	100%	100%

[1] Life and Advisory Services Limited ceased trading in June 2020.

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

27. Related parties (continued)

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.

	2020 $'000	2019 $'000
Short-term benefits	**5,355**	5,578
Total	**5,355**	5,578

(b) Transactions with related parties

The following transactions occurred with related parties.

	2020 $'000	2019 $'000
Secured loans to shareholders		
Balance as at 1 July	–	672
Loan repayments received – secured loans	–	(672)
Balance as at 30 June	–	–
Interest revenue from secured loans	–	19
Commission paid to related parties comprise:		
Shareholders as at 30 June who held agency agreements with the Group	**4,351**	4,295
	4,351	4,295

(c) Outstanding balances

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

	2020 $'000	2019 $'000
Advisor accounts payable to shareholders	**(17)**	(10)

(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

In prior years, loans secured by mortgages over properties or other assets were made to shareholders during the normal course of business. There were no loans to shareholders in the current financial year. The Group does not intend to make new loans to shareholders in the future.

28. Commitments

(a) Capital commitments

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

	2020 $'000	2019 $'000
Property, plant and equipment	4,500	–
Intangible assets	12,360	–
	16,860	–

(b) Non-cancellable operating leases

The Group leases various offices, IT equipment, and motor vehicles under non-cancellable operating leases expiring between six months to 12 years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are re-negotiated.

From 1 July 2019, the Group has recognised right-of-use assets for these assets, except for short-term and low-value leases. See notes 2 and 16 for further information.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	2020 $'000	2019 $'000
Within one year	–	278
Later than one year but not later than five years	–	366
	–	644

(c) Leases committed not yet commenced

During the year ended 30 June 2020, the Group signed a lease agreement for new premises at 136 Fanshawe Street, Auckland ('Fanshawe property'). The new lease is expected to commence in September 2021. In the event the Carlton Gore Road property is settled prior to the Fanshawe property completion date, the Group intends to lease back the Carlton Gore Road property until completion (refer to note 9).

At 30 June 2020, the Group's future cash outflows (undiscounted) for the above lease for future years not yet commenced are expected to be as follows:

	$'000
Lease of Fanshawe property	24,600
Lease back of Carlton Gore Road property	284
Total	24,884

29. Events occurring after balance date

On 12 August 2020 the government announced a move from Level 1 to Level 3 for Auckland and Level 2 for the rest of the country. This has not resulted in changes to assumptions relating to the Group's key estimates and judgements referred to in these financial statements.

30. 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.

	2020 $'000	2019 $'000
Total profit for the year attributable to the owners of the Company	**20,111**	18,254

	Shares	Shares
Weighted average number of ordinary shares on issue	**2,091,440**	2,091,440

	$	$
Basic earnings per share	**9.62**	8.73

(ii) Diluted earnings per share

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

31. Statutory Fund

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

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

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

	2020 $'000	2019 $'000
Income statement		
Insurance premium revenue	**275,478**	269,493
Insurance premium ceded to reinsurers	**(117,187)**	(119,181)
Investment income	**5,797**	14,436
Other income	**15,941**	7,190
Claims expense	**(139,720)**	(125,715)
Reinsurance recoveries	**92,705**	82,803
Commission and operating expenses	**(109,817)**	(113,760)
Net change in life insurance contract assets	**12,108**	22,240
Net change in life investment contract liabilities	**(826)**	(5,477)
Income tax expense	**(12,982)**	(13,079)
Profit for the year attributable to the owners of the Company (non-participating)	**21,497**	18,950
Assets		
Cash and cash equivalents	**154,568**	6,512
Assets arising from reinsurance contracts	**24,980**	19,889
Assets classified as held for sale	**25,746**	–
Financial assets at fair value through profit or loss	**134,019**	259,927
Derivative financial instruments	**903**	897
Life insurance contract assets	**249,404**	220,295
Loans and other receivables	**5,281**	6,883
Property, plant and equipment	**944**	30,074
Right-of-use assets	**426**	–
Income tax assets	**537**	–
Deferred tax assets	**28,772**	31,573
Intangible assets	**9,222**	2,835
Total assets	**634,802**	578,885
Liabilities		
Payables and other financial liabilities	**45,104**	46,873
Lease liabilities	**400**	–
Deferred tax liabilities	**95,176**	86,067
Life insurance contract liabilities ceded under reinsurance	**58,458**	41,457
Life investment contract liabilities	**113,010**	122,956
Deferred income	**2,051**	2,734
Total liabilities	**314,199**	300,087
Net assets	**320,603**	278,798

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 2020;
- 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 2020, 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 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of assurance over custodial controls and solvency and tax compliance. 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.

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Key audit matters

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

Description of the key audit matter

Measurement of life insurance contract assets and life insurance contract liabilities ceded under reinsurance, including the impact of COVID-19

As at 30 June 2020 the Group has life insurance contract assets of $249 million (30 June 2019: $220 million), life insurance contract liabilities ceded under reinsurance of $58 million (30 June 2019: $41 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, including any adjustments to allow for the potential impacts of COVID-19. The key actuarial assumptions include:

- The cost of providing benefits and administering these contracts (maintenance expenses);
- Mortality and morbidity experience on life insurance products;
- Persistency (or discontinuance) experience, which affects the Group’s ability to recover the cost of acquiring new business over the lives of the contracts;
- Bonus rates per annum for classes of participating business;
- Long-term interest rates which affect the rate at which cash flows are discounted (discount rates); and
- Premium rates

Refer to the following notes in the consolidated financial statements: Note 2 *Summary of significant accounting policies*, Note 3 *Actuarial methods and policies* and Note 20 *Life insurance contract liabilities and assets.*

How our audit addressed the key audit matter

Together with PwC actuarial experts, we:

- Assessed the reasonableness of the key actuarial assumptions including the rates of premium, discontinuance, mortality and morbidity rates, maintenance expenses, bonus rates and discount rates and, where relevant, the impact of COVID-19 on those assumptions. Our assessment of the assumptions included:
  - Obtaining an understanding of the processes in place to determine the assumptions;
  - Examining the approach used by management to derive the assumptions by applying our industry knowledge and experience; and
  - 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; and
- 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 these actuarial estimates. Accordingly, we:

- Evaluated the design effectiveness and tested the operating effectiveness of controls over underwriting and policy administration processes; and
- Tested the completeness and accuracy of data between source and actuarial valuation systems.

Description of the key audit matter	How our audit addressed the key audit matter
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; and • 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.

Description of the key audit matter	How our audit addressed the key audit matter
Recoverability of the deferred tax asset arising from tax losses	
As at 30 June 2020, the Group has a deferred tax asset balance of $31 million (30 June 2019: $34 million), of which $27 million relates to deferred tax assets arising from past tax losses (30 June 2019: $29 million). We considered recoverability of the deferred tax asset a key audit matter because: • significant management judgement is involved in forecasting future taxable profits and the period over which it is probable such losses will be utilised; 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 *Summary of significant accounting policies* and Note 8 *Taxation*.	Together with our actuarial and tax specialists, we assessed the recoverability of the deferred tax asset arising from 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 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.

Description of the key audit matter	How our audit addressed the key audit matter
Owner-occupied building classified as held for sale and material valuation uncertainty relating to COVID-19	
In May 2020, the Group committed to a plan to sell the owner-occupied building at Carlton Gore Road (located in Newmarket, Auckland). As a consequence, the building has been reported in accordance with *NZ IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations* and classified as held for sale, at a carrying amount of $26 million, at balance date. We considered the asset classified as held for sale to be a key audit matter because the: • application of NZ IFRS 5 was significant given the non-routine nature of the transaction and the associated accounting; and • carrying amount of the building was remeasured at balance date, based on the estimate of fair value determined by an independent valuer. Due to the COVID-19 pandemic, there was a lack of commercial property transactional activity to establish fair values. The valuer included a material valuation uncertainty clause in their report. This clause highlights that the market value may change significantly and unexpectedly over a relatively short period of time. Therefore, less certainty and a higher degree of caution, should be attached to the point estimate valuation. Refer to the following note in the Group's consolidated financial statements: Note 9 *Assets classified as held for sale.*	Our audit procedures included, among others: • an evaluation of the Group's conclusions on the classification of the building as held for sale and the suggested accounting treatment. This included assessing, with the help of our technical accounting specialists: – the measurement of the building at the lower of the carrying amount and fair value less cost to sell; and – the presentation in the consolidated financial statements. • in addition, with the help of our in-house valuation specialist, we: – reviewed the valuation report at balance date, agreeing the fair value recognised in the consolidated financial statements to the report; – assessed the valuation methodology; – critiqued and challenged the key assumptions used by the valuer by comparison to market evidence and current market conditions, including consideration of the appropriateness of the assumptions made for COVID-19 impacts; – discussed with management and obtained sufficient appropriate audit evidence to demonstrate that management's assessment of the suitability of the inclusion of the valuation in the consolidated financial statements was appropriate in light of the material valuation uncertainty clause included by the valuer in the valuation; and – considered the adequacy of the disclosures made in Note 9 *Assets classified as held for sale* to the consolidated financial statements, which explains that there is significant market uncertainty around the valuation at balance date.

Description of the key audit matter	How our audit addressed the key audit matter
Reinsurance recapture	
During the year, the Group entered into the final stage of negotiations in respect of the recapture of certain parts of its reinsurance book, which has been recorded in the consolidated financial statements and considered effective since 31 March 2020. The most significant impacts of the recapture for the Group were in relation to: • the recognition of a reinsurance recapture contract income of $8.1 million in *Other income*; and • the de-recognition of $7.3 million in *Life insurance contract liabilities ceded under reinsurance* On an aggregate basis, the net impact of the recapture on the consolidated income statement for the year ended 30 June 2020 was $0.5 million. Further detail is included in Note 2 *Summary of significant accounting policies*. We considered the recognition of the reinsurance recapture to be a key audit matter because there were significant judgments applied by the Group in relation to the timing of the recognition of the transaction and associated disclosures in the consolidated financial statements, including the determination of the applicable accounting guidance as this type of transaction is not explicitly covered by NZ IFRS 4 *Insurance Contracts* and the date the Group gained control over the recaptured share of the book.	Our audit procedures included, among others: • an evaluation of the Group's assessment in relation to the accounting treatment for the reinsurance recapture. This included assessing, with the help of our technical accounting specialists, the areas for judgement in relation to the applicable accounting treatment as NZ IFRS 4 *Insurance Contracts* was silent on this specific type of transaction. We also: • reviewed the technical accounting advice provided by management's external accounting adviser in respect of certain key judgements applied, namely, the applicable accounting treatment and the date that control over the recaptured share of the book was transferred to the Group; • reviewed the evidence provided to support the judgement that the Group had gained control over the recaptured share of the book at 30 June 2020; and • reviewed the accuracy and completeness of the disclosures in the consolidated financial statements.

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Our audit approach

Overview

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

Overall Group materiality: $2.75 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.

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

- Measurement of life insurance contract assets and life insurance contract liabilities ceded under reinsurance, including the impact of COVID-19
- Information Technology (IT) systems
- Recoverability of the deferred tax asset arising from tax losses
- Owner-occupied building classified as held for sale and material valuation uncertainty relating to COVID-19
- Reinsurance recapture

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.

Information other than the consolidated 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, if other information is included in the annual report, 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.

Independent auditor's report (continued).

Responsibilities of the Directors for the consolidated financial statements

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

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

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

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

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

https://www.xrb.govt.nz/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:

Chartered Accountants
9 September 2020

Auckland

Appointed Actuary's review of Fidelity Life Assurance Company Limited.

As at 30 June 2020.

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 2020 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 2020 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 2020 has been used appropriately.

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

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

John Smith

John Smith
Appointed Actuary
9 September 2020

Fidelity Life Assurance Company Limited

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ANZIIF Life Insurance Company of the Year
2017, 2018 & 2019

Why choose Fidelity Life?

Founded by
New Zealanders

Cornerstone stake held by
NZ Super Fund

Rated
A-
(Excellent)
for financial strength*

ANZIIF
2017
2018
2019
Life Insurance Company of the Year

Over
$1.1 billion
paid out in claims since 1973

Committed to financial advisers
and face-to-face advice

*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.